

BUDGET, FINANCE AND PERSONNEL COMMITTEE
MAY 18, 2010
2:00 P.M.

Councilwoman Berz, Chairwoman, called the meeting of the Budget, Finance and Personnel Committee to order with Councilpersons Ladd, Benson, Scott and Rico present. Councilmen Murphy, Robinson, and Gilbert joined the meeting later. City Attorney Michael McMahan joined the meeting later. Management Analyst/Auditor Randy Burns was present, as was Shirley Crownover, Assistant Clerk to the Council.

Others present included Dan Johnson, Richard Beeland, Larry Zehnder, Beverly Cosley, Bernadine Turner, Tommy Pruitt, Christy, Chief Dodd, Mark Keil, Chief Rawlston, Gary Hilbert, Fredia Kitchen, Joachim Volz, Tony Sammons, Vicky Haley, Chief Parker, Beverly Johnson, Daisy Madison, Jim Templeton, Greta Hayes, Bob Saylor, Randy Ray, Steve Leach and Simone White. Donna Kelley, Frank Hamilton, John Van Winkle, Dennis Malone, Bob McGee, and Brian Smart joined the meeting later. (Mayor Littlefield was on speaker phone).

Chairwoman Berz called the meeting to order, stating that the purpose for the meeting is for Administration to present their Budget, which was handed out to Councilmembers. She noted that four weeks ago the Council opted to take four weeks to talk to agencies and departments for questions; that the Council decided to wait until after we received the Budget to ask informed questions. She stated that the Finance Director would go over the Budget and there would be a separate presentation of OPEB and that Mayor Littlefield is on the speaker phone.

Mayor Littlefield stated that Daisy Madison and Dan Johnson would handle the Budget, and he would speak at the end.

Ms. Madison began the power point presentation, acknowledging how hard all of those concerned had worked. She stated that there would be a special presentation on a topic that was "near and dear" to all (OPEC), which are retirement benefits, which is an important part of this Budget; that it is an old cost that is being newly presented. She stated that this was the most difficult Budget that she had worked on for a number of reasons, including our economic situation; that they had tried to be frugal and not to increase the burden on the taxpayers; that this was a difficult Budget, but she was really comfortable that it is justified.

Ms. Madison talked about Budget Priorities, starting out with Public Safety, which entails the protection of all our citizens and is important to economic growth of where we live, work and play. This Budget includes funding for two police academies, 40 additional officers on the streets, sworn positions from 475 to 485, restoration of civilian support staff, 26 additional firefighters for Enterprise South Firehall, expanded contract with Tri-Community for recent annexations, and support for security camera projects.

The next area prioritized was Focus on Youth with a restoration of hours at recreation centers, Youth Development Programs, and the new Hixson Middle School Recreation Center.

She mentioned enhanced maintenance of City streets; full staffing of in-house legal department, which incurs little additional cost; support for wireless network, noting that our IS Department is a step ahead; and supporting Sustainable Economic Growth.

Councilman Benson asked what she meant by Sustainable Economic Growth? Ms. Madison responded that there was a long-term strategy to do these things. He asked for an example, and Ms. Madison mentioned energy conservation including reducing energy in our buildings.

Ms. Madison next covered Budget Highlights, and the City's desire to attract and maintain competent, professional Staff and competitive pay for performance. She noted that city employees had performed services expediently, smartly and efficiently with little complaint with less staff and less and less pay; that the City had implemented a new Pay Plan, but it had not been fully realized, and this Budget would attempt to address the lag in the Pay Plan. She mentioned a cure for anomaly in pay for police ranks, noting that certain employees were making less pay than those that were newly promoted. There would also be a restoration of 100% longevity pay—that this had been cut by 50%, and this rewards those with experience for staying with the City. She noted that we had had to cut back on training and this Budget allows for staff training and professional development—that a trained Staff is more productive. There will also be continued improvements to medical benefits program. She went over funding for increased pension costs, over which we have very little control but have to make sure that funds are available to pay benefits. She added that they had asked the actuaries for alternatives in order to be fiscally responsible.

