



Minutes City Council Issue Review Session February 5, 2009

Minutes of the Tempe City Council Issue Review Session held on Thursday, February 5, 2009, 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 6:05 p.m.

Call to the Audience

No one came forward to speak.

Neighborhood Parks Rehabilitation & Maintenance Committee Work Plan

INFORMATIONAL BACKGROUND available in City Clerk's Office.

DISCUSSION

Councilmember Navarro expressed his thanks to the staff and department heads for helping get him up to speed on the parks issues. He summarized that the Committee will:

- Neighborhood Parks - Develop the coordination and assessment of neighborhood park design process to make sure the parks are appropriate for the neighborhoods, make sure the neighborhoods have input into that process; assess the park maintenance program
- Environmental education and interpretation - Involve staff in educating the community on the City's commitment to the environment and for lifestyle and workplaces choices and habits, use of Earth Day and Arbor Day as a vehicle for education.
- Waste reduction and proper waste handling - Make sure we are more efficient in handling waste, recycling; making sure the parks are more up to compliance, and that we are utilizing the parks as best we can.

- Community awareness and participation – Make sure we get the community involved in the parks; that our parks are our meetings grounds; that we establish a relationship for those neighbors to have a place to go; and, make sure the City's services are up to speed.
- Use of volunteers - Provide volunteer maintenance opportunities to service clubs, scouts, schools, churches, neighborhood groups and residents; partner with various local and county organizations.
- Connectivity of Parks – Utilize open space for connecting parks, neighborhoods, school systems north to south and to our downtown Tempe area; make sure the pedestrian bikeways and paths connect.

Mayor Hallman stated that the maintenance of City's landscape rights-of-way is part of a committee that he and Councilmembers Arredondo, Mitchell and Navarro are on. He questioned how it was included with this work plan.

Sam Thompson responded that he was asked to add it to the work plan; a master plan of the waterways is currently being done.

Mayor Hallman asked that his committee be kept advised of any developments.

Councilmember Arredondo added that it is very important in these times to mention the use of volunteers. This is an area where Tempe will be at its very best in order to achieve its mission and accomplish what we expect in our parks. He suggested that staff provide a cost analysis of installation of park security phones that would be tied to the Police Department.

Councilmember Shekerjian added that she supported the idea of using a collaborative effort with residents and staff to assess park rehabilitation and maintenance. Citizens care about their parks and the best decisions are made through the input of those who live in the neighborhoods around the parks.

CONSENSUS

Accepted as presented.

Follow-up Responsibility: Councilmember Navarro and Mitchell; Sam Thompson

OPEB Cost Options Comparison/Responses to Questions

INFORMATIONAL BACKGROUND available in City Clerk's Office.

DISCUSSION – Presenters: Deputy Human Resources Manager Jon O'Connor; Deputy Financial Services Manager Tom Duensing

City Manager Charlie Meyer summarized that at the last Council meeting, Council raised four issues:

- a clear understanding of the impact of the proposed changes on retirees
- a comparison with the Phoenix plan
- how these changes impact the fuller discussion of budget changes
- responses to the questions being raised by employees and retirees

In addition, he stated that he intended to address communication with the affected parties. The five-year budget

plan that he will be proposing has not yet been distributed and until Council has the opportunity to discuss that, Council is not in a position to make a decision about this plan. He would recommend that the item on the formal agenda for tonight be deferred to the February 19th meeting.

Councilmember Arredondo clarified that there isn't going to be an action item taken tonight. Council has asked that everything be put on the table.

Mayor Hallman added that the OPEB changes won't go into effect until July 1st, so that is why Council and staff are working diligently on this issue.

