

FINANCE COMMITTEE MINUTES
February 9, 2017

The City Council Finance Committee of the City of Norman, Cleveland County, State of Oklahoma, met at 5:00 p.m. in the Municipal Building Multi-Purpose Room on the 9th day of February, 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 Heiple, Castleberry, Chappel, and Mayor Miller

ABSENT: none

OTHERS PRESENT: Aleisha Karjala, City Council Member
Steve Lewis, City Manager
Anthony Francisco, Finance Director
Suzanne Krohmer, Budget Manager
Jeff Bryant, City Attorney
Gala Hicks, Director of Human Resources
Chair Heiple called the meeting to order.

Item 1, being:

DISCUSSION AND REVIEW OF OUTSIDE AGENCY REPORTS AND/OR REQUESTS FROM THE FOLLOWING:

- Social and Voluntary Services Commission
- 89er Day Parade Committee
- Veterans Day Parade Committee
- Center for Children and Families
- Firehouse Art Center
- Cleveland County Historic Museum
- Sooner Theater
- Aging Services-Kiwanis Kruiser
- Performing Arts Studio
- Norman Economic Development Coalition (NEDC)
- Cleveland Area Rapid Transit (CART)

Chair Heiple stated that he would be recusing himself from the entire meeting and having Mayor Miller run the meeting due to possible conflict of interest with his wife running Food and Shelter (a Social and Voluntary Services Commission Funds recipient) and requesting City money. A motion was made and seconded to approve the recusal and was passed unanimously.

Mayor Miller stated that it was extremely impressive to see the work that these agencies put into their requests for funding from the City. Member Castleberry stated that this has not been the case in the past, so last year the Finance Committee requested the organizations provide more information along with their requests for funding.

Item 1, continued:

Anthony Francisco gave the presentation. He stated that if the agencies were not requesting an increase in their funding then the Committee could just continue their current level of funding. If the agency is asking for an increase then the Committee can vote on that increase. The main agency that is requesting an increase is the Center for Family and Children, who have requested an additional \$20,000 to expand the after school neighborhood services program. Mayor Miller stated that Cleveland Area Rapid Transit (CART) also requested an additional \$50,000. Member Castleberry asked if the rest of the overall budget was going to be flat. City Manager Lewis stated that generally the budget has been flat. Member Castleberry stated that adding this additional funding while the overall budget was going to be flat worried him. Mayor Miller stated that the most prudent thing to do is keep every agency funding at the current level. Member Castleberry stated that he would also recommend holding at the current level. Member Chappel stated that he was also for leaving the funding at the current levels. City Manager Lewis stated that the partnership that the City of Norman has with OU for the transit system is very good, especially compared to other cities that have to fully fund their transit systems. He also agreed with the decision to hold the current level of funding flat.

Items submitted for the record:

1. Outside Agency FYE 2018 Budget Requests and supporting documentation

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Item 2, being

DISCUSSION OF THE FYE 2017 MID-YEAR BUDGET REVIEW

Francisco gave the presentation. A handout (the first page of which was reprinted from an economic presentation to the Oklahoma City Council) was given to the Committee for the presentation. Francisco stated that there is a lag between the macro economy and what happens in the sales tax for the local economy. The handout talks about where we are going on the employment side in the next 12 months. The local economy has gone through a recession in the last 12-18 months, but if things continue the way they are we can expect to see a slow but gradual improvement based on historic economic cycles. The regional economic recession has been felt in Norman over the last 8-10 months and we should expect to start to grow out of that. The month of February sales tax report reflects this gradual improvement. We were down 1.87%, but we are down less than we have been and we are climbing back up. We do expect a slow growth starting in May and June.

Amazon announced that they would begin to comply with sales/use tax collection laws for the State of Oklahoma. This is very positive news and we should see some return on this starting in July. Over the course of a full fiscal year, this should equal hundreds of thousands of dollars for us. This is a very positive step, but it does not solve our problem.

Mayor Miller asked if Amazon would be collecting the sales/use tax as well as sending the information to the Oklahoma Tax Commission. Francisco stated that this was correct. Member Castleberry stated that if they collect the tax then they do not have to send a statement to the

Item 2, continued:

customer. However, if they do not collect the tax then they do have to send a statement to the customer. 65 of the top 100 online retailers do collect sales/use tax in Oklahoma.

Member Chappel asked what would be the difference in Amazon reporting sales/use tax and if 8% (instead of 4%) of individuals reported their sales/use tax. Francisco stated that Amazon is more than the 4%; they are more like 30-40% of all online sales. He suspects that this is even larger in Norman because most textbook purchases are done through Amazon. If we can get Amazon to collect the sales tax on textbooks, then we should see a good return in October.

Joy Hampton stated that a lot of local small businesses are giving up and selling through the Amazon markets due to this being cheaper for them. She believes the Amazon marketplace is ever expanding.

