



**MURRAY CITY MUNICIPAL COUNCIL
BUDGET AND FINANCE COMMITTEE
Fiscal Year 2012-2013**

The Murray City Municipal Council met as the Budget and Finance Committee on Monday, May 14, 2012, in the Murray City Center, Conference Room #107, 5025 South State Street, Murray, Utah.

Members in Attendance:

Jared A. Shaver	Budget Chair
Brett A. Hales	Budget Vice-Chair
Dave Nicponski	Committee Member
Darren V. Stam	Committee Member
Jim Brass	Committee Member

Others in Attendance:

Justin Zollinger	Finance Director	Mike Terry	Human Resource Dir
Janet M. Lopez	Council office		

Mr. Shaver called the Budget and Finance Committee Meeting to order at 5:10 p.m.

Budget Discussion Item A:

**Employee Compensation: Cost of Living
Adjustment (COLA) and Merit Increase**

Mr. Zollinger and Mr. Terry were present to discuss this item and then would be excused for the continuation of the meeting.

Mr. Terry stated that he proposed the adjustments, which are good and necessary; however, there are some down sides that the Council needs to be aware of for their decision making. (Mr. Terry called the raise based on time served an adjustment.) On giving both the COLA and the adjustments, two-thirds of the employees would receive only the COLA and one-third would receive an adjustment, which would be larger than the COLA.

Mr. Shaver asked how he arrived at that number. Mr. Terry explained that 234 employees would get a COLA and 136 would receive the adjustment, something greater than the COLA. His concern is that the 234 have been told, proposed by the Mayor, that they would get a 3% COLA. This was part of his budget address. If you gave a 2% COLA with adjustments to others, it would be great for 1/3 of the employees but a disappointment to 2/3 of the employees who have already heard the 3% and may get only 2%.

Other concerns include the higher cost to give the 2% and adjustments. When Mr. Terry initially gave the salary adjustment review the projections of money available were a little better than now, before Mr. Zollinger was with Murray. Mr. Terry noted that he had met with the Mayor, Ms. Wells and department heads and all were comfortable with the COLA only. He feels the adjustments do need to be made at some time due to the compression prevalent in the Fire and Police departments.

Both the Fire and Police departments have career ladder systems built in that gives a 5% raise at four years of service. This moves employees from Police Officer I to Police Officer II which is a two grade adjustment and is comparable in Fire from a Firefighter I to Firefighter II, Mr. Terry informed the Council.

Mr. Zollinger stated that it was said that over the last three years no raises had been given, although, that is not entirely true. The career ladder raises have occurred. Mr. Terry said that there are probably two to three persons affected per year. It is not a merit increase it is a promotion of two grades. Any time someone moves up two grades, it is a 5% increase, and if they go up three or more grades, it is 10%.

Mr. Hales asked if this increase was given every four years. Mr. Terry said it is only a one time increase. Mr. Terry commented that the compression issues still exist when the six year employee makes the same amount as the four year and the three year person makes the same amount as a new hire. After that there is a Master Police Officer and with certifications the earliest it could happen is at ten years. With Firefighters beyond the II designation one must get the paramedic certification or an engineer certification. SWAT is just an assignment; it does not constitute additional payment.

Mr. Zollinger said he had learned that it is difficult to move laterally from one agency to another agency. Most will promote from within. Mr. Terry said Murray does that, as well, and cannot imagine a situation where Murray would go outside to promote; the exception to that is for Chief.

Mr. Hales asked if Mr. Terry feels differently about the previous recommendation to give adjustments for time of service. Mr. Terry said that he feels it will need to be done, but right now is not a good time, in his opinion.

Mr. Zollinger mentioned another unique situation that department heads are concerned about and that is merit pay. Some employees have been paid less and are lower in their grade because they received lower scores on evaluations and the lower pay adjustments compensate for that. They are lower in their grade for a reason because lower marks and adjustments were given based on low performance. There are only a few of these and they are being fixed. Mr. Terry said there are less than ten. He said that when you have someone low in their grade and adjustments are done according to their time served, it does not take into account their performance as an employee. These people will be swept up in their grade along with everyone else when these types of adjustments are done, regardless of their performance.

A merit increase is done when an evaluation is given and an employee receives a raise based on that evaluation. Murray has not done those in awhile and are not proposing that, Mr. Terry pointed out.

Mr. Shaver said that the issue will be the same no matter when adjustments are given and the only way that would change is if the department head or manager in the reviews says it will be adjusted a specific way. Mr. Zollinger said that there has to be a mechanism for department heads to make some judgment possible.

