

CITY COUNCIL STUDY SESSION MINUTES

April 17, 2018

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a Study Session at 5:30 p.m. in the Municipal Building Conference Room on the 17th day of April, 2018, and notice and agenda of the meeting were posted at the Municipal Building at 201 West Gray, and the Norman Public Library at 225 North Webster 24 hours prior to the beginning of the meeting.

PRESENT: Councilmembers, Allison, Bierman, Castleberry, Clark, Hickman, Holman, Karjala, Wilson, and Mayor Miller

ABSENT: None

Item 1, being:

DISCUSSION REGARDING THE PROPOSED FYE 2019 CITY OF NORMAN BUDGET – GENERAL FUND AND SPECIAL REVENUE FUNDS.

Mr. Anthony Francisco, Director of Finance, said the budget is a policy document that is also the financial plan for the City, the departmental operations guide, and a communications device for the public. He said budget discussions commence in November with a mid-year review in January each year. He said tonight Council will be presented with an overview of the General and Special Revenue Fund Budgets and will review the Enterprise Fund Budget on April 24, 2018; Capital Funds Budget on May 1, 2018; hold a public hearing on May 22, 2018; and is proposed to adopt the Budget on June 12, 2018.

Mr. Francisco said the budget document is formatted to lead with a summarized detail then continues into greater detail. He encouraged everyone to read the City Manager's letter in the document because it provides a brief background of everything in the budget proposal. He said the budget also contains frequently asked questions (FAQ) such as the number of City employees; Norman's population; Rainy Day Fund balance; progression of Norman Forward Projects; etc. The budget also contains organizational charts; sales tax history; unemployment rates; sales tax distribution charts; projected revenues; projected expenditures; property tax distribution charts; revenues by source; expenditures by department; goals and objectives; and a glossary. He said looking forward, this is a plan, but in the current year, it is a budget.

Mr. Francisco highlighted Norman's Financial Policies that include a balanced budget requirement; five-year forecast; operating revenue; capital reserve; debt reserve; investment; levelized utility rates; utility and room tax transfers; and Municipal Budget Act.

Mr. Francisco said Net Revenue Stabilization Fund policies and assumptions under Ordinance O-1011-58 include a minimum 3% General Fund operating reserve, 2% General Fund emergency reserve, and 3% Rainy Day Fund. The Rainy Day Fund is basically a savings account to be used for emergency purposes. He said the Rainy Day Fund is a moving target and as General Fund revenues and expenditures grow, the target for the Rainy Day Fund grows with a targeted growth of 4.5% and maximum 6%. The City must have a minimum total reserve level of 8% and a maximum total reserve level of 11% in General Fund expenditures. He said Council cannot appropriate from the Rainy Day Fund balance unless the General Fund falls below 1%, the emergency reserve allocation is spent due to a federal or state declared disaster, or a one-time major repair/replacement is required.

Councilmember Hickman asked where the City will be in FYE 2019 in respect to reserve policies. Will the City meet the minimum or targeted projections? Mr. Francisco said Staff is projecting the City will meet the operations and emergency reserves. Councilmember Hickman asked which policy required money be kept in

the Rainy Day Fund and Mr. Francisco said the Rainy Day Fund Ordinance requires reserves be met. Councilmember Hickman asked where the City will stand at the end of FYE 2018 and Mr. Francisco said the City will meet projected operational reserve requirements and exceed that by almost \$3 million. He said the City will meet the Rainy Day Fund targeted balance of 4.5% and exceed that by \$75,000.

Councilmember Allison said Staff is projecting that at the end of FYE 2018, the City will be \$2.7 million in the black and that is only because of the \$4 million transferred from the University North Park Tax Increment District (UNPTIF). He said technically, the City is \$2 million in the red and Mr. Francisco said a little less than \$2 million. Councilmember Allison asked if the City is projected to be \$2 million in the red for FYE 2019 and Mr. Francisco said the City will be spending more than it is taking in. Councilmember Allison said, as the budget is written, is the City proposing a balanced budget? Mr. Francisco said a balanced budget means a positive Fund Balance and the City will have a positive Fund Balance. Councilmember Allison said it is concerning to be expecting a \$2 million deficit in the budget when the City began with a positive \$33,000. He asked what would prevent that \$2 million deficit from becoming a \$4 million deficit and Mr. Francisco said he will speak about mega trends later in this presentation that will explain some of that.

