

FINANCE COMMITTEE MINUTES  
September 14, 2017

The City Council Finance Committee of the City of Norman, Cleveland County, State of Oklahoma, met at 8:30 am in the Municipal Building Multi-Purpose Room on the 14th day of September, 2017, and notice and agenda of the meeting were posted in 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:                   Members Wilson, Castleberry, and Allison

ABSENT:                   Member Bierman

OTHERS PRESENT:       Mayor Lynne Miller  
                              Steve Lewis, City Manager  
                              Anthony Francisco, Finance Director  
                              Suzanne Krohmer, Budget Manager  
                              Clint Mercer, Chief Accountant  
                              Ken Komiske, Director of Utilities  
                              Tim Powers, Director of Information Technology  
                              Kari Madden, Operations Manager  
                              Robert Gruver, Network Support Supervisor  
                              Jeff Bryant, City Attorney  
                              Gala Hicks, Director of Human Resources  
                              Terry Floyd, Development Coordinator  
                              Susan Connors, Planning & Community Development Director  
                              Mindy Aynes, Municipal Accountant I  
                              Noah Wolff, Intern  
                              Dan Schemm, Visit Norman  
                              Mark Warner, Plante Moran  
                              Joel Haaser, BKD

Chair Castleberry called the meeting to order at 8:35 am.

Item 1, being:

SUBMISSION OF THE PRE-AUDIT REPORT FROM BKD, LLC:

Joel Haaser from BKD gave the presentation. He passed out a preliminary handout that was a summary of the audit. This is BKD's 5<sup>th</sup> year performing the audit for the City of Norman. Page 1 of the report shows a summary of the financial statements and the "single audit", which examines the federal grant expenditures. Page 2 discussed the audit of the major federal rewards and page 3 focused on the significant risk areas. A draft of the report will be ready by November 13<sup>th</sup> and the final report will be delivered by December 6<sup>th</sup>. There will be ongoing communication with the Finance Committee. Page 6 discussed accounting pronouncements that

Item 1, continued:

will be affective for future years. The most significant one would be Governmental Accounting Standards Board Statement Number 75 (GASB 75) which will take effect next year and will increase liability for post-employment plans such as the retirement plan. The last part of the report discussed the auditing standards that BKD will follow. Page 7 talks about consideration for errors and fraud. The focus of this will be accuracy of statements and if there are any problems that will also be brought right to management and the Finance Committee. BKD did perform some interim procedures in early July and will start field work in the 1<sup>st</sup> week of October.

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Item 2, being

PRESENTATION AND DISCUSSION REGARDING THE ENTERPRISE RESOURCE PLANNING REPLACEMENT PROJECT

Tim Powers introduced Mark Warner from Plante Moran. Powers stated we received 10 responses to the Request for Enterprise Resource Planning System Proposals. We narrowed this down and invited the compliant companies to come and give demonstrations and had all departments participate. We gathered the cost information and factored that into the final selection. It took about 3 months to compile all of the information and call other cities that were using the preferred vendors.

Mark Warner stated that he was with the public sector of IT practice with Plante Moran. The ERP systems are complex because cities have a variety of different businesses.

Chair Castleberry asked if we would have 4-5 vendors for software. Powers stated that this is the “best of breed” approach for every department and what they require. Best of Breed means the best software in its area of business. He also stated that each system will integrate with one another.

Member Wilson asked who would develop the integration piece. Mark Warner stated that each vendor is responsible for making their system integrate. Member Wilson asked about the obsolescence of the software. Warner stated that each package will have a schedule to follow and this will include part of that. Part of the vetting was the company, their financials, their place in the market, etc. A lot of these products have been around for a while.

City Manager Steve Lewis asked if we will be faced with replacing all of these systems at the same time in 15-20 years. Warner stated that the advantage of best of breed is that it creates greater flexibility based on the future direction of the City.

Powers stated that total cost preliminary estimate was \$4.2 million over a 4 year period. This includes software, hardware, customization, integration, project management, and contingency. The new estimate is \$6 million.

Item 2, continued:

Powers stated that automation of the system is an investment for the future. Manual payroll is very inefficient and this will give us the flexibility to change software as needed. There will also be an improvement of gathering accurate data quickly and will modernize the delivery of our products to residents.

Powers stated that the next steps will be the scheduling of phases, contracts, implementation, configuration and data conversion planning and application, and integration and training.