She continued with Budget Highlights, including maintenance of a sound fiscal position for the City, strategy to minimize long term cost of OPEB, increasing the Contingency to \$1,000,000, a debt service increase of \$4.6 million; an R&R increase to \$1,500,000; and fully funded vehicle lease program.

Also included in Budget Highlights was a Clean Environment and programs to ensure compliance with EPA regulations. She added that most of the conversation today centered around the General Fund.

Ms. Madison next covered Revenues, with totals for the last four years (included in minute material). She noted that in 2009, the trend changed and revenues went down. In 2010 there was a further drop of Revenues. She went on to say that they had done a lot of cutting and had taken out wants and this Budget just included needs; that costs continue to rise and revenue is down and that is why we are where we are today. She went over major changes in Revenues from FY '08 to FY '10, noting that the sources for revenue had gone down. She did mention that Chattanooga's economic position was that we had been able to weather this economic environment better than most. She mentioned the Hall Income Tax that was down, and we don't get the check until August. She noted that most of our investments are short-term. Total Revenues are down \$8.9 million or 5.14% since FY2008. Revenues excluding property taxes are down \$13.4 million or 16.52%. Property Taxes are up

She continued, showing a chart of where the money goes and percentages, with the largest percent being 26% for the Police Dept., followed by 17% for both Fire and Public Works. Agencies, which includes the Library, CARTA and RPA comprises 8% of the total Budget. RPA requires the most because of the retiree management cost. She mentioned the funds coming from Parks and Recreation for the TN Riverpark Downtown Capital, TN Riverpark Downtown Operations, and the Greater Chattanooga Sports Committee.

Ms. Madison went over a page entitled "Position Summary—All Funds" and stated that departments attempted to cut in order to minimize costs.

The next topic was the General Fund Budget in Brief, with the total operations excluding capital being \$162,535,000. This includes 128 additional funded positions that have been frozen, and she went over the individual numbers (part of minute material). There were also other position changes such as cost to cure Police pay anomaly; restoration of funding for Fire Personnel; Restoring the 50% cut to longevity; COLA; Pay for Performance; F&P Pension increase; General Pension increase; and other Employee Benefit increases. There will be a net increase for pay for employees of 4% and Donna Kelley is working with departments about paying for performance. She noted that she had already mentioned the policy pay anomaly. She noted that the "Other Employee Benefit Increases" is small; that there is no increase in medical costs, which is good for the City. She stated that she was ecstatic about this and credit goes to all city employees for using our Health Care Clinic.

Ms. Madison continued with the General Fund Budget in Brief, mentioning changes other than Salary & Benefits, including, but not limited to, increase in Fleet Vehicle Operating Expense; increase in Agency appropriations; increase in R&R; Capital Outlay; increasing the contingency; utilities increase; insurance; increase in Debt Service; training and travel; and telecommunications.

The total 2011 Proposed General Fund Budget is \$198,636,506. OPEB benefits accounts for \$6,303,051. Our estimated revenues are \$166,385,000, leaving a GAP of \$32,251,506. The proposed new Tax Rate to take care of this GAP is 2.579., which puts us back to where we were in 2001. She went over the impact on the average homeowner, which is made a part of this minute material. There was a listing of property tax rates beginning in 1923 and coming up to the present time. There was also a comparison of the City of Chattanooga with comparable size cities in the State. She mentioned that the Total General Fund Balance measures our fiscal health; that we have an unreserved fund balance to carry on at an acceptable level of service.

