

Mayor Mark S. Nexsen
Vice Mayor Cal Sheehy
Councilmember Jeni Coke
Councilmember Gordon Groat
Councilmember David Lane
Councilmember Michele Lin
Councilmember Donna McCoy



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City Council Budget Work Session Minutes - Final

Wednesday, May 23, 2018

9:00 AM

1. CALL TO ORDER

Mayor Nexsen called the meeting to order at 9:00 a.m.

2. PLEDGE OF ALLEGIANCE

The Mayor led in the Pledge of Allegiance.

3. ROLL CALL

Present: 6 - Mayor Mark S. Nexsen, Councilmember Gordon Groat, Councilmember David Lane, Councilmember Michele Lin, Councilmember Donna McCoy and Vice Mayor Cal Sheehy

Absent: 1 - Councilmember Jeni Coke

4. CALL TO THE PUBLIC

There were no requests to address the Council.

5. CONTINUATION OF BUDGET DISCUSSIONS FOR FISCAL YEAR 2018-19

City Manager Jess Knudson stated this is the second Budget Work Session to review items that were discussed at the May 3, Budget Overview Work Session. He said staff addressed the increased resources for fire inspections with regard to commercial properties and were able to do that with no additional expense in the budget. Mr. Knudson said staff would be reviewing minor updates with regard to the budget and then have a brief conversation on the importance and the difference between one-time and ongoing expenses within the budget. He stated it is important to identify that difference not only over the next year's budget but also over the next five years and how that impacts the budget. Mr. Knudson stated as directed by Council, Human Resources/Risk Manager Shirlee Palbicki will review where the city is with turnover and hard to fill positions, and other personnel related issues that were raised at the last work session. He added Interim Administrative Services Director Rob Sweeney and Senior Budget Analyst Cassandra Clow would also be making presentations to the Council.

Budget Changes Since Previous Work Sessions

Mr. Sweeney stated two work session have been held; one was focused on the Capital Improvement Program (CIP) and on May 3, the overall general operations budget. He reviewed the agenda for Council:

- Review Proposed Fiscal Year 2018-19 Budget
- Incremental Changes Since Work Sessions
- Expenditure Limitation Discussion
- Employee Vacancy/Attrition
- Next Steps
- Council Discussion/Questions

Mr. Sweeney stated staff is recommending a \$144.6 million budget over all of the funds to meet the needs of the community which includes the \$24.6 million CIP. He said the budget represents roughly a 2.1 percent increase over the prior fiscal year and does fit under the statutory limit of the expenditure limitation that is required by the state. Mr. Sweeney stated should Prop 409 not be successful in August, staff included \$12.2 million in debt issuance in the next fiscal year budget to get in front of any expenditure limitation issue for the following fiscal year. Mr. Sweeney stated staff would not transact any debt issuance without Council authorization. He said any changes made to the proposed budget would be brought back to the Council on June 12, for tentative budget adoption.

Mr. Sweeney said staff identified some zero dollar changes to either increase services to the community or deal with budgetary issues or errors that staff discovered. He stated at the May 3 work session, discussion was held relative to the Highway User Revenue Fund (HURF). He added staff has had no feedback from the state with regards to what that looks like so no changes were made to the revenue estimates but would bring that information back on June 12, should staff know in advance of that.

Ms. Clow stated since the last budget work session, staff removed the part-time fire prevention assistant and added a full-time fire prevention position with zero impact to the budget. She said staff removed the full-time fire administrative specialist position and added a part-time clerical office aide, again with zero impact to the expenditure limitation.

Ms. Clow stated an employee that was coded to the water fund was moved into the wastewater fund to correct a payroll distribution error. She said although there is zero impact to the budget it does have a negative impact of \$50,000 to the expenditure limitation.

Mr. Sweeney stated at the May 3 work session, there was discussion regarding the expenditure limitation capacity. He said with the payroll distribution error, the budget is under the expenditure limitation by approximately \$550,000. He said looking at a

one-time use of the \$550,000 versus a recurring use of the \$550,000 and adjusted for inflation over five years, it shows a decrease in the general fund over time. Mr. Sweeney reviewed a power point presentation outlining one-time expenditures versus ongoing program expenditures.