Councilmember Hickman said if the \$4 million from the UNPTIF had not been transferred, would the City still have met the targeted Rainy Day Fund balance and Mr. Francisco said yes.

Councilmember Castleberry said all expenditures are approved by Council so how can the City be in the red? Mr. Francisco said that is due to low budget projections or expenditures exceeding budget projections or, in this case, a revenue shortfall. Councilmember Castleberry said the City cannot expend more money than is budgeted without Council approval and Mr. Francisco said that is correct. Councilmember Castleberry said he would like to see a list of expenditures where the City has spent more than what was budgeted.

Councilmember Hickman said Council does not keep a running balance of expenditures so the City should have a policy that states "any appropriation over \$100,000 must be an off-consent agenda item" to help Council be more aware of the appropriation. He said it is difficult for Council to keep a running tally of what has been appropriated and a policy could help make Council more aware and sensitive to how money is being allocated. He said this would also add transparency to the process if project costs are being exceeded. Councilmember Castleberry said the Finance Committee reviews revenues and expenditures and is aware of what is happening with the Fund Balance, but information could be provided to the Council as a whole. Councilmember Hickman asked if Council could discuss creating a policy to place items over \$100,000 as off-consent agenda items and Councilmember Castleberry felt there was no need for that policy since any Councilmember can pull any item off-consent at any time. Mayor Miller said it appears that Council needs a procedure, not a policy.

Councilmember Karjala said she would like to see a monthly list of expenditures because it is difficult to keep up with all appropriations approved over time. She said Council really does not have a choice on whether or not to approve expenditures if a project runs over budgeted cost, but Council needs to be more aware of the impact to the Fund Balance. Councilmember Allison said he is not on the Finance Committee, but he does look at the agendas to see if there is an item he would be interested in discussing. He said all agendas and backup materials are on Council's I-pads and the City's website so there is no reason for Council to not be informed on items they are expected to vote on.

Councilmember Hickman said Committee meetings listed on the City's website calendar are not linked to financial reports so that information is not being made available to the public and it needs to be. Ms. Brenda Hall, City Clerk, said moving forward all the information on agenda items available to Council will be available to the public on the City's website.

Mr. Francisco said major assumptions of the General Fund Budget revenues include a sales tax projected growth of 2% from FYE 2017/2018 levels based on deterministic methods and current economic conditions; projected 3% growth in Use Tax, franchise fees, and other tax revenues; 3% projected growth in fines and forfeiture revenues; 1% projected growth in licenses and permit revenues from FYE 2018 estimates; transfers from water and wastewater utilities of 5% of their revenue based on what private utilities pay for use of public rights-of-way; transfers from Capital Fund for costs of capital outlay items budgeted in General Fund but paid from Capital Sales Tax and for Street Division and Engineering Division labor used for capital projects; and cost allocation charges based on costs of central services (legal, financial, etc.) provided to utilities.

Mr. Francisco said he has been predicting sales tax revenues for thirty plus years and has never been less confident in any projection he has made. Councilmember Wilson said if that is the case why is the City predicting a 2% growth in sales tax and Mr. Francisco said Staff is anticipating some turn around and growth. He said history teaches us to expect a slower growth trend after a recession period. Mayor Miller said retail sales are down nationwide, but Oklahoma feels it more because of its dependency on revenue from sales tax.

Major assumptions of the General Fund expenditures include salary and benefit expenses budgeted for each position in FYE 2019 based on actual contractual costs assuming merit and longevity cost increases and related costs; no cost-of-living adjustment budgeted in FYE 2019; out-year projections made to determine future financial viability to identify financial strengths and weaknesses and provide a base for remedial or supportive policy actions; 5% overall assumed growth in salary and benefit category costs in FYE 2020 through FYE 2023; 1% assumed growth in expenditures for services/maintenance and supplies/materials in FYE 2020 through FYE 2023; 2% assumed growth for services category costs based on budget costs in internal service functions in FYE 2020 through FYE 2023; employee turnover savings estimate of \$800,000 in the FYE 2019 Budget; and 6% savings is being assumed in FYE 2019 for services/maintenance and supply/materials.