Mr. Nicponski asked if they could give him the cost for a 2% COLA.

Mr. Terry said that his numbers are salary only. The 3% COLA is \$447,000; 2% COLA with adjustments is \$563,000; and the 3% with adjustments is \$715,000. (These are General Fund numbers only.)

Mr. Nicponski asked how much the revenue has increased over the year. Mr. Zollinger

said the budgeted revenue for FY 2012-13 has increased \$300,000 from the previous year. To get to this budget, cuts were taken in certain line items, and increases in some revenue items.

Mr. Stam asked if the adjustments are delayed for another year, the only additional people to adjust would be those hired between now and then, or will that number increase in other ways. Mr. Terry responded that the same people needing adjustments would be those needing it now; however, new hires would not need any adjustment. Mr. Stam said that by then the new hires would need increases, but not a significant amount. There may only be five new hires in the coming year, Mr. Shaver noted.

Mr. Zollinger expressed that Mr. Hales had asked about overtime, which is being evaluated and information will be shared on that soon. There are some policies in place.

Mr. Shaver commented that the Council would make a decision on the budget employee increases during the meeting so that Ms. Wells would have that information for the employee meeting.

Mr. Zollinger said that he is close to balancing the budget with the adjustments included. He is within \$25,000 and feels he can get the rest after speaking with a couple more departments. If the Council chooses, they will be ready to do that.

Mr. Shaver said that the challenge was not that the Budget Chair and Vice Chair wanted him to do that; although they did want to look at every possibility.

Mr. Hales asked Mr. Terry to reiterate what he felt the employees would desire. Mr. Terry said that the employees would like a 3% COLA plus adjustments. It is been proposed to give the 3% COLA across the board. He felt there would be immense frustration if the 3% were reduced to 2% for two thirds of the Murray employees. With the adjustments and 2% the 234 employees would be very disappointed. Mr. Zollinger noted that they might feel that they received one percent less so that others could get an adjustment.

Mr. Stam asked how much a 1% COLA costs. Mr. Terry responded that it is about \$200,000 citywide, and in the General Fund it is about \$150,000. Adding benefits in it would be about \$200,000.

Mr. Brass has heard from employees that they would prefer a 3% COLA than the 2% plus adjustments. Mr. Hales had also heard that.

Mr. Zollinger noted that the adjustments affect mostly four year employees. Mr. Shaver commented that looking at the five to twelve years is a large group. Mr. Terry said the adjustments would only be for how long a person had been in their current position.

Mr. Brass said that as a morale issue the 3% will impact more people. As the money gets better, compression can be addressed.

Mr. Shaver thanked Mr. Terry and Mr. Zollinger for sharing this information with them and spending this much time.

Mr. Zollinger mentioned that the Library Board had asked about doing a bonus incentive of \$10,000 to \$20,000 for Dan Barr on his retirement in September. He passed on the retirement incentives the previous year due to the centennial celebration. The Board would like to reward him for doing that. Mr. Shaver said the Council would address that on Thursday and he asked Ms. Lopez to include him in the meetings on May 17.

Mr. Zollinger would email the other information that he wanted the Council to be aware of. Mr. Brass asked for the numbers had Mr. Barr taken the early retirement the previous year.

The Council does need to make a decision on employee compensation and Mr. Shaver noted that everyone agrees there should be a COLA; however, what that amount will be needs discussion. The merit increase needs consideration as to how it will impact the next year if it is not done this year. Maybe everyone gets merit next year instead of a COLA. These are the kind of issues that need discussion. He said he hears that Council Members prefer the 3% COLA this year. Mr. Nicponski agreed and noted that the compression could be done the next year. He said that he would like to avoid this issue of employees' expectations that exists currently.

Mr. Stam asked when he thought the COLA should be implemented.

Since the 3% COLA is part of the budget, it would take place on July 1. The question is the merit increase that would take place in fiscal year 2013-2014, Mr. Shaver stated.

Mr. Stam pointed out that his initial thought was that if the COLA was done at the beginning of second quarter then there would be a potential savings that could go toward some of the merit increases.

Others commented that would be splitting hairs. Mr. Nicponski said it should be given as soon as possible and let the employees know they are doing a great job.

Budget Discussion Item B: **Retained Risk Fund**

Mr. Shaver said this topic was a hot button for him. He would like to get the City into a position to handle its own risk and pay for normal things, not a major earthquake, but regular risks of day to day accidents and lawsuits the City deals with. He wondered if there could be a line item for retained risk fund in the General Fund with everybody contributing so much money into it. Some departments do not really have much risk but others do. Should those departments, such as fire and police contribute more, due to the risks involved, he asked.