Mr. Meyer stated that the OPEB task force started meeting last spring. On that committee, there was a retiree who also served on the healthcare committee. There was never an expectation that the retiree who served on the OPEB task force was supposed to be communicating with everyone, but it was the expectation that the retiree would at least represent the retiree's perspective in this issue. There was not as much communication with retirees as might have occurred, however. The goal of the task force was that the plan would not affect current retirees at all. However, late in the process, it became apparent that if there was going to be a viable plan, an option might have to be developed that would affect retirees. The proposal was presented to the Council on December 8th, and Council directed staff to continue to move forward on the plan. At that point, a series of meetings was scheduled, and staff scheduled meetings with current employees first because, if people were planning to make retirement decisions before June of 2009, they should know what the options were. Meetings were scheduled on January 7, 13, 14 and 29 and February 12, 23 and 26. The February meetings will be oriented toward retirees, and those meetings will still take place. Staff is now in the process of communicating with the retirees and using this as an opportunity to update the list serve of retirees so information can be sent out to them on a weekly basis.

Tom Duensing clarified that the ad hoc committee was not about eliminating the benefit, but the idea was to get this benefit at an affordable level where it would continue in perpetuity. It became more complicated in the current economic situation, since retiree healthcare is basically paid from the operating budget. Another issue identified is who will be carrying this burden of a reduced benefit. The determination of the committee was that those with less than ten years of service bore the greatest burden. The committee felt it unfair to impact retirees or those nearing retirement as much. Therefore, those with less than ten years of service would be moved to a defined contribution plan. This is a totally different funding mechanism than those with more than ten years of service and the current retirees. There are three major changes in this proposed plan:

- Retirees who have not yet reached Medicare will pay more out of pocket.
- At Medicare eligibility, retirees will be enrolled in a fully insured Medicare supplemental plan.
- Those that have not yet reached 10 years of service as of June 30, 2009, will have a completely different plan.

The question has been raised regarding the cost impact for a retiree who has not reached Medicare eligibility. When this plan is rolled out, there will be an additional monthly out-of-pocket expenditure, and upon Medicare eligibility, that picture flip-flops. Retirees will at least be held harmless or be better off on out-of-pocket when they reach Medicare eligibility.

In comparing this plan to the Phoenix plan, currently, on their PPO High plan with dependents, the City of Phoenix retirees are paying approximately \$900 out-of-pocket compared to Tempe's \$220. That is before any changes are made to the Tempe plan. For an employee without a dependent, Phoenix retirees would pay \$267, and Tempe would pay \$40.

Jon O'Connor summarized that feedback has been received from retirees over the last couple of weeks. In regards to the Medicare supplemental plan, many of the questions have centered around the structure of the plan.

- It will be a fully insured plan similar to the Cigna (HMO) plan available to both current employees and retirees. The intent is that when retirees on the PPO plan reach Medicare eligibility, they would be switched to this fully insured supplemental plan.
- The City would need to issue an RFP for this plan, so specifics aren't known at this point.
- The actuary based their foundational view of this on the Low Option PPO plan, so that plan will be examined, as well as the High Option PPO plan, in order to base the RFP on that criteria. The intent is to mirror, as closely as possible, at least the Low Option PPO, as well as providing a slightly better benefit, perhaps with an additional cost involved as well.
- The goal is to make sure that what retirees are moving to is a plan that will be very similar in nature to the one they are currently on.
- One of the benefits of this plan is that it will be a nationwide plan. Under the current structure, Arizona Foundation is restricted to Arizona so retirees that move out of state have to pay for their healthcare costs at out-of-network rates. It is anticipated that this will be a significant benefit both to the retirees and to the City.
- Currently some are retirees on the Cigna plan and when they reach Medicare eligibility at 65, they transition to the Cigna Medicare Advantage Plan which is a similar plan to what the supplemental plan will be. That plan will continue to be maintained as an option so retirees would have both the new supplemental plan and the Cigna Medicare Advantage Plan as options. The Cigna Medicare Advantage Plan is limited to Maricopa County.
- It has been determined that it is better, based on the Medicare plan year and to allow a little more time to the retirees for this change, to put this new plan into effect January 1, 2010. That will provide enough time to research and find a vendor to provide the best plan available as well as provide time for the City to get that information to the retirees. An open enrollment period would occur near the end of this year specifically for retirees.

