

CITY COUNCIL STUDY SESSION MINUTES

April 18, 2017

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 18th day of April, 2017, 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 48 hours prior to the beginning of the meeting.

PRESENT: Councilmembers Castleberry, Chappel, Clark, Heiple, Hickman, Holman, Karjala, Mayor Miller

ABSENT: Councilmember Allison

Item 1, being:

DISCUSSION REGARDING THE PROPOSED FYE 2018 CITY OF NORMAN BUDGET – GENERAL FUND AND SPECIAL REVENUE FUND.

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 begin in November with a mid-year review in January each year and summarized the FYE 2017-2018 Budget. He said Council will be presented with an overview of the General and Special Revenue Funds Budget tonight and will review the Enterprise Funds Budget on April 25, 2017; Capital Funds Budget on May 5, 2017; hold a public hearing on May 23, 2017, regarding the Budget; and is proposed to adopt the Budget on June 13, 2017.

Mr. Francisco presented a sales tax update and said sales tax has been down the last eleven of twelve months, which is a rare occurrence. He said this is an indicator of a bad local economy since sales tax is a proxy of what is going on in the economy in that when people feel good about the economy they tend to buy things that are sales taxable. When people feel the economy is not going well they tend to not eat out or shop at the levels needed for sales tax growth. He said this is not isolated to Norman, but is a regional economic recession related to the petroleum industry and its impact on the local economy. What happens in the petroleum industry has a delayed reaction for Norman because Norman does not have as many people directly employed in the petroleum industry, but does have people at the second and third level that are impacted. He said Oklahoma City measures their employment rates mirroring that with sales tax collections and there is a direct correlation between the two. He said what happens in the employment sector directly relates to sales tax returns so when one goes up the other goes up and vice versa. He believes Norman has experienced the lows and is beginning to gradually grow out of that to begin experiencing sales tax growth.

Mr. Francisco said construction and the building industry is also a proxy for what is happening in the local economy. When things are being built, that directly impacts employment and sales tax and there has been a recent downturn in the building industry. The ability of the City to absorb all of these downturns and still have a budget in the black without cutting services or laying people off is directly due to action taken over the last few years by the Council, the City Manager, and City Staff.

Mr. Francisco said the budget document is laid out from the most summarized to the most detailed and recommends that everyone read the City Manager's letter in the document because it gives a brief background of everything in the budget proposal. He said the budget also contains frequently asked questions (FAQ's) such as the number of City employees; Norman's population; Rainy Day Fund balance; progression of Norman Forward Projects; etc. The budget also contains organization 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 in out years 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 explained key financial terms found in the glossary as follows:

- Account/Allocation – an entity for recording expenditures or revenues within a fund or department
- Appropriation – an authorization to expend or encumber revenues and fund balance of a fund
- Budget – a plan of financial operations for a fiscal year, including an estimate of proposed expenditures and a means for financing them
- Encumbrance – an obligation to pay a specific amount to a specific vendor for specific goods or services
- Fund Balance – the excess of a fund's current financial assets over its current liabilities and encumbrances

The budget hierarchy begins at the fund level and once Council adopts the budget and appropriates money at the fund level it is allocated to departments and those departments report to a Division. When Council adopts the budget they appropriate that money on the reasonable expectation that revenue will come in during the fiscal year to pay expenditures.

Mr. Francisco said net Revenue Stabilization Fund policies and assumptions under Ordinance O-1011-58 include a minimum 3% General Fund operating reserve, a 2% General Fund emergency reserve, and a 3% Rainy Day Fund reserve. 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 Rainy Day Fund balance unless the General Fund falls below 1%, the emergency reserve allocation is spent due to federal or state declared disaster, or a one-time major repair/replacement is required.

It is important to have reserves because the City's revenue sources are very volatile and if the fund balance reserves had not recently been in place, the City would have had to cut services. When outsiders, such as Moody's Rating Service, look at the fiscal health of Norman compared to other communities, the first thing they look at is the fund balances. He said Norman does not have control over utility rates so there needs to be fund balance available to keep utility services going if the rate structure has not been built to a level that would maintain services.

