

Sierra Vista City Council  
Work Session Minutes

February 22, 2022

1. Call to Order

Mayor Mueller called the February 22, 2022 City Council Work Session to order at 3:00 p.m., Council Chambers, City Hall, 1011 N. Coronado Drive, Sierra Vista, Arizona.

Mayor Rick Mueller – present  
Mayor Pro Tem Rachel Gray – present  
Council Member William Benning – present  
Council Member Gregory Johnson – present  
Council Member Angelica Landry – present  
Council Member Mark Rodriguez - present  
Council Member Carolyn Umphrey - present

Others Present:

Chuck Potucek, City Manager  
Victoria Yarbrough, Assistant City Manager  
Adam Thrasher, Police Chief  
Brian Jones, Fire Chief  
Laura Wilson, Parks, Leisure and Library Service Director  
Sharon Flissar, Public Works Director  
Matt McLachlan, Community Development Director  
Barbara Fleming, Chief Human Resources Officer  
David Felix, Chief Finance Manager  
Jen Dillaha, Budget Officer  
Tony Boone, Economic Development Manager  
Judy Hector, Marketing and Communications Manager  
Irene Zuniga, Engineer  
Gabriel Squires, Public Works Internal Operations Manager  
Chanel Kirkpatrick, Public Works External Service Manager

2. Presentation and Discussion:

A. February 24, 2022 Council Meeting Agenda Items ([agenda attached](#))

Mayor Mueller stated that the Council Meeting for Thursday, February 24, 2022, starts at 5:00 p.m. with the call to order, roll call, invocation, pledge, the acceptance of the agenda.

In response to Mayor Mueller, Mr. Potucek stated that he will be sharing some data and talking about the local economy during the budget presentation as well as during the meeting on Thursday, February 24, 2022.

Mayor Mueller stated that there will be some award presentations following the City Manager's report.

Item 2 Discussion and Possible Action of the Regular City Council Meeting Minutes of February 10, 2022 – There was no response.

Item 3 Discussion and Possible Action of Resolution 2022-006, Adoption of the revised FY 2022 Classification and Compensation Plan to include a Mid-year Two Percent Market Shift – Ms. Fleming stated that this resolution is for a mid-year, not exactly mid-year because this would become effective March, 2022, two percent cost of living adjustment to the City's current Class and Comp Plan. She added that everyone is aware when walking into retail stores and seeing the news, etc. that wages are going up to attract and retain employees. Therefore, the Human Resources staff did a deep dive into the cities and counties within the State of Arizona to see where the City is at as far as the market data in the Class and Comp Plan because of the real need out there as well as the SEACOM areas that are slipping a little further behind. In looking at and figuring that in moving forward during the July 1 budget, the Department thinks that this would get the City caught up a little with the small shift, and then it would not have this large of an impact on July 1, 2022. The City is hitting 95 percent in most areas, and even some below, but nothing above the 95 percentiles. The Department is recommending a proposed mid-year two percent that would take the City through the end of June, and into the new budget year. The approximate cost is going to be \$212,000 for full time staff, \$9,000 for part time staff for a total of \$221,000 for the last quarter of Fiscal Year 22. The adjustment to the Class and Comp would be a cost-of-living, costs of labor adjustment.

Mayor Mueller asked if 95 percent of market includes salary and compensation. Ms. Fleming stated that he is correct. The City is currently sitting at 95 percent or below.

Mayor Mueller asked if the proposal is to bring everyone up to market average. Ms. Fleming stated that this is a step towards bringing the City up. The Department would then propose another increase for the July 22 budget year. This is basically an intermediate step to get the City a little closer in this year.

Mr. Potucek stated that being proposed is an interim step. He added that the mid-Year financial report will indicate that the funding is certainly available to be able to do this. The \$220,000 is across all funds for the rest of the fiscal year. Two percent would be about a \$900 to \$1,000 impact for a full year. Ms. Fleming will again update the market survey for the budget, and there will be a personnel session regarding the budget in another month or so, and at that point staff will be able to identify the costs associated with personnel and bringing that up. It is important to recognize that this is going to be placed into next year's budget, and the City is probably looking at another four percent market shift plus a two percent step increase in July. It is hoped based on what Ms. Fleming finds in the market survey that the City is somewhat closer to 100 percent of market at that point with its peers around the state. Lastly, he stated that the reason this is being proposed is to take a little bite now and then, see what that impact is on the full budget next year. There may even be another mid-year adjustment if the City is short next year, but that will be in the budget, which will then preclude the need to have Council action like what is currently being proposed.