Anthony Francisco stated that the Capital Plan has set aside about \$4.2 million over 4 years for this implementation. Now we will do it over 5 years. Member Wilson asked if there will be a yearly maintenance charge. Powers stated that there would be a yearly maintenance agreement. Member Wilson asked what that agreement will cost. Kari Madden stated the cost would be approximately \$470,000 per year, which is an increase of \$330,000 over what we presently pay.

Chair Castleberry asked if we will be keeping the old system as a backup. Warner stated that in general IT keeps the old system for lookup and access information during the transition period and maybe 1-2 years after. Anthony Francisco stated that we have 20 years of information in this database could be transitioned to the new system. Kari Madden stated that the 20 years of information coming into the new system was included in the conversion.

Chair Castleberry asked what the time frame for conversion would be. Anthony Francisco stated the complete conversion would take a total of 2.5 years and there is a plan for what order the conversions will happen. Chair Castleberry asked if Finance would be converted in the next fiscal year. Francisco stated it would be completed by July 1, 2019 for Finance (General Ledger and other accounting cashiering and budgeting systems). Tim Powers stated that by next fiscal year is the plan for some, but that nothing was set in stone.

Chair Castleberry asked if we explored outsourcing payroll for the City. Warner stated that in the public sector there are some unique work rules that are not as accommodating and are harder to work into the packages. City Manager Lewis asked if that was due to many public employers being unionized. Warner stated that this was correct.

Member Allison asked if the financing costs are built in. Francisco stated that financing costs are not built into the \$6 million for this project. City Manager Lewis asked what would be the interest rate on a 5 year not for the financing, and Francisco stated that he believed it would be right around 3% and the debt services schedules will be built in once they are known. On a \$6 million note the interest costs would be somewhere around \$800,000.

Member Allison asked if we were sure we could get 15 years out of this new ERP. Francisco stated that he is confident that we can get 15 years out of it and that it will run thousands of transactions a day. He believes it is an investment that we need to make. Warner stated that he has worked with about 40 different cities on this type of project. These vendors continually invest in the products and they average 12-18 years before they require replacement.

Item 2, continued:

Member Wilson asked once again about the obsolescence of the project. Francisco stated that is the best thing about best of breed approaches. Member Wilson asked if we would be able to buy pieces of this package over time instead of all at once. Francisco stated that it would be difficult to finance it if we do that.

Member Allison asked if this will be 6 different contracts. Warner stated that Tyler is the vendor, but there will be contracts with each other vendor as well.

Chair Castleberry asked if we have looked into leasing something like this instead of purchasing. Francisco stated we plan to own it instead of leasing. Chair Castleberry asked how leasing something like this would work in the municipal realm. Warner stated that you would pay a subscription. The public sector is slower in adopting the trend of leasing software as a service. There is less confidence in putting the information in a cloud with the public sector.

Tim Powers stated that the cost of cloud based services is way higher as far as maintenance. Robert Gruver stated we would need multiple connections and larger band width. Cloud services are the trend but the costs are still too expensive.

Chair Castleberry asked about the cost difference from the original estimate of \$4 million to the new estimate of \$6 million. Powers stated that we didn't have all of the information on what all we actually needed for the City. Francisco stated that some of the utility billing vendors couldn't do some of the things we are currently doing, and some of the vendors couldn't do what we needed to do. Warner stated that it is difficult to estimate the savings that the City will get from the efficiencies with the new software. Madden stated that we gave the vendors a lot of detailed information because the City of Norman has a very complex billing system. This automatically put us in a different category for software. Powers stated that we need the right expertise for implementation due to a smaller staff, and that a lot of the \$6 million cost is for employee training and system conversion.

Member Allison asked when the upgraded constituent packages would be added. Francisco stated that would probably happen about 1.5-2 years from now. It would definitely happen after the core ERP was implemented.

Items submitted for the record:

1. ERP Replacement Project slideshow
2. Purpose and Need Statement

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Item 3, being

DISCUSSION REGARDING THE REINSTATEMENT OF THE YEAR-ROUND YARD WASTE PICKUP

Ken Komiske gave the presentation. He stated that the year-round yard waste pickup was eliminated due to costs. A sanitation rate increase was needed, but it did not pass with the voters. The elimination was our way of cutting those costs without the rate increase. We estimated \$35,000 per year savings from eliminating the year-round pick up. Since then, we have had a rate increase and can now sustain the year-round pick up. We also found that we really didn't actually save that much from eliminating this pick up. Realistically we had a savings of about \$20,000 per year.