GENERAL FUND

Mr. Francisco said General Fund net revenues are projected to be \$241,165,391 and net expenditures are projected to be \$241,475,367 with the largest expenditures being direct service to citizens through the Fire, Police, and Public Works Departments. He said the City of Norman does not receive property taxes for operations, which most citizens do not realize. He said property tax goes to the public schools, Moore-Norman Vocational Technical School, Cleveland County, and Pioneer Library System. The property tax the City receives approximately 11% can only be used for the repayment of General Obligation (GO) Bond debt and judgements against the City.

Major assumptions of the General Fund Budget revenues include a sales tax projected growth of 2.5% from FYE 2016/2017 levels based on deterministic methods and current economic conditions; projected 3% growth in Use Tax, franchise fees, and other tax revenues from FYE 2017 levels; 1% projected growth in fines and forfeiture revenues from FYE 2017 levels; 1% projected growth in licenses and permit revenues from FYE 2017 estimates; transfers from water and wastewater utilities of 5% of their revenue based on what private utilities pay for use of public right-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 maintenance and Engineering Division labor used for capital projects; and cost allocation charges based on costs of central services (legal, financial, etc.) provided to utilities.

Major assumptions of the General Fund expenditures include salary and benefit expenses budgeted for each position in FYE 2018 based on actual contractual costs assuming merit and longevity cost increases and related costs; no cost-of-living adjustment budgeted in FYE 2018; out-year projections made “to determine future financial viability to identify financial strengths and weaknesses and to provide a base for remedial or supportive policy actions”; 5% overall assumed growth in salary and benefit category costs in FYE 2019 through FYE 2022; 1% assumed growth in expenditures for services/maintenance and supplies/materials in FYE 2019 through FYE 2022; 2% assumed growth for services category costs based on budget costs in internal service functions in FYE 2019 through FYE 2022; employee turnover savings estimate taken from the FYE 2017 salary and benefit category and \$800,000 assumed in the FYE 2018 Budget.

Mr. Francisco said FYE 2018 General Fund Budget highlights include the ability to maintain services and reserves during fiscal downturn; adding staff in Animal Welfare; adding maintenance and operating savings assumptions by cutting selected allocations; assumed positive impact of Amazon/on-line retail sales and use tax compliance (a projected \$600,000 in Use Tax) with assumed negative impact of University North Park Tax Increment District (UNPTIF) apportionment; and meeting some mandated stormwater increases. He said FYE 2018 revenues will outweigh expenditures by \$161,020. Moving forward, the five year projections have the General Fund in the negative if the City stays on the course it is on so Council and Staff have to make sure that does not happen.

Councilmember Castleberry asked what the ramifications would be if the City did not meet mandates and Mr. Shawn O’Leary, Director of Public Works, said at the last Council meeting, Council adopted the Stormwater Management Plan (SMP) that includes mandated projects for the next five years and Staff planned additional street sweeping and creation of a crew to clean out stormwater pipelines; however, money for that is not in the FYE 2018 Budget. He believes the Oklahoma Department of Environmental Quality (ODEQ) will cut the City some slack in FYE 2018 because the SMP is a five year plan, but if the items are not done in FYE 2019, ODEQ will most likely fine the City.

Public Safety Sales Tax (PSST)

Mr. Francisco said the Public Safety Sales Tax (PSST) Fund has a beginning fund balance in FYE 2017 of \$29,274,584. He said three positions have been added to the School Resource Officer (SRO) Program making a total of 10 officers out of the mandated 13 officers. He said a new Emergency Operations Center (EOC)/Dispatch Facility is being constructed and additional SRO's and mechanic personnel are programmed to be added in FYE 2019. Once those positions are added the PSST is projected to have a negative fund balance so that will have to be addressed in FYE 2019.

Councilmember Hickman said it is his understanding that Norman Public Schools (NPS) was going to financially contribute to the SRO Program and asked how much they will contribute. Mr. Francisco said in FYE 2017, NPS contributed half of the cost and Staff is assuming they will continue to contribute half the cost; however, the contract has yet to be agreed upon. Councilmember Hickman asked if the City is budgeting for that assumption and Mr. Francisco said the City is budgeting at the level it is currently on.

