Tempe Budget Employee Forum
Oct. 23, 2012, at 1 p.m.
City Council Chambers

The following is a recap of questions asked and answers given during the fourth of four employee forums held in October 2012 regarding the city's long-range budget forecast for 2013-14 and beyond. Attendees saw the same presentation that the City Council was provided on Sept. 24, 2012. Answers were provided by City Manager Charlie Meyer and Finance and Information Technology Director Ken Jones, unless otherwise noted.

Q1: If healthcare costs only comprise a fraction of total employee compensation, then a five percent increase in healthcare costs wouldn't mean a 5 percent increase in total compensation, right?
A: Healthcare cost increases represent about 10 percent of total employee cost increases. If healthcare costs represent 10 percent of total compensation and they increase by 10 percent, that would equate to a 1 percent increase in total compensation.

Q2: Was the City Council given examples or models of things to do to resolve the remaining budget issues?
A: No. The information presented on Sept. 24 was only meant to outline the issue for the Council. These employee forums are outlining the issue for employees, too. We are nearing the point of seeking Council feedback. We need time to build budgets for all of the areas of the city, so we need a decision soon.

Q3: Is $10 million a year fully funding our Other Post-Employment Benefits (OPEB) liability?
A: Yes, that is an annual obligation to fund. We are paying cash for employee and retiree healthcare. There will be a future point when Groups 1 and 2 in the retirement plan are closed out and our funding will meet our obligations; at that point, we will no longer have to fund OPEB.

Q4: Are there any benefits that are not fully funded?
A: The Government Accounting Standards Board will require us to add unfunded retirement obligations to our books in the near future. We do not currently account for the city's portion of the unfunded liability maintained on the books of the state retirement systems, ASRS and PSRS. We contribute what is required by the retirement systems but the systems are not currently fully funded. Bond ratings agencies know this too. It is an issue that is coming up. The Arizona State Retirement System (ASRS) is only 70 percent funded – the rest is liability. We might be forced to put this on our balance sheet.

Q5: The last time Tempe made significant cuts, we had bumping of other less-tenured employees. After that, there was discussion about the value of using seniority only in making these decisions. Is there any movement in looking at making it more merit based?
A: We looked at whether we wanted to change that system and brought the idea to the Six-Sided Partnership. It yielded some good discussions. Ultimately, it was decided not to make a change. In the end, we want to simply avoid the situation of needing layoffs in the first place. We should manage ourselves in such a way that if we reduce the workforce we do it on a planned basis and avoid layoffs.

Q6: Is the issue for 2013-14 that we need to decide about a percentage limit to annual increases in employee costs in order to bring things into balance? When do we know about what is happening with ASRS and healthcare costs for next year?
A: If we know, for example, that we cannot afford a 5 percent step increase, then we need to work with the employee groups. We have great bargaining units who can express views to the City Manager. They will all have their opinions about what they would want. The annual step increase isn't the only thing on the table to talk about. If we have fewer people, that helps. You could take a full step increase but less of something else to work within the total amount. We already have estimates on ASRS and we know healthcare increases will be about 7.5 percent.

Q7: Cities in Arizona have gotten state-shared revenue. When the state's own temporary tax was approved, it bypassed sharing some of those revenues with the cities. Similarly, if Proposition 204 passes on Nov. 6, cities won't get a share of that either. What happens if we keep getting cut out of these types of things?
A: When the state imposed its temporary sales tax, cities went along with not sharing it. That's expiring. We get 25 percent of our revenue in the General Fund from state-shared sales and income taxes. Not sharing these things means $2-3 million less to Tempe. We never anticipated getting these things, though, so they aren't technically losses.

Q8: Is there a consideration to move from pensions to 401(k) plans?
A: The Legislature has discussed transitioning to a defined contribution plan from a defined benefit plan. It is up to them. We are required by state statute to participate.

Q9: Can we look to use money in the General Fund fund balance as a way to soften the blow of the additional sales tax going away?
A: We project our revenues. If we have a budget surplus, it goes into the models. We shoot for having 25 percent (or $43 million) in General Fund fund balance. Our current model assumes spending our fund balance from the current 30 percent down to 25 percent to soften the blow of the temporary sales tax expiring.

Q10: What vehicles have been thought of for employee input?
A: We are going back to the City Council soon to see where they are leaning. If the Council wants to rank order services based on importance, we will need feedback. Otherwise, employee feedback comes through the bargaining process. We should look at vacancies as they come along so we don't have to pass the hat for five percent from each area because that effort won't yield good decisions. We need to look at those efficiencies all the time.

Q11: Are we trying to get guidance from the Council to set the percentage of personnel growth per FTE? Would that percentage limit be consistent across the city?
A: If the Council wants to maintain our absorption of employee pay and benefit increases, we need to look elsewhere in the city for savings. Also, we do not know about the consistency question yet. We have four unions plus confidential employees and management. There are very real differences among those groups, including Public Safety Retirement System (PSRS) pension cost increases.

Q12: Arizona cities depend a lot on sales tax. Other cities around the country use property tax to a greater extent. What are the pros and cons of each?
A: We have an almost complete reliance on sales tax and that can very quickly become a bad situation. Other states don't do this – places like Nevada and Arizona do. A system of one-third income tax, one-third property tax and one-third sales tax tends to work better. In the spring of 2008, we started showing the signs of decreases. That's why new development is so important because it yields new sources of property taxes.

Q13: What ways are we anticipating for involving the public in this decision?
A: Tempe had some public forums for the 2010-11 budget cycle – these are very necessary if you're cutting services. We may not need to engage residents on issues of personnel compensation. We do want to engage the public on Capital Improvement Project (CIP) priorities early in 2013, though, to hear from residents on which projects they would most like to see. We could briefly talk about operating budgets at that same time.

Q14: What has been built into the models about PSRS and ASRS increases?
A: For ASRS, that annual increase in city contributions is projected to go from 10.5 percent for 2013-14 to 11.6 percent next year and up to 12.1 percent by FY 2016-17. The health of this fund is projected to improve and is the same in every jurisdiction. For PSRS, it differs by community; the increases go from the current 29.9 percent to 37 percent for Tempe Police in FY 2016-17 and from the current 32.9 percent to 41.5 percent for Tempe Fire during the same period.

Q15: Are those increases to make up for the ASRS funding gap?
A: New ASRS employees must get 85 points before they can retire, not the 80 that current employees have to get. They've made other changes as well, so ASRS is now 70 percent funded. PSRS staff proposed action to their board, but the state Legislature acted first. All of that activity is meant to get the funds healthy.

Q16: With PSRS, where does Tempe compare to other cities in terms of its contributions?

A: Tempe is the highest among large cities in the state for Fire and the second-highest for Police.