Member Castleberry stated that this is definitely a service we want to provide. He also believes that this will help in the stormwater initiative. The leaves have high phosphorus causing a problem for Lake Thunderbird. This pickup will encourage people to pick up their leaves more often.

Chair Castleberry and Member Wilson like the idea of a year-round yard waste pickup.

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Item 4, being:

DISCUSSION REGARDING TRANSIENT GUEST ROOM TAX COLLECTIONS FOR AIRBNB/ONLINE GUEST HOSTING SITES

Francisco gave the presentation. He stated that by definition AirBNB is an online marketplace. Almost half of the rooms that are being offered on AirBNB are vacancies in apartment units. There are several of these types of host sites operating in Norman.

Francisco explained the way AirBNB works, which is to market and collect money for any room that is listed on their site. They then collect a 3-5% fee on anything the room makes. Norman Room Tax states that any building with 3 or more rooms rented has to pay the tax. In July, AirBNB started to collect and remit sales tax in Oklahoma. In August, they entered into an agreement with Oklahoma City to pay their Room Tax. He would like to follow that agreement in Norman. We would not require any back pay.

Francisco stated that the amount of new revenue that we would obtain from this is hard to estimate, but he would guess it would be around \$10,000-\$30,000 per year additionally. Oklahoma City's legal staff is now trying to regulate the rental properties to make sure they are in compliance with the zoning codes. That may be something we are interested in later as well.

Chair Castleberry and Member Wilson both agree that we should precede with the agreement with AirBNB.

Item 4, continued:

Susan Connors stated that we receive many calls from people about this and we just have to tell them that we do not currently regulate these types of rentals.

Items submitted for the record:

1. Transient Guest Room Tax Ordinance slideshow

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Item 5, being:

SUBMISSION OF THE REVENUE/EXPENDITURE REPORTS

Francisco gave the presentation. He stated that the General Fund revenues are right on budget for this year so far. Sales Tax collections are down, Use Tax is up, and Franchise Tax collections are currently up. We appear to be lagging behind other areas coming out of recession. If the downtrend continues, major revenue sources will be below projections and we will have to do something on the expenditure side.

Chair Castleberry asked if the Use Tax being up is due to the “Amazon factor”. Francisco stated that retail collections are up which definitely contributes to the Use Tax being up.

Chair Castleberry stated that Norman Forward budget is \$4,000 under budget year-to-date. This is not going to make us not do a project and we are not in crisis mode yet.

Francisco passed out a Fund Summary for FYE 2017. We spent \$3.5 million more than we brought in, which was expected.

Chair Castleberry asked if we are to a point where we are doing zero base budgeting. Francisco stated that we are not currently and that we are still meeting operational reserves, but that we need to be diligent and monitor revenues and expenditures going forward.

Items submitted for the record:

1. Summary of Major Fund Revenue Sources vs. Budget FYE 2018 as of August 31, 2017
2. Summary of Major Fund Expenditures vs. Budget FYE 2018 as of August 31, 2017
3. Appropriations from Fund Balance FYE 2018

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Item 6, being:

SUBMISSION OF THE REPORT ON OPEN POSITIONS

Gala Hicks gave the presentation. She stated that currently the Police Department has 11 open positions, but they have 3 more retirements coming up which will put them to 14 open positions. They will start recruiting in late October and the next Academy will start in April of next year.

Chair Castleberry asked if we are losing police officers and Fire Department employees to other cities. Hicks stated that we aren't losing any Fire Department employees and not very many police officers. We just happen to have a lot of police officers who are retiring. Chair Castleberry stated that he heard Midwest City was raising sales tax and it was causing them to lose safety positions to other cities. Hicks stated that the recent "Lateral Academy" did not do as well as we thought it would do, but we are not usually losing many to other cities.

Member Allison asked if Officer Pendleton was still the recruiting officer even though he was promoted. Hicks stated that he was still the recruiting officer for the Police Department. Member Allison asked if the positions currently on hold were due to budgetary reasons. City Manager Lewis stated that some have been recently approved, some are in progress, and some are new vacancies. He stated that generally on police and fire he does not put them on hold.

Member Wilson asked if we are doing any recruiting for the Animal Welfare Manager job. Hicks stated that we have it posted in many places. City Manager Lewis stated that we rarely use "head hunter" agencies anymore.

Items submitted for the record:

1. Position Vacancy Report as of 9/6/17

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Item 7, being:

MISCELLANEOUS COMMENTS

none

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The meeting adjourned at 10:06 am.

ATTEST:

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City Clerk

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Mayor