Employee Vacancy / Attrition Rates

Mr. Sweeney stated another item that was discussed at the May 3 work session was current vacancy rates. Ms. Palbicki stated her office analyzed the employee turnover rate by the major departments or service type over the past ten years. She reviewed a power point presentation reflective of the turnover rate in each of those respective areas or service types, not inclusive of retirement. Ms. Palbicki stated the budget is based on attrition by fund, forecasted vacancies, knowledge of retirements and hard to fill positions. She said staff identified recruitment challenges over the past three years and identified those as highly technical and/or specialized classifications.

Mr. Sweeney reviewed the budget schedule for Council.

- June 12 – Adopt CIP and Tentative Budget
- June 26 – Public Hearing: Budget and Levy
- June 26 – Adopt Annual Budget
- July 10 – Adopt Property Tax Levy

Councilmember Groat asked Ms. Palbicki for the turnover rate for the last year. Ms. Palbicki stated that staff tracks the turnover statistics city-wide not by department. She reviewed the following statistics for Council.

Attrition Rates Exclusive of Retirements - Fiscal Year 2017-18

- Police Department – 7.6 percent
- Fire Department – 8.2 percent
- Parks and Recreation – 8.3 percent
- Public Works/Operation – 6.4 percent
- All Other Funds – 2.7 percent

Attrition Rates Exclusive of Retirements - Fiscal Year 2016-17

- Police Department – 9.1 percent
- Fire Department – 0.0 percent
- Parks and Recreation – 10.0 percent
- Public Works/Operation – 6.4 percent
- All Other Funds – 9.5 percent

Councilmember Groat stated when looking at the ten-year and one-year attrition rate the Fire Department is closer to 9 percent so we are losing more people in the fire department but the police department has found a stable level. Ms. Palbicki reviewed the three-year

turnover rate in police and fire for Councilmember Groat. Mayor Nexsen stated four firefighters were hired in April and two were hired in October of last year.

Councilmember Groat asked if the compaction issue would be resolved for the police and fire departments. Mayor Nexsen stated his understanding was that was completed for the police department and some of the compaction issue was alleviated in the fire department. Ms. Palbicki explained that in Fiscal Year 2015-16, the city manager tasked staff to look at all departments. She added that the City was facing hiring challenges in the police department in excess of 20 vacancies so staff looked at why we were not attracting personnel. Ms. Palbicki stated at that time, she along with the city manager looked at positions that were ten percent or more below market and at that time firefighters were a little over four percent below market so they were not adjusted because there was no compaction issue identified with regard to recruitment.

Councilmember Groat stated that answered his question regarding recruitment but did not answer his question in terms of other sources of information that would assure him that we have an issue. Mayor Nexsen stated he has not heard anything that there is an issue. Mr. Knudson stated he has had a number of conversations with Chief Davis with regard to the department, short-term, long-term and in terms of resources. He said there are a lot of decisions to be made moving forward but right now staff is trying to get past Prop 409 on August 28. Mr. Knudson stated he asked the Chief if we are providing the best possible service to our residents and if any decisions we are making now detracts from our ability to provide service. He said certifications are still in place and our personnel are receiving the proper training. Mr. Knudson stated in terms of compaction, it is something that he has talked about extensively with all of the department heads and is something staff wants to address at the right time. He said a positional analysis study will allow staff to take a look city-wide and identify positions where there are concerns and address those comprehensively. Mr. Knudson stated if staff is going to conduct a positional analysis study, we have to make certain that we are in a position to implement the findings of that study or a phased approach of the findings of that study. He said right now we are not in a position to do that from a city-wide perspective.

