

CITY OF POCA TELLO, IDAHO
CITY COUNCIL MEETING -
BUDGET DEVELOPMENT
APRIL 7, 2016

Council President Steve Brown called the City Council meeting for budget development to order at 9:06 a.m. Council members present were Roger Bray, Craig Cooper, Jim Johnston, Gary Moore and Michael L. Orr. Mayor Brian Blad was excused.

Council President Brown announced that Joyce Stroschein, Chief Financial Officer/Treasurer, would provide information related to developing the City's Fiscal Year 2017 budget.

Ms. Stroschein was joined by Ashley Linton, Accountant. Ms. Stroschein announced she would give an overview of the following topics: Pledge Covered Revenues, 14-Schedule of Pledged Revenue Coverage, Salary Projections, and Fuel Rates.

PLEDGE COVERED REVENUES (Bond Rate Covenants) –

1) Loan Agreements – within the bonded debt loan agreement loan covenants exists; rate covenants are located in this document; rate covenants place requirements on the borrower to provide assurance that debt payments will be made; the assurance is provided with the requirement that Net Revenues are greater than debt service payments by a rate such as 1.25, 1.50, etc.; and this assurance has an impact on the pricing of the bond.

2) Water Bonded Debt – Rate Covenants – Water Department Revenue Bonds; Rate Covenant. The City has covenanted that for so long as any Bonds remained outstanding the City will establish, fix, prescribe and collect rates and charges for the water service or related services of the System, which after taking into consideration anticipated delinquencies, provide Net Revenues equal to not less than 1.25 times the largest principal and interest payments on the bonds and other obligations payable from Net Revenues during any subsequent fiscal year of the City.

3) Water Pollution Control (WPC) 2012-D Bonded Debt – Rate Covenants. The WPC Bond is with Idaho Bond Bank Bond Issue 2012D; the most recent available audit of the Municipality shows that the System Net Revenues for the Fiscal Year immediately preceding the date of the resolution authorizing the Parity Debt shall have been sufficient to pay an amount representing 125% of the Maximum Annual Debt Service.

4) Water Pollution Control (WPC) 2015-A Bonded Debt – Rate Covenants. WPC Bond is with Idaho Bond Bank Bond Issue 2015A. The most recent available audit of the Municipality shows that the System Net Revenues for any twelve consecutive month period during the twenty-four (24) month immediately preceding the date of the resolution authorizing the Parity Debt shall have been sufficient to pay an amount representing 125% of Maximum Annual Debt Service for all Parity Debt including the proposed obligations.

CITY OF POCA TELLO
BUDGET DEVELOPMENT MEETING
APRIL 7, 2016

14-SCHEDULE OF PLEDGED REVENUE COVERAGE –

Ms. Stroschein gave an overview of the City's Sewer and Water Revenue Bonds since 2006. Ms. Stroschein mentioned when the City approached the Bond Bank in September 2015 she was informed that the City's rating had dropped. This is not acceptable if the City wishes to receive good rates for bonding.

5) Importance of following the Rate Study – The Rate Study establishes the rates to be charged per service provided; the rate for each service is determined based upon the portion of fixed costs versus variable costs related to the demand for service. So changes to rates can have a deeper impact to revenues than expected; the Rate Study builds into projection these bond covenant requirements.

Ms. Stroschein shared her concerns with making changes to utility rates that are not in accordance with the Rate Study. She noted that one of the documents provided to the Bond Bank was a portion of the Rate Study. This information was used to build the bond covenant.

In response to a question from Council, Ms. Stroschein explained caution should be used if Council chooses a reduction in the utility rates to ensure the validity of the Study. She mentioned Public Works staff is assessing the functions they perform to glean cost savings. As a result, perhaps the next rate study will show a savings and the rates will not need to increase.

Council discussion followed regarding the Rate Study and costs related to producing the Study every five years and/or as needed. The City strives to meet citizen's expectations to provide clean drinking water and sanitation services at an acceptable rate.

In response to questions from Council, Ms. Stroschein explained an internal loan from the City's Sanitation Department was from reserve funds. The loan was used to assist with South Valley Connector expenses and did not affect the Rate Study. She clarified the loan will be paid back overtime.

6) Impact of Department Request for Reductions – Applying a reduction to the Utility Funds could jeopardize the City's Rate Study plan; the Rate Study Plan provides the projections to meet capital needs, debt service requirements, and the maintenance of operations. If Council chooses to follow-through with the reduction request, Ms. Stroschein recommended obtaining an updated Rate Study to ensure compliance of all requirements. It was noted that the cost of the last Rate Study was \$104,966.71.

