

## CITY COUNCIL STUDY SESSION MINUTES

April 7, 2020

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a virtual study session at 5:30 p.m. in the Municipal Building Conference Room on the 7th day of April, 2020, and notice and agenda of the meeting were posted at the Municipal Building at 201 West Gray 24 hours prior to the beginning of the meeting.

PRESENT: Councilmembers Bierman, Carter, Hall, Holman, Petrone, Scanlon, Scott, Wilson, and Mayor Clark

ABSENT: None

Item 1, being:

### DISCUSSION REGARDING THE PROPOSED FYE 2021 CITY OF NORMAN BUDGET – GENERAL FUND AND SPECIAL REVENUE FUNDS.

Mr. Anthony Francisco, Director of Finance, said the budget document is the most important document the City prepares and 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 of each year. He said tonight Council will be presented an overview of the General and Special Revenue Fund Budgets; Council will review the Capital Funds Budget on April 21, 2020; hold two public hearings on April 14 and May 26, 2020; review the Enterprise Fund Budget on May 5, 2020, and is proposed to adopt the Budget on June 9, 2020.

Mr. Francisco said the budget document is formatted to lead with a summarized detail and 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. He said 2020 will be a challenging year because of COVID 19 with many unknowns regarding sales tax revenue and that impact on the City's budget.

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

Mr. Francisco said Net Revenue Stabilization Fund policies and assumptions adopted in Ordinance O-1011-58 and amended in Ordinance O-1819-10 includes a minimum 3% General Fund operating reserve, 1% General Fund emergency reserve, and 4% Rainy Day Fund. The Rainy Day Fund is basically a savings account to be used for emergency purposes. He said the target for the Rainy Day Fund has a targeted growth of 5% and a maximum of 6%. The City must have a minimum total reserve level of 8% and a maximum total reserve level of 10% in General Fund expenditures. He said Council cannot appropriate from the Rainy Day Fund balance unless the General Fund balance falls below 1%, the emergency reserve allocation can be spent on a federal or state declared disaster or a one-time major repair/replacement. He said the Rainy Day Fund is currently above minimum, but short of the targeted level.

Projected FYE 2021 revenues in the General Fund are \$225,112,595 with projected expenditures of \$280,873,184. He said in FYE 2021, Staff is expecting to record sales tax from University North Park Sales Tax Increment Finance (UNPTIF ) District and Public Safety Sales Tax (PSST) in the General Fund revenues. He said the City is very dependent on sales and use tax to pay for City services and sales tax is a very volatile source of revenue. He said consumer behavior is changing towards more online shopping, which affects the City's ability to collect sales tax.

Mr. Francisco said FYE 2021 revenue sources include Interfund Transfers – 4%; General Sales Tax – 34%; Other Taxes – 11%; Capital Improvement – 6%; Sewer Excise Tax – 1%; Sewer Maintenance – 1%; Fees and Charges – 26%; Inter-Government – 2%; Other Revenues – 10%; Cost Allocations – 2%; and Internal Charges – 3%. He said projected total expenditures include Strategic Support and Criminal Justice – 12%; Public Safety – 18%; Public Works – 9%; Water – 11%; Water Reclamation – 8%; Sanitation – 6%; Debt Service – 8%; Culture/Recreation – 3%; Capital Improvements – 23%; Community Development – 2%; and Tax Increment Finance Districts – 0%.

FYE 2021 General Fund revenues (\$85,902,710) by source include Transfers – 6%; Other Revenues – 5%; Internal Charges – 8%; Cost Allocations – 5%; Interest – 0.2%; License/Fees – 1%; Fines/Forfeits – 3%; Other Taxes – 3%; Franchise Tax – 9%; and Sales/Use Tax – 60%.

FYE 2021 General Fund expenditures (\$84,926,863) by department include Administrative and Legislature – 6%; Fire – 19%; Finance – 4%; Municipal Court – 2%; Parks – 7%; Human Resources – 1%; Information Technology – 3%; Police – 29%; Planning – 4%; Public Works – 22%; Legal – 2%; and Other – 2%.