Francisco stated that a lot of the changes that the Governor has proposed in her State of the State Address would apply to us. The biggest one is the proposal to apply an exemption to the grocery sales tax. A lot of states have an exemption for grocery sales, but this is a major source of revenue for the City of Norman. Every exemption that applies at the State level also has to apply at our level, and this would be a very bad factor for our revenues. What we have asked the State to do in the past when something like this has been proposed is to reduce the State's rate of sales tax for groceries instead of applying an exemption. The State would then reduce their rate of collection on grocery taxes, but the City would still be able to collect the full sales tax. This would be 20-30% of our sales tax revenue lost if a full exemption were granted. Mayor Miller stated that the Oklahoma Municipal League (OML) did not have this as a legislative goal, but she thinks that is because they did not know about it at the time of the last session. Francisco stated that there are some exemptions that are proposed to be taken away that would have a positive impact on our sales tax revenue. We will continue to monitor the proposals.

City Manager Steve Lewis asked what some of the typical exemptions that are being talked about are. Francisco stated that some of the typical exemptions are dog grooming, beauty services/spas, and contractors. We will continue to monitor the progress of these proposals.

Francisco made a presentation on the Mid-Year Review based on Fund Summary Projections for selected City funds. In the General Fund, line 1 states that we stated the fiscal year with a \$2.5 million fund balance. Some of that is carried over encumbrances. Some of our major revenue sources are down, including sales tax. The apportionment of sales tax from the General Fund to the University North Park Tax Increment Finance Fund causes the decline in General Fund collections to be worse than the decline of the overall sales tax rate that we report monthly. We are projecting for this fiscal year that the General Fund sales tax revenue will be about \$1.7 million less than budgeted. Use tax is right on budget. Franchise fees are down by about four percent (4%) due to the mild summer and winter we have had. Fines and Forfeitures are down by 10%. License and permit fees are down, which is driven primarily by the home building sector. Line 16 demonstrates that we are projecting by the end of this fiscal year our General Fund revenues will be down by about \$2.4 million from what we budgeted. We can absorb most of the shortfall in this year's budget, and the City Manager has already taken action

Item 2, continued:

with budget expenditure cuts shown on line 33 and 34. On line 43 and 44 you can see that we are projecting that we will expend the 2% Emergency Reserve Fund. Hopefully we won't have to. Line 48 could hopefully be saved if we do not have to spend this 2% Emergency Revenue Fund, but at this point we assume it will be spent.

Member Castleberry asked if there are any limitations on how the 2% Emergency Reserve Fund can be spent. Francisco stated that there are no limitations but it is usually used for emergency clean ups and debris removal.

Member Chappel asked if the projections on the budget were just from extending out the trends until the end of the fiscal year. Francisco stated that it was a bit more complicated than that, but essentially that was done based on historical trends. Chappel then stated that some of the information Francisco received from the State would not affect us until May or June and Francisco stated that those State recommendations would not help us out this fiscal year.

Francisco stated that on line 44 we budgeted for a deposit to the Rainy Day Fund of \$88,500. We have not made that deposit yet, and if the deposit is made the Rainy Day Fund will meet the 3% minimum reserve and exceed the minimum by about 1 million. If the deposit is not made there will be a target deficit. Does the Committee want to stay at the target level or we would leave the \$88,500 in the General Fund and be above the minimum mandated Rainy Day Fund level but below target level? Member Castleberry asked if the target level was based on the cut expenditure level or the beginning expenditure level. Francisco stated that it is based off of audited balance of expenditures at the end of the last fiscal year. Mayor Miller asked City Manager Steve Lewis if he thought that budget was so tight that we needed to leave the \$88,500 in the General Fund. Lewis stated that he did believe that we should leave the money in the General Fund. Member Castleberry stated that we have met the minimum required target so this is no time to take money out of the General Fund and put into our Rainy Day Fund, since it is doing well anyway. Francisco stated that we are meeting the 3% mandate but are short the 4% target level. Member Castleberry asked how much of a bind not making the Rainy Day Fund deposit will put us in for next year. Francisco stated that it will be more next year. If you don't make an annual deposit than it is harder to meet the target level, as budgeted expenditures grow.

Francisco stated that the next Fund to discuss is the Room Tax Fund. We budgeted for the revenue of about \$1.9 million and the projected revenue will be about \$1.7 million. This is based on the collections to date. The Norman Arts Council (NAC) and the Norman Convention and Visitors Bureau (NCVB) have already been informed of the shortfall. This will help them in preparing their budgets for next year. This Room Tax Fund has a particular problem in the Convention and Tourism portion. They budgeted for about \$940,000, but due to a sizable mid-year appropriation, they are projecting to spend about \$1.027 million. If these projections are right, the Room Tax Fund would end FYE 2017 with a balance of -\$34,000. This is illegal in the State of Oklahoma and funds would have to be transferred to the Room Tax Fund out of the General Fund to make up for the shortfall. City Manager Steve Lewis asked if Francisco has spoken to Mr. Schemm from the NCVB about what their plan for moving forward would be. Francisco stated that he does know they have a proposal to increase their revenue through the

Item 2, continued:

“improvement district” idea. For the NAC, some programs and grants will be reduced to make up for the shortfall. Member Castleberry asked if we could transfer money between reserve funds. Francisco stated that theoretically the City Council could transfer money between the reserve funds.