General discussion continued regarding borrowing from fee supported City departments. The actual impact to utility funds will be further researched. Finding better efficiencies in utility fee funded departments will continue and staff will update the Council at a later date.

CITY OF POCATELLO
BUDGET DEVELOPMENT MEETING
APRIL 7, 2016

In response to questions from Council, Mike Jaglowski, Public Works Director, stated his staff is using their asset management and task management software to work more efficiently. He explained once a month Public Works department heads meet and brainstorm of ways to work more efficiently. Mr. Jaglowski mentioned the Sanitation Department is running an experiment using a different type of tire on their trucks. The net cost of maintenance per truck will decrease by using better tires. Mr. Jaglowski explained this is one example of the type of endeavors to reduce expenses and work more efficiently.

Council would like staff to research putting out an RFP to use other sources to perform the Rate Study for the City. They feel departments may have become complacent and are not utilizing other ideas to help make the City more efficient.

Dean Tranmer, City Attorney, explained the utility rate study has not been put out for an RFP because Mr. Gallager is very familiar with the City's functions. He also keeps an eye on revenue and fees that are set by resolution each year. Mr. Tranmer mentioned the important thing to remember is that enterprise funds are unique in that they are solely dependent on the use. Mr. Tranmer recommended the following: 1) the rate study should be done by a firm that is well respected in the industry; 2) fees must be reasonable and also provide sufficient revenue to meet the City's bond obligation; and 3) having someone perform an accurate rate study that will hold up in a courtroom is critical.

Council President Brown announced the Fiscal Year 2017 salary projection presentation would be given by Ms. Stroschein at this time.

SALARY PROJECTION PRESENTATION – The following parameters were outlined:

1) Step Moves projected for Fiscal Year 2017 total \$278,613.00. Tax Fund portion is \$173,810.00 and Fee/Grant fund portion is \$104,803.00.

General discussion regarding the wage progression of an employee completing their step moves (usually a five year period) and starting longevity pay followed.

2) Rank advancements/certification promotions for Fiscal Year 2017 total \$164,851.00. Tax Fund portion is \$147,372.00 and Fee/Grant Fund portion is \$17,479.00.

Ms. Stroschein noted certification promotions are for employees working in departments such as Water Pollution Control that have technicians.

3) Retirements – 27 employees have submitted their intent to retire in Fiscal Year 2017. Step Moves for Fiscal Year 2017 total \$793,061.00. Tax Fund portion is \$686,781.00 and Fee/Grant Fund total is \$106,280.00.

CITY OF POCATELLO
BUDGET DEVELOPMENT MEETING
APRIL 7, 2016

4) Health Insurance – Blue Cross rates without Fire Department (11.82%) with the status quo for distribution. Fiscal Year 2017 projection total \$639,993.00. Tax Fund total \$475,219.00 and Fee/Grant Fund total is \$164,774.00. (Insurance Blue Cross Rates with distribution of 90%, 92% and 94%.)

The choice of health insurance has not yet been determined by Council. An update on the Health Insurance Carrier will be presented by Human Resources later in the meeting.

5) Worker's Compensation insurance – rates updated for work class codes from the Idaho Industrial Commission. No adjustment for experience rating. Fiscal Year 2017 total projection is a decrease of \$33,237.00. Fiscal Year Tax Fund will decrease by (\$1,136.00) and Fiscal Year Fee/Grant Funds will decrease by (\$32,101.00).

Ms. Stroschein gave an overview of the current experience rating percent of 59.96%. She has not been able to update these figures as information is still pending from the Industrial Commission.

Council discussion regarding the City's goal to have \$1.5 Million in the Worker's Compensation fund followed. It was mentioned if the City had a catastrophic incident, they would need to borrow within the funds. Current balance for the City's Worker's Compensation fund is approximately \$800,000. Additional discussion to build up the fund followed.

6) Longevity pay – Fiscal Year 2016 total is \$1,556,962.00 and Fiscal Year 2017 total is \$1,543,744.00. This results in a decrease for Fiscal Year 2017 in the amount of (\$13,218.00).

Ms. Stroschein explained hiring new personnel has caused the decrease in longevity expense. She noted new employees do not receive longevity pay until their steps have been met.

Total Salary Projections – Fiscal Year 2016 \$47,088,451.00; Fiscal Year 2017 \$48,106,405.00 (increase of \$1,017,954.00). This total does include retirements anticipated for 2017.

General discussion regarding retirement savings and the anticipated costs and/or savings regarding potential retirements continued.

Clarification of the totals being presented was given. Ms. Stroschein explained how the measurements are projected and a spreadsheet showing the fund breakdown was reviewed. General discussion continued regarding salary calculations.