Mr. Francisco highlighted the distribution of the City's 8.75% sales tax as 2.30% to the City's General Fund; 4.50% to the State of Oklahoma; 0.25% to City Transit Fund; .50% NORMAN FORWARD; .50% Public Safety Sales Tax (PSST); and 0.70% City Capital Improvements Fund. He highlighted property tax distribution based on \$142,312 median home value is 7.8% (\$168.01) - City of Norman; 15.3% (\$329.43) - Moore Norman Vo-Tech; 10.6% (\$228.70) - Cleveland County; 5.1% (\$108.74) – Pioneer Library System; and 61.2% (\$1,215.41) – Norman Public Schools.

Mr. Francisco said over the past eleven years, sales tax has had a very predictable growth rate until 2017 and 2018, and has not returned to the growth rate anticipated. He said some of that revenue has been made up by increases in use tax, which is basically a sales tax on goods purchased outside of City for use within the City, i.e., catalogue sales, online sales, etc. He said the City is dependent on sales tax, not just for the General Fund, but for the PSST, NORMAN FORWARD Fund, Capital Fund, and Public Transit Fund. He said it is important to monitor and try to bend these trends as much as possible by enforcing the use tax collections on online and out-of-state purchases.

General Fund major revenue assumptions include sales tax growth projection of 1.75% from projected FYE 2019-2020 levels (reduced from 2% due to estimated "COVID Effect"); use tax, franchise fee, and other tax revenue projected to grow by 4% from FYE 2020 levels; fine and forfeiture revenue projected to grow by 3% from FYE 2020 levels; license and permits revenue projected to grow by 1% from FYE 2020 levels; transfers from Water and Water Reclamation Utilities of 5% of their revenue (based on private utility payments for taxes and use of right-of-way); transfers from Room Tax for administrative services (4%); and cost allocation charges for central services provided to utilities.

General Fund major expenditure assumptions include salary and benefit category expenses budgeted for each position in FYE 2021 based on contractual costs assuming merit and longevity cost increases; no cost-of-living adjustment budgeted in FYE 2021; five-year projections made to "determine future viability and to provide a base for remedial policy actions"; salary and benefit category costs assumed to grow by 5% per year in FYE 2022-2025; expenditures in Services/Maintenance and Supply/Materials assumed to grow by 1% in FYE 2022-2025; expenditures in Internal Services category based on budgeted costs in FYE 2020 and assumed to grow by 2% in FYE 2022-2025; employee turnover savings of \$800,000 assumed in FYE 2021 and in future years; no Services/Maintenance and Supply/Materials savings assumed in FYE 2021; and "subsidies" to Public Transit and PSST Funds.

Mr. Francisco said General Fund personnel positions added include Fleet Specialist (public transit); Transit Services Technician (public transit); Fleet Service Writer; Mechanic II (2 positions– public transit); and Transit Coordinator (public transit). He said a Fire Protection Engineer position was deleted (will be a contracted service).

Unfunded personnel needs include Stormwater personnel (street sweeper, maintenance crew); Engineering; Street Maintenance personnel; Traffic Signal/Sign Maintenance personnel; PSST personnel (School Resource Officers, Dispatchers); Disability and Homeless Services personnel; Fleet Maintenance personnel; Parks and Grounds Maintenance personnel (NORMAN FORWARD); Internal Audit Function personnel; Traffic Signal Maintenance Staffing personnel; Fire Department expanded staffing personnel (Station 10); and Trade Workers for Facility Maintenance personnel.

