

CITY COUNCIL WORKSHOP MINUTES
1:00 P.M., Monday, March 21, 2011
Sparks City Hall Training Room, 431 Prater Way, Sparks, Nevada

1. *Call to Order

The regular meeting of the Sparks City Council was called to order by Mayor Geno Martini at 1:05 p.m.

2. *Roll Call

Mayor Geno Martini, Council Members Julia Ratti, Ed Lawson, Ron Smith, Mike Carrigan (arrived at 1:10 pm), Ron Schmitt, City Manager Shaun Carey, City Clerk Linda Patterson, City Attorney Chet Adams, PRESENT.

Staff Present: Erika Olsen, Judge Barbara McCarthy, Neil Krutz, Jeff Cronk, Andy Flock, Steve Driscoll, Kevin Cavanaugh, Steve Keefer, Adam Mayberry, Stacy Hemmerling, JoAnn Meacham, Heidi Shaw, Brian Allen, Tracy Domingues, Teresa Gardner, Armando Ornelas, Jenny Lewis, Pete Etchart, Shirle Eiting, Jim Kindness, Erica Olsen.

***Comments from the Public - None**

3. Workshop Objective, Process and Methodology

- 3.1. Discuss outcomes and expectations for the workshop
- 3.2. Establish ground rules
- 3.3. Review decisions we need to make

Facilitator Erika Olsen gave an overview of the outcomes and expectations and explained that there will be action taken today on the Financial Policies and budget requirements.

4. Presentation of City Employee Focus Groups and Employee Communications

Human Resources Manager Chris Syverson reviewed the work that has been done with employee focus groups since 2009, outlining 500 plus ideas that came from these groups. Many of the items that have been achieved in the SSSI Initiative came from employee input. Key services and acceptable service levels were areas that were most highlighted by the employees. It was noted that up to 94% of the City fees are set by outside forces, leaving only 6% of the control in our jurisdiction. High on the list of requests from the employee groups included City Hall space configuration, evaluation of competition for services, management's span of control is currently too small, employee concessions and benefits.

Ms. Syverson stated that there are some issues that were not addressed to date. The issues surrounding Fire and REMSA services and who should be providing the emergency services in the valley continues to need review, along with employee training and exploring new revenue sources.

The City Council has requested that discussions with employee Focus Groups continue by Department. To date, twenty three focus groups have been held. Three hundred and three employees have attended these discussion groups and it has been acknowledged that all city

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employees are all doing more with less. It is evident that employee morale is poor. Streamlining of upper management (one of the most requested suggestions) has increased issues between bargaining groups.

As the second round of focus groups met, they were asked, “What haven’t you seen that you would like to see happen?” Some of the areas listed are:

- Create Fire Department Shifts (don’t pay for fire fighters to sleep)
- Do something with parking downtown and at the Marina – charge fees for shuttle buses.
- Raise taxes and fees as possible
- Provide city owned towing service and more equality between bargaining group
- Communication issues: Employees want more face time – include good news now and then
- Budget needs to be more transparent.
- Eliminate Redevelopment Areas, put money put back in the budget.
- Explain why employees are being reclassified when others are being laid off.

Human Resources Manager Chris Syverson explained that Assistant City Manager Steve Driscoll will be tasked with responding to these issues. She pointed out that there are also a lot of myths and concerns not handled – Recommendations will include bringing truth to answer the rumors, (i.e. for the current fiscal year, all Council members made 7.5% concessions).

5. Presentation, discussion and possible action of Fiscal Policies

5.1. Presentation and discussion of Fund Balance Policy including Governmental Accounting Standards Board Statement 54 (GASB54)

Finance Director Jeff Cronk reviewed the current fiscal policies by summary and presented additional proposed policies. Councilman Ron Schmitt asked for a recap of the ending fund balance issues in GASB 54.

Effective 2010-2011, GASB changes how fund balance is presented and clarifies five (5) new categories:

- Non-spendable fund balance;
- Restricted Fund Balance;
- Committed Fund Balance (self-imposed by governing authority at Council level);
- Assigned Fund Balance;
- Unassigned fund balance (residual net resources)

Finance Director Jeff Cronk explained the fund type classifications; Action to establish or remove these classifications must be done by the same level of authority. Mr. Carey suggested that we leave the Commitments and Assignments at the Council level.