Councilmember Lane stated he spent time with the Professional Firefighter Association (Association) and talked about every issue whether it was pay or staffing and also had the same conversation with Mr. Knudson and Ms. Palbicki. He said there is no doubt there are compaction issues but right now with the expenditure limitation, he would hate to address the compaction issue and if Prop 409 does not pass take those same employees that received a raise and lay them off. Councilmember Lane stated we have to deal with the issues in hand and right now based on our expenditure limitation, we have to go with just needs not wants and get past this expenditure limitation in August.

Councilmember Lin stated her question to Chief Davis is in retaining firefighters and if we do not address this compaction issue now, are we going to end up with an issue of losing more firefighters. She said her second question was when those four positions were replaced if there was a pool to choose from. Chief Davis stated the department has really good folks but unfortunately over time people make different career decisions. He said the department is not terribly dysfunctional by losing a couple of people but added the six people that were brought in

are equally as impressive as the six that left. Chief Davis stated all six are paramedics and all of them live in Lake Havasu City. Chief Davis stated in regards to Councilmember Lin's second question, staff receives anywhere from 30 to 50 applications.

Vice Mayor Sheehy stated in looking over the five-year analysis and one-time versus recurring expenses, it is understood that we cannot necessarily address all of the compaction issues in the city but wanted to have some reassurance that staff would address and solve the problem and reassure staff city-wide that this will be addressed.

Mr. Knudson stated it is an issue that the City needs to address whether it is a compaction, compensation or structure issue, it needs to be updated to assure that we are retaining the best and brightest employees to provide the best service we can to our residents. He said we do not have the ability to address that immediately but is something that needs to be addressed within the next 12 to 18 months.

Councilmember Groat stated the fire department compaction issue needs to be solved in this fiscal budget and said the City has plenty of capacity to move around that issue. He stated he has never seen a subdivision turned down since he has been on this Council and one of the most important things we do in our community are events but we need to staff those with EMS, fire and police personnel. He said the police compaction issue was resolved but said it seems as if the fire department got "hosed" on that deal.

Councilmember Groat stated he would be defiant waiting for some mythical plan in the future because when this was asked of from a previous Council that promise was made by the previous administration and it was not delivered. He stated the most important thing that we do as a government is to provide for public safety and that means for both our police and fire departments and would like to see this historical wrong righted and done in this budget year.

Mayor Nexsen stated that he would never suggest borrowing money for operations because that leads down a path of disaster by laying people off because the City can no longer afford the debt incurred year after year. He said he has been on the Council for twelve years and did not remember the council suggest that the compaction issue be resolved in every department but added that the council asked that issue be resolved for

the police department and also asked staff to look at other departments and cure it on a one-off basis. Ms. Palbicki stated there was not a directive that she was aware of to address compaction city-wide. She added the direction she received was based on the difficulty to fill police positions. She said at that time she met with the departments and the city manager and agreed to address the compaction issues in all departments and brought back any positions where the salary band was ten percent or more below market with a salary adjustment for those positions and also did a compaction adjustment in the police department because the city was having issues with filling positions and retaining employees.

Councilmember Lin asked Chief Davis if there is a compaction issue in the fire department to which he stated there is a compaction issue city-wide. He added that he and Mr. Knudson met with the Association and went over recommendations or suggestions that the Association put together. Councilmember Lin stated that she agreed whole heartedly with Councilmember Groat. Mayor Nexsen stated what he heard was that there is a compaction issue city-wide and wondered if Councilmember Lin wanted it fixed in every department in this budget. Councilmember Lin stated only the fire department this budget session because she felt it is a safety issue. She said not to borrow money but hold off on some CIP projects that do not need to be done this year. Mayor Nexsen explained CIP projects are one-time dollars and stated hopefully with the help of Council we can get through Prop 409 and we can deliver. Councilmember Lin stated if Prop 409 does not pass we are going to be sitting in the same position as right now. Mayor Nexsen stated as an example, if \$1.5 million were put into the operations department, in ten years that \$1.5 million would be \$15 million because those are ongoing expenditures. He said the only big project that has those kinds of dollars is the SARA Park renovation project to which Councilmember Lin stated so then we wait on SARA Park. Mayor Nexsen asked if she would like to get rid of the SARA Park improvements