Ms. Madison then went back to some of the hard decisions to close the Budget Gap, mentioning potential cuts such as delay for performance implementation; leaving longevity at 50%; reducing RPA; reducing CARTA; restricting police take home car privilege; cutting additional police officers; cutting firefighter positions; and continuing reduced hours for Recreation Centers. She stated that these cuts were not recommended but would reduce the Budget to \$192,758,359 rather than \$198,636,506, which would be a 12 cent reduction in the Tax Rate. She stated that she was not so naïve to think that the Council would not come up with their own recommendations. The key dates to remember are First Reading, June 1st and Second Reading June 8th.

Chairwoman Berz commended the Budget and Finance Department, stating that they had tried to make this as transparent as possible and had been working on this for awhile. She asked that Councilmembers make notes about questions they might have.

At this point, Mayor Littlefield spoke over the phone. He complimented Ms. Madison and her Staff, stating that they had done a very thorough job with a highly complex Budget. He stated that the Council could look over this within the next few days. He called attention to Budget Priorities including Public Safety and Added Focus on Youth and the highlight of a Clean Environment. He mentioned the Revenues, which he stated told a sad story because of the loss of revenue, which hopefully won't continue but stated that this would not come back quickly. He mentioned that the tax rate that is being proposed is just a few cents more than the tax rate in 2001. He mentioned the comparison of Chattanooga with other cities, stating that we were not the highest and not the second highest; that we would be third; that we were not even close to Memphis and that Knoxville might be looking at an increase, too. He noted that in looking at Nashville and Davidson County, one could see the value of consolidation—that their overall rate is consistently lower than our rate. He stated that he appreciated the opportunity to sit in and would be talking with the Council within the next few days.

Chairwoman Berz stated that one piece was missing and there was one final presentation.

Brian Smart took a few minutes to go over the OPEB Budget (Other Post Employment Benefits). He explained that OPEB is part of the employee total compensation and is paid upon retirement in addition to pension. The City's OPEB consists of retiree medical benefits. He explained that while this is not a new benefit for City employees, there is a new accounting requirement issued by the Governmental Accounting Standards Board that could impact the City's financial position as perceived by external agencies; that formerly the City was not required to report; we are now required to report any unfunded annual required contribution which could affect our bond rating. He went over the total OPEB Liability (part of minute material) associated with this benefit as of today. If not funded appropriately, this amount will eventually be reported as the City's total unfunded liability. He outlined the potential OPEB impact and the benefits of fully funding OPEB, which ensures that funds are available when it comes time to pay and does not defer cost incurred today to future generations if fully funded. He showed a comparison of a Funded Plan versus Pay-Go, which is made a part of this minute material. He noted that a pay-as-you-go approach to pensions would have created a \$19.2 million budget gap in FY '09. He mentioned other strategies to reduce OPEB Liabilities and factors to consider such as employer cost reduction; financial impact on retirees; and substantial reduction to benefits for active employees may encourage early retirements to "lock in" current benefit level resulting in shortage in critical areas. Some of the Strategy Decision Points are future and current retirees; future retirees only; new hires only; and post Medicare eligible retiree and dependent. Some of the options for future cost reduction are to change the normal retirement age; change eligibility age; reduce benefits; reduce spouse and dependent coverage; and increase retiree percentage of cost sharing. Mr. Smart went over some quotes from Bond Rating Agencies (Standards & Poor's and Fitch).

Ms. Madison thanked Mr. Smart for this presentation and made further comments on the Fiscal Impact, stating that it would be fiscally irresponsible of us not to address this. She asked that the Council think about this as they made their decision.

Chairwoman Berz stated that Administration was just presenting information today and that there would be questions. She asked to whom the questions should be addressed? Mr. Johnson responded to either himself or Daisy Madison.

Chairwoman Berz stated that the Budget Committee would start again at 2:00 p.m. next week, and the Council needed to follow up with research.

Mr. Johnson stated that any questions he received would be answered and addressed to the entire Council so that all would be informed.

The meeting adjourned at 3:15 p.m. **Councilwoman Robinson postponed the scheduled meeting of the Health, Human Services and Housing Opportunities Committee.**