Mr. O'Connor continued that another question has concerned the effect on the prescription drug benefit. There will still be a prescription drug benefit that will be tied into the Medicare supplemental plan. Specifics are not known yet, but the intent will be to mirror what is currently in place.

Mr. O'Connor added that staff is in the RFP process and will mail out information to all retirees once Council has made a decision. Staff will be asking for any retiree who would be interested in participating in that process to submit their names. Staff will be selecting two or three retirees to join that committee for the RFP process.

Councilmember Arredondo asked, if an employee reaches 65, but his spouse is only 62, if that spouse is covered until the age of 65.

Mr. O'Connor responded that if the retiree has a spouse or dependent who is younger, then that person is still covered on the same plan at the same rates until they reach Medicare eligibility. Once either the retiree or the dependent reaches Medicare eligibility, then the rates would go down. That is currently the situation. Whoever reaches 65 first, their rate goes down, and the dependent rate would remain as it would with the current plan.

Councilmember Arredondo clarified that there would still be coverage until both reach 65 and then there would still be coverage, just on a different plan. This plan is based on 4% that the City would pay and 4% that the retiree would pay. If Council asked the City to pay a little more, it would be about \$100K for each percentage that it went up. That would allow the retirees to pay a little less.

Mr. Duensing agreed.

Councilmember Navarro verified that a discussion will be held with retirees on February 12th. Their input will be valuable if Council defers this item to February 19th. He wanted to make sure the retirees were comfortable.

Mayor Hallman clarified that when Council starts its budget discussion on February 19th, any dollar added or subtracted from the OPEB calculation goes back into the budget balancing act on the entire budget. There is no OPEB fund that can be tapped into.

Councilmember Mitchell asked for clarification on the 4% cap. At the last meeting, staff mentioned increasing that to 6%. What impact does that have for the City in the long term for current employees as well as future employees? We have the best employees. Our benefits are a recruitment tool that we want to be sure continues for future generations.

Mayor Hallman suggested discussing what the \$400M number is, why it exists, what period of time that covers, and how that number changes based on how we increase or decrease these numbers. He suggested that staff take the budget balancing model and apply the OPEB concepts to see how much money we have if we increase the cap to 5% or 6% and how much that changes the budget. OPEB is a very complicated issue and that might help Council see the impact. We need to see how these proposals could change.

Councilmember Arredondo agreed as long as the City Manager has a clear understanding that Council may look at the different percentages. He didn't think there will be consensus to do 4%. He still maintains this is no different than any other thing that Council has yet to see. There are some ideas being floated around and they all need to be put on the table. Council needs to look at it all at the same time.

Mayor Hallman clarified that the balanced budget model has a line for OPEB and he asked that it be broken out now so Council can look at it. The goal would be to have all of this available on February 19th and the

OPEB line should be broken out to see the impact on the overall budget. At some point, the more money we put into the OPEB line, the less money we have for anything else. If we can find money in other places in the budget, we can spend more money on the OPEB line, but there is only so much money to spend.

Councilmember Shekerjian suggested that for the February 19th meeting it would be helpful to have the initial list that was developed from suggestions from the Ad Hoc Long Range Finance and Budget Committee, as well as other ideas that at the time might not have been looked at. While talking about the retiree piece, for those employees with less than ten years of service, she is very pleased that we as a City are taking care of these employees as we are, even though this plan to a great extent is being put on their backs. Private industry today has health savings accounts that are set up, but the individual funds them. It is good that the City can instead fund that for those who have less than ten years.