Mr. Francisco highlighted proposed unfunded personnel needs that include Public Safety Sales Tax (PSST) personnel; Internal Audit Function; Information Technology (IT) Staffing for Cyber-Security; Parks and Grounds Maintenance; Forester; Sustainability Officer; Americans with Disabilities Act (ADA) and Analysis Staffing; Budget and Analysis Staffing; Veterinary Services; Fire Department Command Staff; Trade Workers for Facility Management; Human Resource Recruitment Staffing; and Capital Improvement Project (CIP) Accounting Staffing.

Councilmember Castleberry said he is disappointed the Internal Audit Function is not included in the FYE 2019 budget especially since the Finance Committee discussed it and recommended the position. He said an Internal Audit position would save the City three times as much as it would cost. He would like to revisit that personnel position in the budget. He would also like to see the Sustainability Officer Position placed in the budget because that would save the City money as well. Mr. Steve Lewis, City Manager, said a Sustainability Officer is a unique position in Oklahoma so it is difficult to determine the salary for this position, but Staff is researching that. Mr. Francisco said it is all about money and the ability to pay and there are no funds available to pay for these personnel positions.

Councilmember Hickman asked if there will be any new Staff positions proposed to be added in FYE 2019, that would have an effect on the budget and Mr. Francisco said the Multimedia Specialist is the only position that will affect the General Fund.

Public Safety Sales Tax (PSST)

Mr. Francisco said personnel positions within the Public Safety Sales Tax (PSST) Fund are behind schedule, but critical capital needs are progressing. He said debt funding for the radio system and Emergency Operations/Dispatch Center (EOC) will be paid off in 2027. He said a future megatrend is that the PSST goes into the red and that is a problem because going forward the General Fund assumes those operating costs. At the time the PSST was approved by voters, Staff thought the General Fund would be healthy enough to assume those costs, but that looks like it may not happen and needs to be addressed. He said it is his job to make sure that does not become a reality and Council needs to understand the path the City is on right now is not a positive financial path for a lot of reasons.

Westwood Fund

Mr. Francisco said Aquatic Center and Tennis Center revenues, staffing, materials, and operational costs have expanded and are at a break-even point. Westwood Golf Course fees will be increased by \$1 per round and golf course improvement debt will be paid off in 2022 so there is a light at the end of the tunnel.

Councilmember Karjala said an Aquatics/Special Event Supervisor position is in the budget for the Westwood Aquatic Center and asked if that position was being paid out of NORMAN FORWARD Funds and Mr. Jud Foster, Director of Parks and Recreation, said personnel funds do not come from NORMAN FORWARD funds. He said Westwood Aquatic Center Staff would be paid through revenue generated by the Westwood Aquatic Center. Councilmember Karjala said many NORMAN FORWARD projects do not include personnel and/or maintenance and operations and that is concerning. Will these facilities be well staffed? Mayor Miller said some projects have other funding streams, i.e., the Pioneer Library System staffs the libraries so money is not required from the City for that personnel. She said Westwood Aquatic Center generates revenue that will help fund maintenance and operations. Mr. Lewis said after much discussion, it was decided that a full time person would be needed to handle aquatic issues year round and still have time to help with various special events taking place in City parks. He said the goal is for Westwood Aquatic Center to be fully funded by fees and charges.

Community Development Block Grant (CDBG) Fund

The CDBG Fund Home Entitlement Programs continue to be reduced at the federal level so that means the City will not be able to provide as many services as it has in the past. Mr. Francisco said CDBG Programs have been cut by 27% and Home Entitlement Programs have been cut by 50% over the last 15 years. He said the City received significant CDBG Disaster Recovery Funds (CDBG-DR) from the spring floods in 2015, for repaving or reconstruction of rural arterial roads and those projects are nearing completion. The City requested additional funds for other road and bridge repairs, but that request was denied by the Federal Emergency Management Agency so those projects will not be done.

Councilmember Hickman asked if the CDBG funds that have been cut are targeted for lower income neighborhoods and Mr. Francisco said yes. Councilmember Hickman said that means the City has fewer funds to improve the quality of life of lower income neighborhoods.

Councilmember Allison said the harsh reality is that many federal programs are being cut and that is not something the City can control. He asked if the City has cut Staffing expenses or reassigned CDBG Staff to perform other work within the department and Mr. Francisco said the City has changed the mix of what is charged to the CDBG Fund for personnel in the Planning Department that are partially funded by CDBG Funds, but the Homeless Coordinator position added one or two years ago is strictly CDBG funded. Councilmember Allison asked if CDBG personnel are taking on other workloads within the department and

Community Development Block Grant Fund, continued:

Ms. Susan Connors, Director of Planning and Community Development, said personnel paid through CDBG funds are doing other types of work within the Planning Department. Mr. Lewis said CDBG infrastructure projects are taking the biggest hit from the federal funding cuts because the City is not able to do as many street, water, and sewer improvements in low or moderate income neighborhoods.