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The order of spending priority must be set for Fund Balance Classifications. Mr. Cronk recommended the city use the following for unrestricted:

- Unassigned first
- Assigned second
- Committed third

| GASB 54: Summary of Fund Balance Components |
|---|
| <p>Non-Spendable Fund Balance - Inherently Non-Spendable:</p> <ul style="list-style-type: none"> • Because of their form; • Because they must be legally maintained intact |
| <p>Restricted Fund Balance - Externally Enforceable Limitations:</p> <ul style="list-style-type: none"> • Contractually (debt covenants, grants, or other governmental laws); • City Charter or by enabling legislation |
| <p>Committed Fund Balance - Self Imposed Limitations:</p> <ul style="list-style-type: none"> • Limitations imposed by highest governing authority (Council) |
| <p>Assigned Fund Balance - Limitation Resulting from Establishing Intended Use:</p> <ul style="list-style-type: none"> • Limitations imposed by highest governing authority or designee (City Manager) |
| <p>Unassigned Fund Balance - Residual Net Resources:</p> <ul style="list-style-type: none"> • Total Fund Balance in the General Fund in excess of Non-Spendable, Restricted, Committed, and Assigned Fund Balance (i.e., General Fund Surplus); • Excess of Non-Spendable, Restricted, and Committed Fund Balance greater than the total Fund Balance (i.e., Fund Balance deficit) |

The *Ending Fund Balance* policy could be set at a number equal to 8.3% of departmental expenditures and direction is needed to determine if Council wishes to apply the 8.3% to all funds or just these three funds? Currently, all general fund items are used to establish the 8.3% fund balance. Mr. Cronk noted that in this upcoming fiscal year the 8.3% will be included for all funds that are usable.

Finance Director Jeff Cronk detailed the GASB 54 Definition for Special Revenue Funds as monies *“Used to account for and report the proceeds of specific revenue sources that are Restricted or Committed to expenditure for specified purposes other than debt service or capital projects.”* *Restricted or Committed specific revenue sources must comprise “a substantial portion” (i.e., greater than 20%) of the inflows reported in the fund. Otherwise, the Special Revenue Fund must be closed and reported in the General Fund.*

Staff has reviewed all of the Special Revenue Funds with the following details:

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| Current Special Revenue Fund | Is Primary Revenue Source Restricted or Committed? | Recommended to Keep or Close as an SRF? |
|---------------------------------------|---|--|
| Community Dev Block Grant Fund | Restricted – Grant | Keep |
| Community Dev. Entitlement Grant Fund | Restricted – Grant | Keep |
| Tourism & Marketing Fund | Restricted – Room Taxes Restricted by Statute | Keep |
| Parking District Fund | No | Close – Roll into General Fund |
| Parks & Recreation Fund | Committed – Charges for Services Committed by Council | Keep |
| Court Administrative Assessment Fund | Restricted – Spending of Assessment Revenue is Restricted by Statute | Keep |
| Street Cut Fund | Committed – Fees Generated are Committed by Council | Keep |
| Impact Fee Service Area No. 1 Fund | Restricted – Fees Generated are Restricted by External Agreements | Keep |
| Tourism Improvement District 1 Fund | Restricted or Committed – Revenues are Restricted by Bond Covenant | Keep |
| Stabilization Fund | TBD. Possibly Committed if Council Approves Policy – if No Policy to Commit, then Revenues Would Not be Restricted or Committed | Keep if Council Adopts a Policy to Commit a Portion of CTAX Received in July & August to the Stabilization Fund. ~OR~ Close and Roll Balance into the General Fund if Stabilization Policy and CTAX Commitment is Not Approved. |

5.2. Presentation and discussion of Capital Projects Funding Policy

Finance Director Jeff Cronk presented the current Capital Projects Policy which states: *“Include in the annual budget a transfer from the General Fund to the Capital Projects Fund an amount equal to 2% of departmental expenditures.”*

The fund currently equals approximately \$1.1 million for FY '12 and is included in the City Manager's budget recommendations. This policy is established in order to provide a source of funds dedicated to the capital and infrastructure needs of the City necessary to maintain a sustainable organization. No change to this policy is recommended

5.3. Presentation and discussion of Stabilization Fund Policy

Finance Director Jeff Cronk presented the current Stabilization Fund Policy which states: *“Establish a budgeted transfer from the General Fund to replenish the Stabilization Fund and maintain a balance equal to at least 2% of departmental expenditures.”*

The current Stabilization Fund policy is approximately \$1.1 million for fiscal year 2012 and is included in City Manager's Budget Recommendations

Per GASB 54 the definition of a Stabilization Fund is that it is used for incidents that are “specific and not expected to occur frequently.” Examples of this would be a revenue shortfall or natural disaster. These funds can be considered specific if the constraints on

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amounts meet the criteria to be reported as Restricted or Committed. Currently the City has \$28,000 in the Stabilization Fund, which was drawn down for economic issues from our normal \$600,000.