Mr. Meyer agreed to provide the breakout on OPEB. If we think about the piece where the employees with less than ten years are getting the funded health savings account, that is about half of our solution for the \$400M problem. That is what got the cost of our OPEB solution down to about a \$9.2M per year annual contribution. We presented two options to Council last year. One was the \$9.2M option and the other was the \$6.6M option which we said was scalable with different rates of caps. In looking at the difference between those two, the vast majority of the difference comes by adding the Medicare supplemental plan. Most of it is there. If we were to take the 4% cap to a 5% cap, it is about \$100K additional cost and each 1% above that would be another \$100K. Even going from a 4% to a 9% would be about \$500K. The difference between \$9.2M and \$6.6M is substantially more than that, so most of that is attributable to the Medicare supplemental plan. Before we even got there, we took all the cost out by taking the whole future generations of City employees into the health savings account. That account is a higher monthly contribution than what Phoenix is doing, and he was not aware of any other cities doing it. To the concern that we stay competitive, that is what staff had in mind.

Mayor Hallman added that of the surrounding cities, Scottsdale and Chandler allow employees to use their accumulated time off to pay for their healthcare costs, but there is no other payment. The cities of Gilbert and Glendale don't supply any retiree premiums, and Mesa currently subsidizes retiree premiums, but they haven't even yet picked up this issue because their budget problems are so severe. The City of Peoria doesn't even offer a retiree healthcare plan. Notwithstanding how disappointing it is that we can't supply as high a level of benefits that we would like for our retirees, the fact that we are working this diligently to make sure we can get something in place that lasts for the lifetime of this City is important.

Vice Mayor Ellis asked about the actuarial study which was done almost a year ago and noted that the economy is different than it was then.

Mr. Duensing responded that a new actuarial study will be done as of June 30, 2009, as part of the annual year-end financial statements.

Councilmember Arredondo asked what happened to the five-sided partnership. The sixth partner was the retirees. What happened to the communication?

Mr. Meyer responded that the OPEB task force is a great illustration of the five-sided partnership because from the beginning, all the members of the five-sided partnership were in attendance, as well as a retiree representative that also served on the healthcare task force. We couldn't have had this come together had we not had that discussion. There was full participation in the full spirit of five-sided partnership. In addition, we still do have regular meetings with our employee groups. Most recently, we have added a group that hasn't been represented, the management and confidential employees. Our new Human Resources Manager Renie Broderick has been holding some meetings with that five-sided partnership about the extended placement and priority placement options to avoid layoffs. If the five-sided partnership means the City meeting with our four unions, we have that.

Councilmember Navarro asked how the communication is being delivered to the retirees.

Mr. O'Connor responded that are several different ways. There is a website that is handled through the City Manager's Office and there have been consistent hits to that website. We have a list serve available to get weekly messages. Because we understand that doesn't reach out to all retirees, three weeks ago we sent out a mailing to all retirees with initial information, and this last week we sent out another mailing with the information that was provided to the Council tonight. We will continue to utilize mailings. He added that meetings for retirees were delayed so the information could reach the current employees as soon as possible because there were a number of employees interested in making decisions regarding retirement and he announced the following meetings for retirees:

- February 12th, from 9 a.m. to 10:30 a.m., in Council Chambers
- February 23rd, from 1 p.m. to 2 p.m., at the Tempe Learning Center at the Library
- February 26th, from 10 a.m. to 11 a.m., at the Tempe Transit Center

PUBLIC HEARING

Jenny Notter Lindberg, Mesa, who worked in Human Resources and in Benefits for ten years asked if there have been any changes made to the health plan document, such as coordination of benefits.

Mr. O'Connor responded that all of the health plans the City has in place, whether they are for retirees or current employees, have a plan document which basically details what that benefit is. The resolution being brought to Council, which is being deferred to February 19th, asks for permission from the Council to move forward to begin making changes to those plan documents. Those changes cannot be approved until the Council votes on the changes. The first move is to prepare those documents and then they would be brought with the changes relative to the new plans to Council for their approval.

Ms. Lindberg asked if the retirees would have access to the resolution asking that the plan document be amended before the meeting.