Mr. Brass responded that Mr. Nakamura had pushed this for years and the premiums to the City are in excess of \$40,000 per year for someone who does virtually nothing for us. He feels the money would be better spent self funding. We have never self funded, to Mr. Brass' knowledge. He would like to talk more about it. Mr. Nakamura is a conservative person and if he feels it is a good idea, then the numbers need to be looked at. He gets hit the most on the lawsuits so he sees it up front.

Mr. Shaver asked what the purpose of a reserve fund is. For example, power has a reserve fund; it is our safety net. If they blow a transformer or something major, Mr. Brass pointed out, it is big money. A transformer can be \$1.4 million and a year to build. A major outage is expensive. Mr. Brass said that Central Valley has been having this discussion because it has no reserve fund and the trickling filters are 30 years old. Mr. Shaver expressed that to him the retained risk fund is the City's insurance reserve fund.

Budget Discussion Item C: **Budget Saving Philosophy**

Mr. Shaver explained that he and Mr. Hales had a meeting with Mr. Zollinger and Ms. Wells regarding the budget in general. He stated that the City reserve fund is the savings that the City gets to dip into. He said that earnings return on savings is extremely low. He feels that Mr. Zollinger is building a savings into the budget. The annual budget for the General Fund is roughly \$35 million. To get to a zero budget we must raise \$35 million and spend \$35 million. There is a percentage of savings built into each budgeted item in case something happens. Mr.

Shaver said that his philosophy is that the reserve is for that purpose not the budget. He stressed that he does not feel additional dollars should be built into the budget because the Council may consider raising or lowering taxes based on the number that must be met.

Mr. Brass agreed with that philosophy and Mr. Stam pointed out that actual historical figures may show \$3,550 and then \$4,000 is budgeted. Mr. Brass said that Mr. Shaver is referring to how much padding goes into the numbers. Mr. Hales asked if there is a percentage. Mr. Shaver suggested that, as a Council, it should be determined how much should be added into those numbers. He would not expect to cut to the bone, because gas goes up, power goes up and that is known. But in some cases, we may see \$5,000 in expenditures across the board for five years and then they asked for \$6,000, you must ask why.

Mr. Brass said that the year-to-date numbers are two months short of the year and that should be taken into consideration.

Looking at the budget next Thursday, the Council may not have to look at every department. For example, in Finance, the budget consists of personnel and supplies. Not much is built in. However, looking at Public Services is huge. If you take \$50,000 and build in extra, then the numbers are huge.

Mr. Hales asked if department heads have been taught to do that. Mr. Shaver replied that they had. The Council would have to go against grain on this matter.

Mr. Shaver explained that in past years Murray had lots of money. When the Council began to cut and take away their money, they began to pad the system to protect their funding. No one is maliciously trying to hurt the City, but somewhere that philosophy needs to shift. What is the Council philosophy? Personally, Mr. Shaver said he would go through and slash dollars. He does not want to do that.

Mr. Brass pointed out that when the economy failed it cost the City lots of sales tax. It required a change of philosophy to believe that we don't have lots of money. Some have adjusted better than others. Some budgets may have some padding and others do not. We have to figure that out, Mr. Brass related.

He also stated that along those lines, because interest rates are still so low on reserves and the economy is still in a position to get work done at a relatively decent price, should the City spend some reserves to get one-time projects done? It is cheap now and we are not making anything on reserves.

Mr. Shaver noted that Mr. Nicponski had brought up that very issue to take a million dollars from reserves and get some projects done. Mr. Nicponski stated that we have recurring revenues that will be used for one-time expenditures and it frees that money up. The recurring revenue can take care of things like the employees' raises and recurring expenses. Mr. Shaver said that the CIP process is a way to do that rather than through the general budget. Part of the philosophy is to take an extra million and go back to the CIP process to see where it can be spent to benefit and gain from it. Mr. Brass agreed to have that discussion because he is seeing bid numbers that are very favorable. He thought it would be worth having Mr. Zollinger run some numbers and take money out of savings due to the favorable bid environment versus the interest that is not being made. Waiting a year or two, if the economy comes back, then everything rises with the tide. Mr. Shaver noted that Woodstock Elementary was bid at the perfect time when construction was so low. He asked if there were a process the City could use to do that.

Mr. Hales commented that he is not for padding the budget; however, he is for being

conservative. He prefers having a little extra rather than going short on line items. Other Council members agreed with that philosophy. Mr. Hales said it is hard to anticipate the numbers.