Mayor Mueller stated that people should know that the reason why the City tries to stay at least at 100 percent of the average for the state is so that the City can hire competitively and get the people of quality to be able to function.

Council Member Johnson asked about the percentage that it would take to get the City's staff up to 100 percent. Mr. Potucek stated that Ms. Fleming mentioned that the City is around 95 percent on average across the board. This will not bring the City to 100; but it is his hope, depending on what the other cities and counties do that the City compares itself to, that the four plus two percent that is being proposed in July would get the City up around 100 percent. This would be the goal.

Mayor Mueller noted that there is inflation too. Mr. Potucek stated that it is a very tough environment and some of the economic numbers that he will be going over as part of the mid-year budget will paint a better picture of that. The City is certainly in a situation where the city is having trouble

competing even locally with retailers currently at the lower end of the scale.

Council Member Johnson noted that it is not only about hiring, but retention as well, which is important. Mr. Potucek shared that he sat in a meeting at a conference a few weeks ago where his colleague from Mesa was talking about pay and retention. He noted that his colleague has recently taken five of the City's employees.

Mayor Pro Tem Gray asked if staff is finding other cities in Arizona going above and beyond the 100 percent to retain their employees during the market survey/study. She also asked if everyone is trying to stay at the market. Ms. Fleming stated that currently there is a mix out there. It is a very competitive market, different situations, and different critical needs. She added that she is unable to get data due to the extreme mix of where everybody is currently landing; however, she is hoping to be able to answer that as the City moves forward during the budget process because part of what she is currently getting is that there are a lot of undecided and unknowns as everyone is starting the budget process for the next fiscal year. Many organizations out there, if any at all that are not facing increases this year, and some of these increases are going to be significant to get them at the 100 percent. Others are coming into town and recruiting, and not just in Sierra Vista and offering things that are above and beyond the 100 percent situation. This is making it difficult and challenging.

Ms. Fleming stated that she had 17 organizations that responded to the questions asked about doing any mid-year adjustments, and if they already knew the percentage that they would be proposing for the coming year. Out of the 17 that responded, eight of those are currently going through a formal Class and Comp because they have determined that their Class and Comp is not satisfactory. They are either already in the process, or they already have a consultant scheduled for some time within this calendar year. More than six of those are expecting to implement COLA in 2023, and six already came up with the amount that they are expecting to present. The average of only those six is four percent. Five implemented a mid-year cost of living increase in January and 11 have determined that they will be presenting cost of living market shift adjustments for their July budget; but there was no percentage shared because. She further stated that it will probably be a little closer to budget time before she gets more responses.

Mayor Pro Tem Gray thanked Ms. Fleming and stated that she thinks that the City has fantastic staff, and she would like for Council to be mindful that these are not token raises to stated that they were. She added that she does not want to see staff leaving/going to other cities.

Council Member Benning asked about a cost analysis or a market analysis for police and fire, nonexempt, that shows an average in the State. He added that he would like to see where the City is at as far as being competitive in those two categories. Ms. Fleming stated that the analysis was done, and the City is sitting at approximately 95 percent.

Council Member Benning stated that he would like to see the effect to the City if the Council decides to go up to four percent this midterm. Mr. Potucek stated that it would mean doubling the current number. If a four percent is done, then the City may not have to do as much in July, they must wait for those numbers to come. Financially, given the current situation, yes, the City can.

Council Member Benning stated that he has the same concern that Mayor Pro Tem Gray brought up. The City has excellent staff, fire and police and losing any of them is losing a culture that the City already has established that is good. He further stated that he would like Council to think of what can be done to keep that retention and people.