Special Revenue Funds

Mr. Francisco said in FYE 2017, the Transient Guest room Tax Fund (Room Tax Fund) has a shortfall of \$481,184 due to declining tax revenue and mid-year appropriations. An assumption in the General Fund is the Room Tax Fund will make a payment for administrative services provided for Room Tax Fund operations. In order to make the Room Tax Fund balance, Staff is proposing to lower that payment from 5% to 4% this year and 3% in FYE 2018 through FYE 2021. He said Room Tax Funds are split between arts/humanities, convention/tourism, and park capital projects and the portion for arts/humanities is below where it should be, but it is positive. The portion for park capital projects is good, but the portion for convention/tourism is negative so moving forward, VisitNorman is going to have to make some operational or revenue decisions to improve that.

Other Special Revenue Funds included in the budget include Community Development Block Grant (CDBG-DR) Disaster Recovery Grants for rural road improvements; Seizures and Restitution Fund (allocated for workshops, licenses, and less-lethal weapons); CLEET Fund; Art in Public Places Fund; and Westwood Fund. He said it was recently announced that the pool operation will not open in 2017, and the budget was built on the assumption there would be six weeks of revenue in FYE 2017. Once the new Westwood Pool has been constructed, the Parks Staff will have to review their assumptions related to the new pool operations and maintenance.

Councilmember Hickman asked if the General Fund subsidizes Westwood activities and Mr. Francisco said yes, to a lesser and greater extent each fiscal year there has been some form of fund supplement to Westwood. Last year \$12,500 was subsidized and at the end of this fiscal year Staff is projecting a subsidized amount of \$1,161.

Major FYE 2017 Budget Topics

Mr. Francisco said other budget topics include the ongoing shortfall in General Fund net revenue; online retail impact on sales/use tax; UNPTIF sales tax apportionment; storm water mandates that will impact the General Fund; PSST II implementation; Norman Forward facility operational costs; utility enterprise capital improvement projects (CIP) and operations funding; and long-term realignment of resources and program priorities.

COUNCIL COMMENTS/QUESTIONS

Councilmember Hickman said there have been several meetings regarding the Capital Fund and he is curious as to why there have not been more meetings on the General Fund and Mr. Francisco said the General Fund has been discussed numerous times in the City Council Finance Committee meetings. He said several Council budget requests being discussed tonight came out of those meetings and Staff included those in the budget. Mr. Steve Lewis, City Manager, said previous Councils have always wanted increased participation in the Capital Budget and he was asked to improve that so that is why there have been more meetings on that. He does not recall Council requesting more input on the operational budget.

Councilmember Heiple asked what happens if revenue projections are wrong and the City is down again next year and Mr. Francisco said that happened in FYE 2017 and if that continues the City will draw on reserves. He said if the City continues to experience a downturn three to five months into the fiscal year the City Manager will give Management Team direction to cut projects.

Councilmember Castleberry asked how much the City has drawn down on the fund balance this year and Mr. Francisco said Staff is projecting drawing down the General Fund balance by \$3.2 million.

Councilmember Holman said once the Emergency Operations Center (EOC) is constructed and the new radio system is installed, what other big expenditures will come out of the PSST Fund? Mr. Francisco said in approximately eight years the debt for the EOC and radio system will have been paid off and at that point it will most likely be time to replace or update some of that. Councilmember Castleberry said once the big projects are completed will the PSST Fund go away and the money go into the General Fund? Mr. Francisco said no, after the projects are completed there will be emergency vehicle replacements, radio replacements, additional personnel, etc.

Councilmember Holman asked what the "other revenues" listed in the Revenue Chart are and Mr. Francisco said the major areas of "other revenues" are the cost allocation charges and transfers discussed earlier as well as tobacco tax revenues and street and alley funds from the State.