Budget Discussion Item D: **Fiscal Year 2012-2013 Budget**

Mr. Shaver said that if the Council tries to change the philosophy the way Mr. Brass described, then one may say to the department that we will give you the money in another place. We then hold one item to a very specific criterion and go through a Capital Improvement Program process to help in another area rather than the budget, Mr. Shaver suggested. This breaks the philosophy. If the line items are held to a percentage over the historical expenditures, then there is a guideline to follow. It may be 2%, 3% or 5%. However, if Mr. Shaver sees a \$10,000 increase in a line that spent \$50,000 historically, then he asks a question. If an explanation can be given, it may be acceptable.

Mr. Hales asked if the Council received all the explanations on increases in line items.

Mr. Shaver proposed that everyone turn to tab #5 and look at the first sheet. The travel item had increased by \$2,500 and the explanation tells exactly why. There was also an explanation for the increase in professional services.

Mr. Stam reviewed that by budgeting within a certain percentage of actual, then a budget risk fund is being created to cover increases.

Mr. Shaver described his family grocery budget that is based on actual with an increase of five percent. On the Murray City budget, if he uses the same theory, he would budget 105% of actual per line item. He stated that this is his proposal and he wondered if anyone had another idea.

Mr. Brass reminded the Council that they must look at the annualized numbers not the year to date figure that is only for the last 10 months. The only way to be fair is to look at what they are really going to spend for the current year.

Mr. Hales pointed out the travel budget in the Attorney's office. They have not been able to travel for the past two years and now the \$3,500 budget is pertinent to the attorney's positions. This is where the explanation is helpful.

Mr. Shaver related the time the printout was created and he noted that the employees line items will have the 3% increase included in every budget. Travel had been deeply slashed and that has been brought back into the budget this year.

Mr. Brass noted that the line items for social security, group insurance and retirement had all been adjusted as necessary. Those items do not need adjusting. Then the day to day operating expenses can be studied and it is hard because it is a thick book.

Mr. Shaver explained that in the water department, tab 20 page 74, the regular employees are listed first. Reading through the numbers you will see the Mayor's proposed budget has a lower number, which can be accounted for by the retirements and the 3% increase. Those numbers do not need an explanation.

Budget Discussion Item E: **Verification Philosophy**

Mr. Shaver commented that the Council trusts, but verifies. The City Council is given fiduciary responsibility over the budget. The Council may accept the budget as is or make changes to it on Thursday, May 17, 2012. Each Council member may want to go through a

couple of areas to see how it going and that will give the information necessary to make a decision.

Mr. Nicponski asked what the format is for the Thursday meeting. He wondered if they would make individual presentations to the Council. Mr. Brass said that department heads would come in to give a briefing and the Council would ask questions. He detailed that what had taken place in the past was that if there was an item that a Council member questioned it could be placed on contingency. That, in effect, freezes the line item. Then another meeting would take place with the department heads coming back to justify the number with the Council deciding to leave or cut the funding. The Council can do that; although that was not done the previous year. Any individual has the right to do that and the list will be kept and addressed.

Mr. Shaver added that the purpose is not just to cut. It may be decided that an amount is not enough.

Mr. Nicponski was looking at the worksheet for Capital Projects for the Water Fund and asked which amount was the proposed budget. Mr. Brass explained that this was the CIP request form that was sent to the Mayor.

Mr. Brass related that his second year on the Council all road projects were put on contingency because prior to that the road projects were divided equally among the five districts. That year the Council decided that the worst roads citywide needed to be fixed.

Mr. Nicponski asked about the radar speed signs on the CIP. He noted that \$120,000 was requested for speed signs; however, only \$10,000 was recommended. Mr. Nicponski would like more of those up.

Mr. Shaver referred to tab 5, and noted the amount requested from the department was less than the Mayor's budget. The Mayor had to have a reason for raising the amount.

Mr. Stam wanted to clarify the contingency list items and explained that things can still be changed regardless of whether or not they were put on a contingency list.

Mr. Shaver said that based on statute up until the final adoption the Council can change anything they want. Mr. Shaver stressed that he would address the contingency list issue on Thursday.

Mr. Brass agreed with that concept and expressed that up until the budget is accepted anything can be changed. The issue the previous year was that the budget was accepted by the Council.

Mr. Shaver said that he would determine the schedule for Thursday and that would be a question and answer time. Following that the Council would discuss the contingency list, get some rebuttal from the departments and have one other meeting to finalize funding amounts. Then it would be done.

Meeting adjourned at 6:04 p.m.

Janet M. Lopez
Council Office Administrator