Mayor Mueller stated that in looking at police and fire, the City's challenge currently is replacing folks

that are retiring, and he is not sure that what Council Members Johnson and Benning are proposing, an additional two percent, is going to have an impact since it is only from March until the next fiscal year. Mr. Potucek stated that the City is currently in a situation where the problem is really across the board. With the Police Department, the City currently is competing with DPS and Valley cities that are giving out hiring bonuses that makes it tough. He added that he wished that he could say that Sierra Vista can compete with Phoenix and Mesa all day long, but Sierra Vista cannot and is never going to be able to keep up that kind of pace. However, the City needs to keep up the pace with Flagstaff, Yuma, Havasu, Casa Grande, which are the City's peers, more in rural areas. The City has lifestyle advantages, and must try to appeal to that in hiring, i.e., the lower cost of living and the quality of life. This way the City can hire people that want to be in Sierra Vista. Cost wise, if Sierra Vista tries to get in a race with Phoenix, Sierra Vista is not going to win that race because Sierra Vista does not have the resources that they do.

Council Member Rodriguez asked if the market survey is based off population only or a call volume, numbers of staff, language pay incentives, etc. Ms. Fleming stated that the Department does individual job positions and looks for comparisons of the most comparable jobs. The City has a JDQ and JEM that was implemented with the Class and Comp study some years back. They look at the data of those specific positions, and then compare that, which then lets the Department know what the difference is. The Department also takes the actual market into consideration and adjusts figures based on cost of labor. She explained that the federal government runs cost of labor and cost of living numbers. The cost of labor in Sierra Vista is not going to be as much as Queen Creek or the City of Phoenix, but the Department gets those as close as possible, and they also try to get a minimum of close matches. The Department has a good relationship with a lot of the City's closest mirrored cities and are generally always able to get their data and the City of Sierra Vista also provides its data to them. However, there are times when those cities cannot be used and must go out further into the market because there are not always identical positions. The Department wants to get the most comparable comps as possible.

Council Member Rodriguez stated that he would like a breakout of a two, three or four percent to be able to see the difference when it comes to the overall number. He added that something needs to be done as soon as possible because it is not being done because everybody else is doing it. He noted that it is important to Council to keep the City's people and will do what can be done as it is only going to become effective in March and into the new fiscal year. However, he knows that there are some people that are on the fence about staying or leaving the City because they want to do what is best for their family.

Mayor Mueller noted that it is a total of six percent in a very short time and that should be a lot to alleviate some of the concerns that those folks have.

Ms. Yarbrough stated that the amount given is for the last quarter of the year; therefore, the shift in the adjustments and salary would carry through. It would automatically be added to the cost for next fiscal year. The employees would not be getting a certain percentage for a couple of months, and then going back to what they got before.

Council Member Rodriguez stated that it would be good to put out information on the two and four percent, and what that will look like currently and the next year so that employees can see if that will affect their decision when it comes to job searching or remaining.

Council Member Johnson stated that if the Council proposed a four percent market shift versus a two percent market shift for the final quarter it would be affected by  $221 \times 2$ , and perhaps the City would not have to be nearly as concerned for the following fiscal year.

Council Member Benning noted that it would be that for the last quarter, and then it would go to \$101.8 for the next fiscal year, which he is fine with. Mr. Potucek stated that he is always very conservative when it comes to the budget, and this is the first time that this discussion was entertained. He added that he always likes to have more data to look at. He added that the numbers that Council is going to see are very good for the mid-year budget. He further added that he can say with confidence that yes, the City could afford to go to four percent. However, he would like to continue to see the revenue numbers as they come in, particularly for sales tax and state shared revenue, before making a commitment in terms of what the July numbers are going to look like yet. The City can safely go to four percent because the needs of the employees must be balanced out in the market.

Mayor Pro Tem Gray stated that she also, while she wants to do something significant and beneficial for the employees, does not want to put the City in a position whereas times get lean again, the City is in bad shape and cannot continue to take care of its employees. She added that during the recession, the City was unable to give raises, and she does not want to put the City in that position again. She further added that Ms. Fleming is already looking into being able to sell the City because it is not always about money. She shared that in all her decisions about employment and the things that she has done in life were not about money, otherwise she would have been in other places. It is about the beauty and living in Sierra Vista and this is her home. Highlighting the affordability, the third most housing affordable City and the United States, looking at the culture of the City, and the working morale, and the quality-of-life amenities are things to continue to think about as well as being conservative, fair, and significant so that the City is not put in a bad spot in five years.