Councilmember Hickman said two positions are being added to the Animal Welfare Facility and asked how the positions of an Animal Welfare Technician and Animal Welfare Shelter Manager were determined to be needed. Why is the City adding a Manager and what is that person's role in relationship to Captain Lance Arnold who currently oversees the facility? Mr. Keith Humphrey, Police Chief, said Captain Arnold is a Police Commander who was placed in charge of the Animal Welfare Facility to fill in for Mr. John Bowman, Animal Welfare Superintendent, who resigned. He said Captain Arnold's current function is to manage the daily operations of the Animal Welfare Facility, but Staff feels it is time to fill that position with a more permanent manager and bring Captain Arnold back to his police duties. It is important for the person in the management position to have expertise in animal welfare and understand the overall mechanics and vision of the facility. Councilmember Hickman said if a manager is hired does that mean Captain Arnold will no longer be involved in the facility and Chief Humphrey said Captain Arnold will be involved until the next budget year to give the new person time to familiarize themselves with the facility and operations. He said once Captain Arnold is no longer needed, the manager will continue to report to a Major in the Police Department.

COUNCIL COMMENTS/QUESTIONS, continued:

Councilmember Hickman asked if Chief Humphrey or the City Manager has discussed moving the Animal Welfare Facility out from under the Police Department to be a stand-alone department and Chief Humphrey said yes, it has been discussed. Councilmember Hickman asked why the City decided not to go with the recommendation from the strategic plan, which was supported by the Animal Welfare Oversight, for more kennel technicians instead of a manager. Chief Humphrey said the proposed budget has two positions for Animal Welfare, a manager and a technician. Councilmember Hickman said the salary for one manager and one technician is equal to or more than two technicians and a full time veterinarian, which is what most of the community wants. Chief Humphrey said it is his responsibility as a director to look at the overall operations and Animal Welfare Facility positions are being reclassified for cross training purposes. He said a manager can look at the overall operation and determine what personnel is needed. Councilmember Hickman said citizens approved a new \$3 million facility that doubled the kennels and this City Council approved an ordinance that changed requirements to allow citizens to surrender animals and the facility will take those animals. He said employees, the Oversight Committee, and citizens want to know why the City is not giving the facility the worker bees it needs instead of bringing in a manager and waiting another year to figure out what needs to be done. Chief Humphrey said since FYE 2015 there has been a 60% increase in staff at the Animal Welfare Facility increasing personnel from 10 to 16 positions. Also, the current part-time veterinarian has been consulted on whether there is a greater need for a full time veterinarian or staffing and she stated that a part time veterinarian will be sufficient for one more year as long as additional personnel is added. After one year, Staff will reevaluate the need for a full time veterinarian and/or additional personnel.

Councilmember Castleberry said if the City fully funded the positions where would the money come from? What could be cut from the budget? He asked Staff to provide that information to Council for a possible budget amendment. Councilmember Hickman said he would like to know the cost of an Animal Welfare Technician and full time veterinarian for further consideration by Council and Chief Humphrey said he would provide that information. Councilmember Hickman said there is some frustration in the public regarding the Animal Welfare Facility operations, but Staff is doing a good job. Mr. Lewis said citizens are to be commended for voting for a new facility and the City is trying to fully fund staffing at the facility. He said there have been significant strides made, but this current recession is as deep as the Great Recession and has been a more prolonged period so Staff is trying to make improvements in a very fiscally constrained environment and he hopes Council understands that.

Councilmember Castleberry said proposed budget revenues are \$1 million less than last year so Council needs to understand the seriousness of the times and not everyone will get what they want.

Councilmember Holman said the Animal Welfare Facility GO Bond item was placed on Council's agenda using the "rule of three" and former Mayor Rosenthal warned Council that doing so without considering the long-term costs for operations could be problematic. He said no one on Council listened to her because everyone cares about animals and the City needed a new facility. He said at that time, no one disputed that a new facility was needed, but considerations on how to staff a larger facility was not considered so this Council now has to deal with that. He would like to see Captain Arnold stay longer than the proposed one year and would also like to hire more "worker bees."

Councilmember Hickman said the City used to have a full-time Forester and there has been a lot of discussion regarding a Tree Canopy Ordinance so he would like to see an estimated cost for a full time Forester position.

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Items submitted for the record

1. PowerPoint presentation entitled, "Tax Increment Financing: A Valuable Tool for Economic Development," presented by the Center for Economic Development Law, City Council Study Session, dated March 21, 2017
2. Stormwater Utility-Related Activities Since August 2016

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The meeting adjourned at 7:08 p.m.

ATTEST:

City Clerk

Mayor