

BUDGET AND FINANCE COMMITTEE

June 25, 2002

4:00 p.m.

The meeting of the Budget and Finance Committee was called to order by Councilman Lively, Chairman, with Councilmen Benson, Robinson, Pierce, Hakeem, Littlefield, Taylor and Page present. City Attorney Randall Nelson, Management Analyst Randy Burns and Council Clerk Carol O'Neal, CMC, were also present.

Others present included Mayor Corker, Admin. Boney, Daisy Madison, Judge Williams, Budget staff, Mike Compton, Todd Womack, and Department Administrators.

Mayor Corker stated that it is a privilege to present the budget to Council members and expressed thanks to the budget office for the work they did in putting together the budget, led by Jim Boney, Daisy Madison, Fredia Kitchen and others. He stated that he would "walk" the Council through the PowerPoint presentation, indicating that the budget Ordinance would be ready by week's end.

Mayor Corker began the presentation by stating that this has been a challenging year; that the economy has been much lower than anticipated, estimated earnings are down, interest rates were low and as we finish 2002, revenues have been less than anticipated. A slide was shown reflecting where the 2002 revenues have come from in an effort to refresh everyone's memory and the effects of policies inside and outside of the City and county to see how the changes have affected us.

As the next slide was shown regarding proposed revenues for fiscal year 2003, Mayor Corker stated that he worked hard last year to put together a multi-year budget focused on revenues for future years, indicating that the City lost a year of revenue growth. He stated in putting together a multi-year budget it was hoped interest in revenues would be compounded, however, this year we lost one of those years in growth, but all worked together to come up with other solutions. He stated this year it is felt the economy has turned since February and revenues are back to a more standard level. He stated revenues are projected on a 3.5% countywide and state sales tax, and property tax growth of 2.4%, and pointed out that this budget is being presented based on state policy as it existed last Friday or possibly through 2 p.m. today. He stated the fact is that this budget is based on existing state policy as of June 21, 2002.

A slide was then shown of the 2003 revenues, which reflected where anticipated revenues would come from and their respective amounts, as well as a comparison of revenues 2002 versus 2003.

With regard to expenditures, Mayor Corker explained that the citywide operation of growth was relatively “flat” with careful cost controls and excellent participation from all department heads. He stated minor increases were only those things that were felt absolutely essential. He stated in keeping with City policy, we do have \$1.5 million in the renewal and replacement fund and half a million dollars in contingency.

A slide showing the City’s operation and maintenance growth was displayed with regard to various departmental budget requests. Mayor Corker pointed out that this is the second year in a row that departmental requests are less than the year before. He stated for two years in a row, excluding salaries and medical costs, there have been declining requests to fund city government. He stated this year’s request is \$195,850.00 less than last year (excluding salaries and medical costs).

As it relates to salaries and benefits, Mayor Corker stated that the proposal is to fully fund the step plan, plus a 3% increase for police and fire sworn personnel to bring them in line more with the market. He stated Ms. Kelley in Personnel routinely checks other markets and knows in that area there is some catch-up we would like to put in place this year and it is his belief this is warranted. He stated what this means is that sworn police personnel will receive a 7.35% increase, sworn fire personnel an increase of 7.10% and 4.38% for general plan employees. He stated there is a small percentage of employees who are “capped out” and for those unfamiliar to the pay plan, employees have steps in each job they work through over a nine-to-eleven year period with increases of 4.5% each year. We stated there are a few employees who have gone through the steps and the proposal is for a one time pay of \$800 for those who are “capped out” to cause there to be some increase in pay.

He stated other expenses were far more than last year; that the City had to fund the fire and police pension fund at a cost of \$1.044 million and the general pension fund at \$546,855, for an increase of \$1.6 million. He stated medical costs are up 13.2% and there has been tremendous effort in negotiating with Blue Cross as it relates to insurance, which has benefited us tremendously; that he is glad this was put in place last year. He stated Chattanooga has an unusually expensive population within City government as it relates to medical costs; that this fall they looked at what happened in health care trend-wise inside and outside the City to understand what is going on and it is his belief that 13.2% will cover that.

Mayor Corker continued by stating that last year one of the things focused upon was the fact the City contributes \$8.5 million toward education. He stated that they looked at deducting the cost of the school resource officers prior to the amount going to the County.

Mayor Corker stated in light of where the county is in educational funding, the positive role the City plays in the nine urban schools and the uncertainty education has at the state level, it is proposed that the school resource officers be funded one more time out of the general fund so that it in no way negatively impacts the school system depending upon our funding of the school resource officers.