The City Manager's current budget recommendation will be to commit a portion of Consolidated Tax (sales tax) revenues received in July & August and post them directly as a committed percentage of revenue directly to the Stabilization Fund. The City Council must do this commitment prior to the end of the year. There was consensus to keep the Stabilization Fund but there was no commitment to revenues at this meeting. The Finance Director will bring a formal action forward for the Council to act upon in April.

5.4. Presentation and discussion of Salaries, Wages and Benefits Level Policy

Finance Director Jeff Cronk presented the current Salaries, Wages and Benefits Level Policy which states: *"Maintain the General Fund personnel costs so that they do not exceed 78% of the City's General Fund Base Revenues."*

To get the FY 2011-2012 budget in compliance with this policy, either an estimated \$6 million of total reductions in personnel costs of \$7.5 million in additional revenue would be required. Currently, the proposed FY 2012 budget has gone from 90% to 82% in personnel costs based upon the total General Fund revenue. Base revenues include Property Taxes, Consolidated and Fair Share Taxes, and Licenses and Permits (i.e., the primary revenue structure constituting approximately 85% of total General Fund revenue).

City Manager Shaun Carey noted that as the policy was applied to the FY 2012 budget recommendations, with the SSSI and Core Service Reductions, it was felt that there was too much of an impact in the first year to make it to the 78%. It was determined that the \$4.6 million cut in this budget was good progress to yield an 82% performance level. Part of our recommendations will be to move this upwards in the coming years.

Council member Ratti stated that she sees no value to attaching an arbitrary percentage to this policy. Councilman Smith stated that 90% is unsustainable and the 78% is just a goal. After discussion, there was consensus that reaching 82% the first year and then moving towards 78% would be the goal. This will be addressed further in the budget recommendations.

5.5. Presentation and discussion of Other Post-Employment Benefits (OPEB) Policy

The Finance Director reviewed the options for OPEB as:

1. **Advance Funding** - Choose to contribute resources to an irrevocable trust account as the benefits are earned so that they will be available with interest for payments when benefits are due. Only a few governmental agencies have chosen this option (WCSD, PEBP, and Washoe County)

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Advance Funding Advantages

- ✓ Prevent the need to ask citizens to pay in the future for the cost of services rendered today
- ✓ Assure that promises made to employees remain sustainable
- ✓ Reduce the AAL and ARC costs immediately upon implementation due to the assumption of higher interest earnings held in the irrevocable trust (8% interest assumption vs. 4% with Pay-As-You-Go)

Advance Funding Disadvantages

- ✓ Assumes actuarial gains/losses and swings in assumptions will be insignificant
- ✓ If costs decrease and the plan is fully funded, the City cannot have access to the overfunded cash since it must be funded by an irrevocable trust fund
- ✓ If costs increase and the plan is fully funded, the City will be required to provide additional funding to the trust account
- ✓ Loss of funding flexibility when economic times are volatile

2. **Pay-As-You-Go Funding** - Pay benefit costs as they become due. This will lead to a liability as payments will be less than the ARC. Eventually, in theory, the liability will grow to the full amount of the future benefit obligations. Sparks has implemented this option of funding

Pay-As-You-Go Advantages

- ✓ Able to reduce costs and net liability when actuarial valuations decline while not tying up cash in an irrevocable trust fund that advance funding requires
- ✓ If costs increase, the annual contribution will also likely increase, thus mitigating the increase in liability growth
- ✓ Retain ability to adjust benefit levels to reduce costs without being over funded

Pay-As-You-Go Disadvantages

- ✓ Liability that is booked will likely grow over time
- ✓ Need to book a larger current and unfunded liability due to a lower interest rate discount actuarial assumption

OPEB Valuation Determination

Since the City has more than 200 participants (both active and retired) in either the City's self insured health plan or the Nevada state insurance plan (NPEBP), an actuarial valuation is required at least every two years.

- ✓ The first valuation for Sparks was based upon July 2008 data, and the second valuation was prepared based upon July 2010 data.
- ✓ Actuarial assumptions are made about employee turnover, retirement age, mortality, medical costs, salary changes, inflation, participation trends, etc.

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- ✓ Significant changes to these assumptions can create large swings in liability calculations. This was the case for the AAL that was calculated during the first two valuations for the City.