Seizures and Restitution Fund

Mr. Francisco said federal and state seizure funds have different expenditure guidelines, which are primarily for drug prevention/enforcement and other public safety-related needs. In FYE 2019, the City is projecting a fund balance of \$513,742 so the City is able to pay for some needed items, such as a mobile vehicle barrier, crash data recorder, and additional police canine acquisition and training.

Megatrends

Mr. Francisco said if the City continues down the path it is on, the City will not be able to adopt a legal budget in a year or two because the City will have a negative fund balance so Council needs to begin making decisions on what action should be taken to prevent that. He said sales tax growth patterns have changed due to a change in shopping patterns as well as a decline in brick and mortar stores. He said the City's major revenue source is sales tax and sales tax growth patterns are predicting a negative trend.

Councilmember Castleberry asked if other cities are experiencing downward growth and Mr. Francisco said yes, it is impacting every city in the country, but it is exacerbated in Oklahoma because Oklahoma is so dependent on sales tax.

Mr. Francisco said use tax can make up for some of the sales tax downturn because items bought out of state are charged use tax for Norman, but that is difficult to enforce. He said Oklahoma is trying to address retailers that do not collect out of state tax and remit it to the state, but a 30% growth in use tax does not equal a 1% loss in sales tax. The net impact is the drawing down of the General Fund Balance, which was drawn down \$30 million in FYE 2017 and if not for the infusion of UNPTIF dollars, the City would be drawing down about \$2 million in FYE 2018. He said this is a trend the City has to change on the revenue or expenditure side or the City will not be able to adopt a legal budget in a year or two.

Another megatrend taking place is the possible future PSST operational cost burden to the General Fund. He said the PSST is committed to additional personnel and critical capital needs and Staff is projecting a negative \$5 million balance in the PSST in three to four years. He said the City needs to turn that around or the General Fund will have to pay those expenses as stated earlier.

Another megatrend is the City's General Fund pays approximately \$3 million for stormwater maintenance costs. He said most cities throughout the country have a Stormwater Utility; however, Norman does not, but Norman needs to have a Stormwater Utility that will pay the full costs for stormwater maintenance. He said this should be a priority discussion as stormwater maintenance costs will increase due to National Pollutant Discharge Elimination System (NPDES) mandates that have to be met.

Mr. Francisco said another megatrend is sales tax apportionment to the UNPTIF that reduces the General Fund Operational Revenue. He said in 2006, Council authorized up to \$54,725,000 in project costs to be paid from "incremental" sales tax and property tax and \$3,900,000 in general purpose sales tax revenue is apportioned annually from the General Fund to the UNPTIF to fund authorized project costs. The amount of sales tax apportionment from the General Fund will increase in the future and as of June 30, 2018, approximately \$30,000,000 will have been spent on authorized UNPTIF projects and \$9,000,000 will be

Megatrends, continued:

available in cash for future authorized projects. At current incremental tax apportionment rates, sufficient revenue will have been apportioned to pay all of the current authorized projects in about three to four years. When all authorized projects are funded, the full apportionment of general purpose sales tax will be recorded to the General Fund and Capital Fund.

Mr. Francisco said these megatrends should remain at the forefront of Council's planning during the budget process and throughout the next fiscal year. He said now is the time to address the near-term problems in the General Fund and Capital Fund.

Councilmember Hickman said he would prefer the \$4.2 million transferred from the UNPTIF be set aside for a Senior Citizen Center instead of being placed in the General Fund. Mayor Miller said if that money is set aside for a Senior Citizen Center it cannot be used to help the General Fund Budget. Councilmember Castleberry said if the City uses that money for a Senior Citizen Center, the City will be bankrupt.

Councilmember Wilson suggested ending the UNPTIF and discontinuing funding further projects. Mr. Jeff Bryant, City Attorney, said the Project Agreement would need to be amended; however, the City would need to discuss the ramifications to the Project Plan and Development Agreements. Councilmember Castleberry said the ramifications would be a breach of contract in which the City could be sued.