Ms. Fleming stated that she, Ms. Hector's team, and Ms. Yarbrough have been meeting to address comments mentioned by Mayor Pro Tem Gray. The recruitment area of the website has cost charts to let people know about the good highlights. The Department is also starting some programs and social media advertisements with people talking about why they are in Sierra Vista. She added that it is important to have a livable wage, market wage, etc. but there is a whole lot that the City has to offer, and those can draw a lot of focus. Lastly, she stated that the departments are doing some photo shoots over at the Police Department and starting to interview people, veterans that may work for the City. The Department has also done numerous oral boards/meetings for police officers. The benefits package is amongst the best and current review on the medical indicates that the City's plan is the top plan in the State. The City is self-insured and has some real responsible employees that have helped in cutting back on the ER use and by using generics every time they can to get the discount, which has saved the plan a lot of money. The recruitment includes information about the insurance, benefits, and the dependent cost that is far less than it can be in some other places.

Council Member Benning stated that Ms. Fleming made a great point, shared that in the Army there are three things that soldiers care about - time, money, and food. The City cannot give people food, but maybe .5 more PTO hours per paycheck or per month, which is another compensation that the City can give back as well, along with lower premiums, etc. Ms. Fleming stated that the Department increased PTO, when an employee can get it because it seemed to be a big deal during the hiring process. The Department has received good feedback on that and will continue to look at that and what is important to them.

Council Member Johnson asked if, without a suggestion that the City go to a three or four percent, Council is stuck with the two percent for Thursday, February 24, 2022 Council Meeting.

Mr. Potucek stated that that inevitably, there will be another economic downturn of which has been a part of three or four of them during his time at the City, and they do happen, and some are more severe than others. The City has been able to weather the storm by hiring highly qualified employees, keeping the City's numbers lean that the departments do not like to hear about, but this is important in

weathering the downturn and then investing in training, technology, and productivity improvements. These are the ways that the City can keep a competitive edge and weather downturns, which the City has been doing for a few years, but the City is looking at some competitive problems with regards to salary and it is time to do something about it.

Mayor Mueller recommended that the proposal stay as is for the Thursday, February 24, 2022 Council Meeting, and if Council wants to make an amendment to include the four percent for the last three months of the year that it be made during the meeting; however, Council needs to see the numbers so that Council may be able to decide on the amendment. He added that during the first of the fiscal year, the City would go up a total of six percent, if that is what Council will vote in the budget. This action would basically be giving an additional three months of pay at the four percent by adding the additional two percent.

B. Mid-year budget review

Mr. Felix stated that overall, the City is doing very well. The General Fund revenues over expenditures are \$5.1 million to the good. Revenues are \$1,000,000 over budget and expenditures are \$4.1 million below budget. The revenues include the full year grant revenue that the City received from the stimulus funds as the \$3.1 million has already come to the City and is already in the books. If that were to be annualized, then the City would only have half of that, but even annualizing that the City is well above revenues over expenditures, and even taking that out, the City is still over \$1,000,000 revenue over expenditures for this year. Key points are the receipt of the \$3.1 million in federal stimulus funds, local sales taxes are 17 percent over budget in the General Fund, which show up higher over the fiscal year and over the prior year over the budget in the report. This is because there is that half cent for some of the taxes going to the Capital Improvements Fund. Overall taxes are up 24 percent, but the General Fund portion is 17 percent up over budget.

The census was delayed this year. Staff is working with the numbers from the 2020 Fiscal Year that had SEAGO missing the 1,000 plus population. The population correction went into effect in September, and this is part of the reason why the urban revenue sharing is up over budget. During the budget process, the City had to use the numbers they had at the time which were the incorrect numbers.

State sales tax is up 25 percent over last fiscal year over the budget, but again that is partially due to their being over budget and because of the population distribution correction.

Personnel expenditures are \$1.6 million under budget due to the Police Department, which is the biggest department that is under budget due to staffing and manpower. Everyone would like to have the seven vacant police officer positions filled; however, this Department is under budget, even with the officers working the extra hours to cover the shifts.