City's OPEB Liability Amounts

July 2008 (FY 2009) Valuation Results

- ✓ Actuarial Accrued Liabilities = \$48,873,887
- ✓ Annual Required Contribution = \$3,505,830
- ✓ Net OPEB Liability = \$2,025,422 (increased by \$2,540,737 in FY 2010 to \$4,566,159)

July 2010 (FY 2011) Valuation Results (Preliminary)

- ✓ Actuarial Accrued Liabilities = \$24,882,335
- ✓ Annual Required Contribution = \$1,371,683
- ✓ Net OPEB Liability = Not Determined Until Close of Fiscal Year

Change resulted from actuarial assumption changes primarily relating to changes in personnel and benefits, participation rates, and implicit rate recognition

The Finance Director's Recommended Option:

- ✓ Maintain "Pay-As-You-Go" funding method until organizational and economic volatility subsides to maximize funding and cost containment flexibility.

Alternative Options:

- ✓ Establish a trust fund (non-irrevocable which would not meet GASB's requirement for advance funding) which would create an asset on the City's balance sheet offsetting the current OPEB liability as it grows over time.
- ✓ Establishing an irrevocable trust fund meeting GASB's advance funding requirement. This would create either a full or partial advance funding of the current liability, an immediate reduction of the unfunded liability, and create a vehicle to fund future liabilities. This option is recommended after economic and organizational volatility subsides.

City Manager Shaun Carey noted that the Finance Director's recommendation is to maintain the Pay-As-You-Go funding method to gain more time to develop answers as to how we can manage this liability in the future. The policy can be set as "Pay-As-You-Go" and direct staff to explore ways of getting this future liability under control. There was consensus to move forward as described by the City Manager.

5.6. Presentation and discussion of City Debt Policy (a new policy review)

City Manager Shaun Carey stated that the bonds and debt policy was presented in the packet to the Council. Finance Director Jeff Cronk noted that the City's debt package is in great shape. *Revenues or existing reserves are expected to be adequate to meet debt*

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service requirements in fiscal years 2011 and 2012 and is reflected in the City Manager's budget recommendation.

6. Review, discussion and possible action of City Manager Recommendations

6.1. Review of SSSI project recommendations

City Manager Shaun Carey referenced a worksheet which presents two scenarios (one with the known concessions; one with full concessions), stating that there is a known \$4.6 million gap in the budget. The Council was given the option to make adjustments as desired. In light of this shortage, Mr. Carey recommended that the 6% concessions be maintained, noting budget concessions may be made up to May 16, 2011. Department Managers have reviewed and vetted the suggested cuts and we all understand that these cuts will reduce city services and create a larger burden on city employees.

Finance Director Jeff Cronk outlined three sections of the worksheet (SSSI Adjustments; Personnel Adjustments and Non-Personnel Adjustments), noting that 12 positions can be saved from layoffs with full concessions from all bargaining groups. These are the summaries of all of the work done since August 2010.

The City Manager requested authority from the City Council to pursue either layoffs or concessions to get the \$4.6 million in cuts by May 1st and implemented on July 1st.

Councilman Carrigan noted that he is not in favor of losing public safety workers. He suggested reducing health care 6% or Stabilization fund and ending fund balance 6%. We would seek across the board a 6% health care negotiation which will provide a \$1.8 million cut. \$1.9 million is the cost for 6% across the board. Mayor Martini asked what effect does this proposal of lowering the stabilization fund and contingency fund in 2013. Council member Mike Carrigan suggested asking employees for 6% equitable concessions across the board in health care and 6% reduction of stabilization fund rather than losing public safety employees.

In answer to Council's question regarding the City Innovation Fund and Employee Development, City Manager Carey reviewed the Focus Group requests for updating employee skills and training and processes/efficiencies.

Council member Julia Ratti asked if this would be possible through 4% concessions in the health care fund and lowering the funding of the stabilization fund. The Finance Director explained that 1% concessions equals \$300,000.

The City Manager proposed that we move forward with preparing the Tentative Budget and approaching the bargaining units with a more refined proposal on health care, with the Council getting together in April.

Council member Julia Ratti asked for feedback from the focus groups on what is important to our employees. Council member Smith asked for more options on funding the Stabilization Fund.

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- 7. Consideration, discussion and possible action on the plan to implement the City Manager Budget Recommendations that considers the Sustainable Sparks Services Initiative (SSSI) organizational changes (including job function changes, compensation issues and layoffs), employee concessions, and core service adjustments**

City Manager Shaun Carey asked for broad direction for implementation of the SSSI program.

A motion was made by Council Member Lawson, seconded by Council Member Carrigan, to approve the implementation plan of the SSSI, (less the Core Services) as proposed by staff. Council Members Ratti, Lawson, Smith, Carrigan-YES; Council member Schmitt-NO. Motion carried.

8. Comments

8.1 *From the Council and City Manager - None

9. *Adjournment at 4:23 pm

Mayor

City Clerk

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