projects for the kids and put those funds in operations. Councilmember Lin stated that she did not want to take the SARA Park project away at all. Mayor Nexsen asked how she would make up the \$15 million, to which Councilmember Lin stated the Council would make that decision. Mayor Nexsen stated she was the one that made the suggestion and asked how she would solve that problem. Councilmember Groat stated that there is approximately \$1.94 million that can be cut out of this year's budget and \$3.6 million that can be cut out of next year's budget that can be pushed back one year and then find out what happens with the expenditure limitation.

Mayor Nexsen stated all of the employees deserve to have this addressed but this is not the time and said as far as he was concerned staff has done what council has asked them to do in terms of a budget. Councilmember Groat stated he has made his case and if the Council decides to wait for a year or two to solve the compaction issue for everybody,

events will continue to be staffed because that is extraordinarily important to our economy. Mayor Nexsen stated he was suggesting there are tons of vacancies in the fire department and asked Ms. Palbicki how many positions are vacant in fire and police. Ms. Palbicki stated the last four vacancies were just filled in the fire and staff is currently testing six in the police department. She added city-wide, we are down 29 positions.

Councilmember Lin asked if there was money allocated for overtime for the special events, to which Mayor Nexsen stated the budget has \$1,053,000 in the overtime line item.

Councilmember Lane stated the budget is \$144 million for next year and to fix the compaction issue would cost \$300,000. He said he has met with the Association, the city manager and Ms. Palbicki and was assured this issue would be taken care of. He said he has full confidence in Mr. Knudson that this issue will be fixed in the coming year. Councilmember Lane stated right now, with the expenditure limitation, he sees that as an issue.

Councilmember McCoy stated it is painful with the firefighters sitting in the audience thinking that the Council does not want to help them but said they are also looking at the faces of many other departments. She said staff takes direction from them and if that is something that the Council wants done, they need to bring that back after Prop 409 is passed. She added with regard to new development, the Council has voted unanimously every time that has come forward because they understand what it will do for the City when Prop 409 is passed.

6. CALL TO THE PUBLIC

Mr. Tony Rivello, President of the Professional Firefighters Association, addressed the Council and stated he is not going to ask the council to take any action at this time and understands the expenditure limitation but there are fundamental disagreements in some of the decisions that have been made over the course of several fiscal years. He said he has argued for every city employee because the reality is they have all been through this horrible decade and it has been a tough ride. Mr. Rivello stated the firefighter attrition rate was 16 percent this fiscal year, six out of 36 positions. He said to tell your employees to continue to be patient without a plan is a tough pill to swallow. Mr. Rivello stated an 11-year firefighter is sitting in the middle of a pay grade at \$16.62 an hour and the only reason their annual wage is fairly sufficient is because they work 3,000 hours per year. He said employees have sat back and watched things transpire in the community, the growth, the impact, the development, the land acquisitions, the parks developments, and all of that has an impact not just fiscally, but has an impact to the operation. He added the fire department call volume is up 30 percent the first quarter of this year. Mr. Rivello stated the firefighter component is approximately a \$150,000 adjustment to the budget and believed the capacity is within the budget to handle that. He stated, to his fellow

employees, the fire department is not trying to grab a big chunk of the pie out from underneath them and said he is pleading their case as well. He stated a class/comp study is long overdue to fix all of the employees city-wide that are doing an incredible job for this community.

7. ADJOURN

Upon motion by Councilmember McCoy and seconded, the meeting adjourned at 9:59 a.m.

CERTIFICATION

I hereby certify that the foregoing is a full and true copy of the Budget Work Session Meeting Minutes of the Lake Havasu City Council held on the 23rd day of May, 2018. I further certify that the meeting was duly called and posted, and that a quorum was present.

Kelly Williams, City Clerk/CMC

Prepared By:

Sacia Graber, City Clerk Assistant/CMC