Mayor Mueller pointed out that the City budgets for all positions, and if there is a vacant position anywhere, that salary isn't being paid. Mr. Felix stated that when somebody leaves during the year, the time it takes to fill the position, that money still sits in the budget as well. He added that this fiscal year as in the prior fiscal year, the City wrote a check to PSPRS for the full budgeted amount, over \$5 million was sent in during the first week of July; although, that expenditure does process through the system normally, with each payroll is when the actual expenditures hit the system. Staff will go into the PSPRS more during the budget, the personnel budget meeting where staff will provide a full presentation of where the City is at, and how some of the numbers are figured, which is good news on that front as well for the City.

Capital expenditures are about \$1.8 million under budget, which is due to the timing of the work, when vehicles may arrive, if they are going to arrive, and grant projects get underway. The City budgets the whole project, i.e., the Rothery Center Project for the sports fields - a \$3 million project. The whole amount is put in the budget, hoping it will get underway early, but due to the current budget laws, that amount must be budgeted in case the project does get underway early. However, that project has not yet started, and that is another reason why capital expenditures are under budget.

Mayor Mueller stated that everyone knows that the dealerships in town are having challenges with vehicles, and he wonders where the City stands with the replacement vehicles that were ordered. Mr. Felix stated that some of the police vehicles came in, the ones ordered two years ago, and getting outfitted. Other than that, it is a hit or miss. The City did get going early in the window and staff got a jump on the vehicle order this year to try and get them in.

Mayor Mueller asked if there are any public safety vehicles or health and safety vehicles to include sewer repair, etc. that are going to impede the safe operation of the City. Mr. Potucek stated that some vehicles will be in by the end of the fiscal year. He added that the City will be fine with the old vehicles that must be carried over and then add the next year vehicle allocation to that. He further added that this is the way it has been as the vehicles are going to show up at different times, and it is not only the vehicle itself, but the equipment that goes into outfitting police or fire vehicles.

Mr. Felix stated that the City is fortunately doing very well, and hopefully it will continue for an indefinite amount of time. However, at some point there will be a downturn, which is normal, but being able to take care of things while the City can is great.

Mayor Pro Tem Gray asked about the percentage of the 17.4 percent transaction sales tax that is due to the Way Fair Act. She also asked about the percentage due to local sales tax. Mr. Felix stated that although it sounds like a simple number, it is not. He explained that there are big box stores like Walmart and Target that prior to the Wayfair Act still had to remit local sales tax and they were remitted as retail sales; now instead of remitting under the retail classification, they must remit under the internet sales classification. Therefore, retail numbers that are put in the sales tax report, i.e., internet sales, some of that is shifted over from retail sales, and the amount is unknown. It is unknown because it is not known if it were something that Walmart would normally carry that a customer can go in and get versus going online and purchasing it.

In response to Mayor Pro Tem Gray, Mr. Felix stated that there is no way of extrapolating to get an exact number unless someone goes through every single store in town that reports, and even then, i.e., Walmart - what is it that they would normally carry in the store that a customer could get versus something that must be ordered online that they don't normally carry in the store. Mr. Felix stated that the City is seeing \$60 to \$80,000 a month under retail under the internet classification, but some of that would be a shift. Lastly, he stated that he believes that a greater portion of it is new.

Mr. Potucek noted that staff is in the process of starting the budget for Fiscal Year 2023, and the economy plays a big part of that, and certainly the way that the City has come through the COVID situation/pandemic has been amazing. He added that he has never seen anything like this, and he is old enough to have experienced the stagflation years of the late 70s, which was a tough economic time. He further added that currently he has seen some correlations that have caused him to be concerned with the future national economics that are affecting the City as well. There are people spending money and the City's sales tax collections are up, and things look good; however, when there is talk about a seven and a half, eight, nine percent inflation that at some point must take a toll on the performance of the economy. Things cost more, people cannot afford to get into housing or buy the things that they want to, even though it appears like they are currently, which must be kept in mind.

He shared the following economic information as part of the mid-year budget review that Mr. Boone compiled which will factor into our revenue projections:

- The Office of Economic Opportunity for Arizona reported that the Cochise County unemployment rate is 3.8 percent, which is under the US average of 3.9. Arizona is at 4.1 and Sierra Vista is at 2.1 percent that is comparable to cities like Oro Valley and Prescott, two peers that are at 2.1 and 2.5%.
- The raw number of unemployed people that does not include people that do not want to work or are falling out of the work workplace is only 409 people in Sierra Vista and 1480 across Cochise County.
- Arizona At Work displayed the job postings and there are 838 jobs currently advertised in and around Sierra Vista and the County. The heavy preponderance of that is in healthcare, medical, IT, cyber (government and contract positions), and 132 in education. The rest are in retail service industries, municipal government, and county government.