Mayor Corker stated no new agencies have been funded in this budget, however, he indicated that there are four changes. He stated one change has to do with CARTA's increase in operation by \$262,850 indicating their budget has been reviewed and the things required are justified. He stated the other change, the Regional Planning Agency (RPA), is asking for their pro-rata share of the Development Resource Center (DRC) (\$98,540). The third change has to do with the Carter Street Corporation's going through a tremendous expansion and the "down time" for other meeting facilities; that our share with the County in the amount of \$352,324 is justified for them. He stated the fourth change has to do with the Regional History Museum; that last year the City agreed to purchase a building for them, which has been done and we are receiving rent. He stated their funding is being reduced based upon the rent received from another party, which reduces their contribution by \$24,000.

Mayor Corker concluded his presentation by stating that it is his belief this is a good plan for the City employees with special emphasis on uniformed personnel who are slightly behind the market at this point. He stated even with the types of adjustments proposed the City budget is only 1.09% over the prior year, taking into consideration the medical and salaries increase, for a budget of \$146,170,526. He thanked Council members for the way in which they have worked with him this year; that it one of the things we have been able to do with a budget again two years in a row in asking less than the year before. He stated that we have had a tremendous ability to leverage ourselves at City Hall and cause things to happen that would not otherwise have happened. He stated he has worked with the private sector, foundations, and others to set a vision to garner all kinds of resources for our community, which has allowed us to accomplish so much more. He again thanked the Council for helping in those efforts; that the community has focused on economic development like never before, have done an outstanding job kicking off the Community Education Alliance, have a major impact on the nine urban schools and efforts are being put forth in neighborhood services with the cooperation of Judge Williams to provide more services to citizens.

Councilman Lively stated that he could not speak for the entire Council and expressed his comfort with the budget as presented and commended everyone involved. He stated that it is his thought that things do not happen over night and our condition today is because of the tough steps taken last year and the year before to address situations that came up. He stated that this is a "good feeling" for him.

Councilman Hakeem stated that he is overwhelmed at the 1% over last year! He stated that there has been some discussion that monies have been taken away from the pension fund and inquired as to what this does as far as funding pensions?

Mayor Corker expressed assurance that no money has been taken away from the pension fund at all. He stated each year an actuarial study is done of the pension fund which calculates liabilities of the pension fund on out into the future based on a number of employees; that it is like an insurance policy in many ways. He stated due to the market's performance, combined with actuarial assumptions of where people will be, the City contributed more money to fund this year than in the past. He stated what someone might have brought up was in reference to years ago when the fund was performing incredibly well, the market was well and there was no liability or as much liability. He stated unfortunately for us that has been the opposite; that this year we have to donate a higher level than in the past due to the market and actuarial performance. He stated people administering both funds are acting responsibly.

Councilman Page commented on the ability to hold the budget "within line" like we have and to be able to give raises to the police and fire personnel is quite remarkable! He expressed wonderment as to what influenced administration with regard to the amount of compensation for police and fire, stating that this has been a tough year and referenced the tragedies in the City. He stated it is a very aggressive and positive thing for the City to do.

Mayor Corker explained that our men and women in uniform are held in high regard, as well as general employees, too. He stated that they had a great opportunity to work with people in uniform in ways others might not. He stated that surveys are conducted and Personnel is constantly out in the market looking at what jobs like this are paying in other communities, those larger and small than us in this region. He stated the pay plan is an issue the City will need to deal with and this is not the place to address it right now; that he would like to make sure our pay plan is competitive with other communities. He stated this is an attempt to move our people in uniform more in line with the market and it is his thought this is actually a very responsible thing to do.

Councilman Benson also expressed that this is an excellent budget and that cost controls were implemented so that we could come out with a budget like this; that it is a responsible budget and the Mayor and administrative staff are fulfilling their duties responsibly. He asked what kind of impact on this budget would there be in case the state passes their position down to us? He asked if someone decided to forfeit their responsible actions what effect would that have? Would we come "back to the table"?

Mayor Corker stated trying to analyze what would happen at that level is not a wise use of time at this point in time; that we will know soon.

Councilman Benson stated we cannot meet this budget if we lose state shared taxes.