Councilmember Bierman said it was nice to find the one-time \$4.2 million revenue for the General Fund, but Council approved the FYE 2017 Budget without knowledge of that money so Council basically spent the last year digging the City into a financial hole. She said solving the General Fund Budget will take a combination of revenue sources and felt it would be worthwhile to discuss ending the UNPTIF to bring money into the General Fund. She would like to look at preparing a five year Strategic Plan for the budget. She said cutting back on some NORMAN FORWARD Projects would be helpful and Councilmember Castleberry said citizens voted on those projects and Council cannot cut any of them, but the City does need to find additional sources of revenue.

Councilmember Holman said large retail stores are closing nationwide and even if the City ended the UNPTIF, stores like Toys R Us and Radio Shack would still be closing. He is concerned about Sooner Mall closing because malls all over the country are going out of business. He said Council needs to think about how to bring in revenue if the UNPTIF does not end and City is not able to create a Stormwater Utility.

Next Steps

Mr. Francisco said Council will discuss Enterprise Funds on April 24th and Capital Project Funds on May 1st. Enterprise Funds include the Water Treatment Plant Improvement Project; Water Well Field Expansion Project; Water Connection Fee review; sanitation recycling and landfill disposal contracts; and

sanitation equipment replacement. Capital Fund discussion will include the Capital Fund status; 2012/2015 General Obligation (GO) Bond Project funding; UNPTIF projects and proposed use of Cultural Facility authorization; Senior Citizen Center; NORMAN FORWARD projects and funding; Americans with Disabilities Act (ADA) improvements; and future GO Bond street resurfacing and construction proposals.

Councilmember Holman is concerned about the NORMAN FORWARD Indoor Aquatic Facility Project because that it is the only facility that does not currently exist and will require a significant subsidy to operate. He said most of the existing NORMAN FORWARD facilities are being updated and will pay for

Next Steps, continued:

themselves. Mayor Miller said the Indoor Aquatic Facility and Multi-Sport Indoor Facility will be joint projects with the University of Oklahoma (OU), Norman Regional Health System, YMCA (Young Men's Christian Association), and Norman Public School System so they will not be solely funded by the City.

Councilmember Bierman reiterated her concern regarding the \$4.2 million one-time transfer from the UNPTIF masking the state of the General Fund. She said Council is kicking the can down the road and she hopes Council is able to have a significant discussion on how to address that. She said the City does not *need* a Cultural Facility, but it does *need* a Senior Citizen Center and Council needs to decide what to do about that. She said Council has some tough choices to make in the future and needs to be prepared to make some tough decisions.

Councilmember Clark said while Council is making these tough decisions, remember funds are already set aside for a Senior Citizen Center to be located in the existing Central Library building once the new Central Library is constructed. She said sticking with that original plan for a Senior Citizen Center would be one less thing for Council to worry about.

Councilmember Hickman said the bottom line is the City will have to cut services and there is no getting around that fact. He would like to see an alternative budget that does not include the \$4.2 million from the UNPTIF just so Council is aware of what the budget would look like if that money is not included. He said according to the recent Stormwater Utility survey, only 40% of the public has confidence in City government's financial decisions. He said placing a one lump sum deposit into the General Fund to mask the City's financial problem is not a good financial decision and having an alternate budget to review would help Council make a more informed decision. Mayor Miller said setting aside \$4.2 million for a Senior Citizen Center instead of being able to spend the money on what is truly needed does not make sense knowing the problems the City's budget is facing. Councilmember Holman said the survey findings reflect less confidence of every type of government in every city, state, and county, not just Norman. He said Norman's government has been more responsible with the budget than any other City in Oklahoma yet the public's perception of government in general is that it is wasteful and inefficient and that public perception will probably never change. Mayor Miller agreed and said Council has done a remarkable job of not cutting services or personnel, but those decisions are coming.

Mr. Lewis said over the past thirty years, City Staff has been through several recessions so if Council would like to discuss the impact of certain options on City services, Staff would be happy to do that whether that is done one on one or in small groups.

Items submitted for the record

1. PowerPoint presentation dated April 17, 2018, entitled, "City of Norman Fiscal Year 2018-2019 Budget", by Anthony Francisco, Finance Director

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The meeting adjourned at 7:25 p.m.

City Clerk

Mayor