Mayor Hallman responded that it would be a public document and would be available. That would not take place until after the plan document has been prepared, however.

Ms. Lindberg asked if there are currently unblended rates, and assuming that means the claims costs are

combined, then how do you know that the people with less than ten years of service are the ones that will be bearing the burden of the cost?

Mr. O'Connor responded that employees with less than ten years of service as of June 30, 2009, and all new employees from this point forward as well, are moving into a completely different type of plan. It is a defined contribution plan as opposed to a defined benefit plan. That particular change in itself was one of the changes that made the most significant difference to the liability that the City had. We weren't looking from the perspective of whether those individuals were costing more for their benefits, or would in the future as far as being retirees, but we were looking at taking those individuals out of the picture. Those individuals, when they reach retirement age, if they retire with the City, will still have the option to participate in the City's retiree health plan, but they will be paying the full unblended premium rate, so there is considerably less liability.

Mayor Hallman added that because this is done as an actuarial model, the liability at \$400M is based on that actuarial model and when you start taking it apart based on the elements of that, you can figure out how much of that model is based on those different pieces.

Mr. Meyer added that the City just took a huge portion of people out of the actuarial model because the OPEB only applies to a calculation of what it will cost the City after someone retires. There are now a huge portion of employees who will never be part of that calculation because they will never be getting the same kind of benefit plan. OPEB is only calculating our cost in the future. We took everyone with ten years or less of service in the City out of that calculation altogether. That's why it was such a significant savings.

Ms. Lindberg noted that for those with more than ten years, whether on Medicare or not, as they die that liability gets smaller and smaller. How will that issue be dealt with?

Mayor Hallman responded that the money will have been paid. As history goes forward, we will be writing checks to pay medical bills, so this \$400M (which is now \$200M in likely payments we will make) will have been paid. This City will have spent \$200M supporting the healthcare of the retired employees.

Ms. Lindberg clarified that Mayor Hallman was referring to the \$200M as actual claims.

Mayor Hallman responded that is the actuarial estimate of what those claims will be.

Ms. Lindberg clarified that the matrix was the people who have less than 10 years of service. For the matrix that was sent out to the retirees, do the numbers take into consideration the State Retirement subsidy that the City receives?

Mr. O'Connor responded that the numbers on the matrix are not related to years of service. That is an example based on a retiree and a dependent on the PPO high option plan. The matrix shows the additional monthly out-of-pocket costs.

Ms. Lindberg clarified that would be the net amount they would pay.

Mr. O'Connor added that the State subsidy from the Arizona State Retirement System (ASRS) is taken as monies that go into the pot from which we determine what the premiums are. Essentially, by applying those subsidies into that amount, the amount the retiree pays as premiums decreases.

Ms. Lindberg clarified that theoretically people on Medicare, particularly as time goes by, the rates could go lower than the State subsidy in which case they wouldn't owe anything.

Mr. O'Connor agreed that it was possible and as another example, for an individual retiree who does not have a dependent, it does get to a point where there is no cost to the retiree. The ASRS subsidy is factored into all of that.

Councilmember Arredondo asked for clarification on the resolution on the formal agenda tonight.

Mayor Hallman clarified that even if Council did approve that resolution tonight, it would be to merely start a process to prepare documents, not approving any plan.

CONSENSUS

For the February 19, 2009, Council meeting, staff was directed to:

- Apply the OPEB concepts to the balanced budget model;
- Provide the initial list of suggestions from the Ad Hoc Long Range Finance and Budget Committee.

Follow-up Responsibility: John O'Connor; Tom Duensing

Formal Council Agenda Items

Direction to defer Item #29 to the February 19, 2009, Council meeting.

Future Agenda Items

Photo radar update on the February 19, 2009, meeting agenda, or the meeting immediately thereafter.

Mayor's Announcements/Manager's Announcements

None.

Meeting adjourned at 7:15 p.m.