Mayor Corker responded, “that is right”; that right now he absolutely does not believe the responsible General Assembly will pass anything that would take away state shared taxes; that there has been so much pressure in the last few days. He stated his office has been incredibly successful with the General Assembly; that there has been all kinds of legislation that truly benefits our City and has been in constant contact during this budget matter. He stated he does not know what the outcome in Nashville will be; that for us to hesitate to move based on what the state is doing is uncalled for, and in the event something changes it will be addressed. He stated we had tough decisions to make last year and tried to solve them on a multi-year basis; that it is his hope the General Assembly will do the same thing and not take state shared taxes and not pass a “patch work budget” which would back us into the same mode next year.

Councilman Hakeem stated another potential budget “buster” could be health costs. He asked if we are looking at or doing things regarding wellness problems to keep people on the job?

Mayor Corker stated that meetings have been held with Blue Cross and other companies to come in and propose some unique thing we might look at; that as a public entity he would like for us to be out in front. He stated that he would like for all to know what is being discussed and is not proposing anything; that he and others have looked at trends and what is proposed to happen. He stated whatever committee this comes under, he would like for Blue Cross and others to come in for all to understand what trends are “down the road” to act in a proactive fashion.

Councilwoman Robinson stated that the Mayor and Council find themselves governing at a time when we have had two years of great challenge because we did not know what would happen with the economy and since 9-11. She stated this is a good, lean budget; that she talked with Mr. Boney (whom she calls “Mr. Magician”) about the budget and to come up with the 1.09% over the prior year with the challenges we face is commendable! She stated we did do hard things but the right thing last year; that we see the groundwork in the budget today. She expressed hope that the State Legislature will use the Chattanooga model and do something for the state.

Mayor Corker stated that we all hope so! He stated department heads are to be commended for working with us in the way they have; that they had to make tough decisions and used a lot of creativity. He stated we will continue to see that in two successive years overall departmental approvals are less than the year before, excluding salaries and medical.

Councilman Pierce referenced page six of the document that indicates the budget is based on existing state policy as of June 21, 2002. He stated none of us knows what the state will do and asked what the worse scenario would be? He stated he has heard there are several options “on the table” and basically have an idea of what the shortcomings could be. He stated based on that, are we able to project what would happen if the state does not pass on the CAT’s budget or other budget? What could the citizens expect? He stated this is a good budget for today, but what happens tomorrow? He stated our tax payers need to have this brought out now as to the possibility of what may happen next week; that it is his thought sooner, rather than later, we will know what the state is going to do on the budget.

Mayor Corker stated that he spoke with persons today and had extensive conversations yesterday and Saturday; that he does not think any of us knows truly which plan will come forth. He stated we have the data and information to quickly turn around with the Council if there are changes created and address those. He stated the state shared issue came out last week, which has been more of an issue so that all of us could communicate with our constituents the kinds of things that might occur. He stated what he would say in working closely with TML is to have our own people there and if changes are created, we can turn around and come up with a solution to that.

Councilman Pierce stated with reference to suspension of the step plan last year, is it being reinstated this year?

Mayor Corker responded “yes”; that last year there was a 3.25% – 3.50% increase across-the-board; that raises were weighed so the lower paid employees received more and the higher paid employees received less; that it was really a cost-of-living increase. He stated this year the steps have been reinstated and we are fully funding those; that on top of that sworn officers will receive another 3% for an overall effect of 7.35% for police, 7.10% for fire and 4.38% for other employees. He stated one of the things he would like to point out is over time more and more employees are going to be “capped out” on the level of steps and what the step plan does not do is give any discretion as to whether employees are supervisors or managers. He stated long-term employees end up over time getting “jammed” at the top; that this was something that was put in place in 1998 and it is his honest thought that there are a lot of shortcomings with this. He stated at some point in the future the matter will need to be addressed.

Councilman Pierce stated those who have been “topped out” have been given lump sums. He asked if we will continue to do that for those “topped out” each year?

Mayor Corker stated that they are proposing that for this year; that for next year he is not saying what they are going to do in lieu of what was done this year. He stated what is being proposed is that he does not want any employee not to have received some type of increase. He stated for the small percentage of those in this category a one-time payment is proposed.

Councilman Littlefield stated administration and Mr. Boney plan to deliver the Ordinance and detailed books to Council members by the end of next week for review and added to the agenda two weeks from now. He stated it is hoped by then the state issues will be resolved; that we should have a clear idea of where the State is going and move forward with some greater degree of certainty.

Councilman Lively scheduled another meeting of the Budget and Finance Committee for Tuesday, July 9, immediately following the meeting of the Public Works Committee and indicated that the budget Ordinance would appear on the agenda the same evening on first reading.

The meeting was adjourned.