Francisco then stated that in the University North Park (UNP) Tax Increment Finance District (TIF) Fund, the sales tax was budgeted for \$3.8 million and is projected to be \$5.5 million collected. More of the retail sales in Norman are being concentrated in University North Park. This unfortunately seems to be at the expense of other locations in Norman. On line 23 you can see that we do expect to expend all project expenditures in this fund. We could pay off the \$11.8 million in remaining debt for the UNP TIF Improvement District. Francisco believes this could be a good option to pursue so that the City could stop paying interest on the debt. Member Castleberry asked if the TIF #2 Oversight Committee voted to not pay off the existing debt. Francisco stated that they did vote to review the matter in a year, but they voted to wait to pay off the debt on the notion that we have a good interest rate and if we ever wanted to do any debt financing for future projects we might not get as good of a rate. However, on line 36 we project that we will have over \$9 million in the bank even after we pay off the debt, to pay for any future projects. And at this point, that is growing by \$5 million per year. With that much in the fund, we could do projects on a pay-as-you-go basis. City Manager Lewis asked about the original Project Plan. Jeff Bryant stated that there was an update to Council last April and we will be doing a new update this April again. There are almost \$30 million of authorized project costs that have not been identified or agreed-to. These costs relate mainly to a Cultural Facility and Lifestyle Center incentives. \$1 million in remaining UNP TIF authorization is for public art and enhanced landscaping in the development.

Bryant further stated that there has been some discussion by the Norman Economic Development Coalition (NEDC) about some TIF Notes that a prior Council had approved. One is a payment on an infrastructure loan where 60 acres of land in UNP was bought for economic development purposes, but insufficient lots have not been sold to pay off the loan as expected. It is possible that we may have some Project Plan amendment ideas as well.

Member Castleberry asked if the savings, if the outstanding debt was paid off, would be about \$1.3 million in annual debt services. If this is the case, then in 4 years the UNP TIF Fund would be at \$29 million. Francisco stated that this was correct. Bryant stated that the TIF allows financing cost if we decide to accelerate some of the projects. 3.7% financing rates are what we have for the debt at this moment. He stated that we might want to retain this financing versus a potentially higher future rate for financing. Member Castleberry stated that he agrees with the TIF Oversight Committee but that we should definitely keep our eye on it. Also, he stated that this will not help the General Fund even if we pay off the debt. Mayor Miller asked how many more projects we are going to do. We are not actually committed to spending the \$30 million. This is something we should continue to talk about.

Item 2, continued:

Items submitted for the record:

1. Sales Tax Growth and Local Employment, Sales Tax In % Change from Prior Year, By Month, General Fund Audited Fund Summary Projections, Rainy Day Fund Audited Fund Summary Projections, Room Tax Fund Audited Fund Summary Projections, and University North Park TIF Fund Audited Fund Summary Projections

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Item 3, being

SUBMISSION OF THE REVENUE/EXPENDITURE REPORTS

No discussion

Items submitted for the record:

1. Monthly Financial Report
2. Appropriations
3. General Fund Transfers Over \$50,000 between Expenditure Categories-
FYE 17 January 2017
4. Summary of Major General Fund Revenue Sources vs. Budget, FYE 2017-as
of January 31, 2017

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Item 4, being:

SUBMISSION OF THE REPORT ON OPEN POSITIONS

Gala Hicks gave the presentation. She stated that we will be opening Police recruitment on Monday. We will have 11 positions to fill. The Police Department now has a new recruitment style where they are doing lateral transfers for applicants who already have law enforcement backgrounds and experience. The Police Academy would be shortened for these applicants, but they would have to be CLEET certified and have to meet the minimum qualifications. Mayor Miller asked if this saved the City money on Academy costs. City Manager Lewis stated that it would to some extent, but the reason we are doing it is to get a bigger pool of applicants with more experience. Hicks stated that there is a lot of money spent getting someone through the Academy and there are always dropouts. City Manager Lewis stated that we are one of the few cities in Oklahoma who are beginning to do this type of transfer, but other states are doing this as well.

Item 4, continued:

Items submitted for the record:

- 1, Open Positions Report dated 2/1/2017

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Item 5, being:

MISCELLANEOUS COMMENTS

Member Chappel asked if it was required for Chair Heiple to recuse himself from the whole meeting when his conflict of interest was only with one section of the agenda. Mayor Miller stated that he was not required to do this, but that he chose to.

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The meeting adjourned at 6:00 p.m.

ATTEST:

City Clerk

Mayor