Council President Brown stated he understands there have been various conversations taking place regarding longevity pay for employees. Points he has heard are: Should the City 1) keep longevity pay; 2) eliminate longevity pay? or 3) make modifications to the longevity pay?

CITY OF POCA TELLO
BUDGET DEVELOPMENT MEETING
APRIL 7, 2016

Mr. Moore feels longevity pay is part of an employee's salary. However, if it has become archaic and the City of Pocatello is the only place that has it, take the money and build it into an employee's salary.

Mr. Orr suggested another option is to set a date and freeze the longevity pay program. Employees hired after the set date would not be offered longevity pay. Current employees that have been promised the pay would continue. Roll the longevity pay into the base pay and then freeze it for new employees.

The calculation for longevity pay was reviewed. It was clarified that a City employee receives an increase in pay every year up to 25 years of service. Ms. Stroschein shared her concerns with continuing an annual calculation of longevity pay into the base wage. She feels this will be very time consuming for Finance staff.

Debate followed regarding the level of pay City employees receive compared to other areas. General discussion continued regarding the Compensation Study report and impact of the study.

Kim Smith, Human Resources Director, clarified the Compensation Study was presented without longevity pay. When staff was instructed to include longevity pay into the Study, staff found that some City employees were over market as a result of the longevity pay. Ms. Smith reminded Council that longevity pay is part of the step system adopted by a previous Council.

In response to questions from Council, Ms. Smith reviewed the information outlined when the compensation consultants gave their presentation during a Study Session. She explained there is an alternative program that includes steps, followed by bringing employees to market rate. Wage increases for anyone above the market rate would be performance based.

Council discussion continued regarding a market rate evaluation of City positions. It was mentioned some employees are 30% behind the market rate. After lively debate, Council determined additional information is necessary in order to make an informed decision regarding changes to the employee pay structure.

Based upon the current information available, a majority of the Council supported a no cost of living increase for employees in Fiscal Year 2017. A final decision will be voted upon at a later date.

Council President Brown announced that Ms. Stroschein would present Fuel Rates estimations for the Fiscal Year 2017 budget.

FUEL RATES - Fiscal Year 2016 fuel rates for Diesel \$4.00 per gallon and Unleaded \$3.60 per gallon. Estimated Fuel Rates for Fiscal Year 2017 are Diesel \$2.50 per gallon and Unleaded \$2.80 per gallon. It was noted that the Street Department provided usage in gallons and cost amounts for all departments for the year March 2015 thru February 2016. Finance Department calculates the

CITY OF POCA TELLO
BUDGET DEVELOPMENT MEETING
APRIL 7, 2016

average fuel rate for this period and increases this rate by 20% for both Diesel and Unleaded gasoline. It was noted Council will be asked to give final guidance at a future meeting.

In response to questions from Council, Tom Kirkham, Street Operations Superintendent, gave an update on the current costs for fuel. The formula used by his department is used in other organizations and it has proven to be dependable.

A majority of the Council supported using the fuel prices as presented in Fiscal Year 2017. A final decision will be voted upon at a later date.

Council President Brown called a recess at 11:26 a.m.

Council President Brown reconvened the meeting at 11:41 a.m.

Kim Smith, Human Resources Director, was joined by Nicole Harms, Human Resources Consultant, to discuss health benefits for City employees. Ms. Smith explained she would provide an update on the following three plans: Blue Cross of Idaho, Aetna and Regence.

Ms. Harms mentioned Human Resources staff received directions from Council to look at high deductible plans and additional tiers of levels of coverage (current tiers and proposed tiers). She explained recent changes in guidelines from the Federal Government have resulted in health insurance carriers offering a reduced rate for premiums. The updated rates were reviewed based upon high deductible plans.

In response to questions from Council, Human Resources staff recommended choosing Aetna with a 5 tier option and slight plan adjustments. This plan may cause a very minimal percentage of employees to change physicians.

Council discussion regarding medical options for employees and choosing the most cost effective plan continued. It was clarified the rates presented do not include Fire Department staff. A majority of the Council supported choosing Aetna as the City's health insurance provider in Fiscal Year 2017. A final decision will be voted upon at a later date.

It was clarified that the distribution percentages for health insurance premiums will be discussed at a future budget meeting. General discussion continued regarding health coverage basics.

There being no further business, Council President Brown adjourned the meeting at 12:04 p.m.

APPROVED:

BRIAN C. BLAD, MAYOR

CITY OF POCA TELLO
BUDGET DEVELOPMENT MEETING
APRIL 7, 2016

ATTEST:

RUTH E. WHITWORTH, CMC, CITY CLERK