Mr. Potucek stated that the issue that is being experienced is that the City simply does not have the population to support the job openings that are available. Otherwise, the unemployment rate could theoretically go to zero if that was the case. There are jobs available, not many people to fill them, and then even if there were, the City is woefully lacking in housing to support those people and the types of housing that they need for young professionals. There are people moving into town, but they are mostly retirees, and there are a lot of the work from home type of folks too.

Mr. Potucek stated that he has been talking with the economic development team because there is a need to spend more time marketing Sierra Vista and a lot of this is talking about the quality of life in Sierra Vista, the relatively lower cost of living, advantages of being in a place like Sierra Vista as opposed to being in the large metro area. He added that there will probably be an increase in the marketing budget for these purposes to appeal to people because Sierra Vista needs the population, the workforce that is able to construct homes. Homes are being built in town, not nearly fast enough, because cause housing prices are going up - supply is not there to meet demand.

#### C. Report on Recent Trips, Meetings and Future Meetings

Mayor Mueller stated that he attended the Upper San Pedro Partnership Meeting, a one-agenda item meeting to talk about the Bureau of Reclamation grant processes, and Sierra Vista will be potentially participating with them to help get some of the City's projects done. There was also discussion on some of the bills that were being introduced. He added that he talked about a bill that was supposed to help with housing that had some horrendous things attached to it, which has been successfully killed. However, housing must be looked at in future discussions as well as the quality of housing.

Mayor Pro Tem Gray asked if there is any concern that any of those components will be put in striker bills. Mayor Mueller stated that currently, no.

Mayor Mueller stated that he also attended the Southern Arizona Defense Alliance meeting with the new chairman of the Huachuca 50. Present were the Yuma 50 and the Davis Monthan group that are regenerating after Covid because they want to become more active. He added that this is the one area in Southern Arizona, where all the defense support groups get together and talk about issues and bills.

Council Member Johnson stated that on Thursday, February 17, 2022, as Chair of the City's local PSPRS Board, both for both fire and police, he attended the virtual 2022 PSPRS annual meeting and training. It was an all-day affair and Ms. Fleming, and her staff took the time out to go through the training and hear what the PSPRS folks had to say. He added that they were very braggadocio about



the returns on investment for this particular year, but over the long term they are talking about maybe a 7.3 percent return. He stated that it is optimistic. Some changes at the local board level are being made along with additional training that will be done virtually. Mayor Mueller stated that the PSPRS Board always says that investments are doing well, especially just before the housing crash or the electronics crack.

D. Future Discussion Items and Council Requests


Ms. Yarbrough stated that the six-month Strategic Plan update will be on Council's next, agenda and she will be scheduling a legislative update after strikers are no longer able to be introduced.

Council Member Johnson asked if there will be discussion on Fab Avenue potential that was reported in the newspaper. Mr. McLachlan stated that the discussion will take place on March 10, 2022.

Mayor Mueller stated that there should be a lot of discussion because there could be a lot of good options and Council needs to make sure the good ones are explored and avoid the potential negative ones. Mr. Potucek stated that envisioned is a phase development approach of that project and first are the street improvements on Fab Avenue. Mayor Mueller stated that in going down 7th Street, somebody is going to want to be able to use that area for the staging area for 7<sup>th</sup> Street, and it may not be happening right away. The City could certainly do the planning.

3. Adjourn

Mayor Mueller adjourned the February 22, 2022 work session of the Sierra Vista City Council at 3:54 p.m.

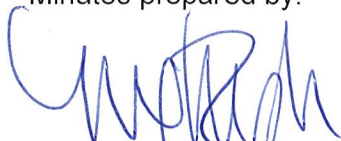


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Frederick W. Mueller, Mayor

Attest:

Minutes prepared by:



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Maria G. Marsh, Deputy Clerk



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Jill Adams, City Clerk