Mr. Francisco said the Cleveland Area Rapid Transit (CART) System was operated by the University of Oklahoma (OU) and funded by a Federal Transportation Administration (FTA) Grant, OU, City of Norman, State of Oklahoma, and Norman Regional Hospital. On August 28, 2018, OU notified the City of its desire to transfer the non-campus bus system to the City of Norman by the end of the 2019 fiscal year. He said the City is now a FTA Grant recipient of approximately \$1.8 million annually and has contracted with EMBARK to operate the bus system because the City has no experience in bus operations. He said the City obtained a grant from the Oklahoma Department of Transportation (ODOT) for one replacement bus, but many of the busses are at the end of their life and will need to be replaced. He said on November 12, 2019, voters approved a 1/8% sales tax for public transit that is anticipated to bring in \$2.5 million annually. He said with a General Fund subsidy of \$1,150,000 annually the budget for public transportation will keep the system operational. He said the Capital Outlay Budget funds fleet maintenance, but there is currently \$8 million in capital needs for vehicle replacements and approximately \$2 million to replace them in the coming fiscal year, but the capital needs have been made worse by the need for replacement busses. He said the City also needs to build a Transit Maintenance Facility at the cost of \$7.5 million with no identified revenue source. He said this is a crushing critical need to keep busses on the street.

Other Special Revenue Funds include Council on Law Enforcement Education and Training (CLEET); Community Development Block Grant/HOME; Room Tax; Seizures and Restitution; Special Grants; Art in Public Places; and Westwood Park (no assumed subsidy from the General Fund). Mr. Francisco said he has a big concern regarding the Room Tax Fund because of lot of hotels have temporarily closed due to the pandemic, the City is not collecting a lot of room tax. He said no one knows what will happen over the next few months, but right now the hospitality industry is in bad shape.

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 the EOC is in final design, but due to budget shortages, items within the OEC design are being scaled back and additional funding will be needed to build the facility as envisioned.

Mr. Francisco said there is an imbalance between operational revenues and expenditures and a lack of adequate funding for stormwater, fleet maintenance, and park maintenance personnel. He said the PSST operations and capital shortfalls exacerbate the problems in the General and Capital Funds. He said Council voted to stop the University North Park Tax Increment Finance (UNPTIF) District and place that sales tax into the General Fund; however, that decision was challenged by a petition so the City continued to apportion sales tax to the UNPTIF Fund. He said the petition was recently deemed invalid by the Court, which is a great thing for the City's General Fund and Capital Fund. He said Staff will now be able to put four year's worth of sale tax from University North Park (UNP) into the General and Capital Funds, but under the advice of the City Attorney, the City continues to apportion sales tax and placing it aside until the City is clear from the period the ruling might be appealed. He said because of COVID 19, the appeal date keeps getting pushed back. Another big issue will be the public transportation system funding and COVID 19 impacts.

Mr. Francisco highlighted upcoming budget meetings that include a public budget hearing on April 14, 2020; review of the Capital Fund Budget on April 21, 2020; review of the Enterprise Fund Budget on May 4, 2020; public budget hearing on May 26, 2020; optional budget study session on June 2, 2020; and consideration of adopting the budgets on June 9, 2020.

Councilmember Wilson asked if Community Development Block Grant (CDBG) COVID 19 funding discussions include rent relief or rent stabilization. Mr. Darrel Pyle, City Manager, said the City could receive an additional allocation of CDBG funding from the State in an approximate amount of \$500,000 and Staff is working on program parameters recognizing COVID 19 impacts on the local economy. He said Staff believes the most appropriate and most needed use will come in the form of relief and support for people struggling because of job displacement caused by the pandemic.

Councilmember Wilson said she would like to see Council prepare a resolution for a 90-day moratorium on evictions to be paired with the CDBG funding to help prevent people who have lost their jobs from being evicted.

Councilmember Holman said the City has not fulfilled all of the PSST obligations for School Resource Officers (SROs) because Norman Public Schools (NPS) does not have their half of the funding contribution. He asked if the City is planning to move forward with that program without the school's contribution and Mr. Francisco said no one has discussed moving forward with the full program without NPS sharing in the costs. Councilmember Holman until NPS is ready to fund their share of the program the City should not provide the SROs.

Councilmember Holman asked for clarity on the Porter Corridor Project funding sources and Mr. Shawn O'Leary, Director of Public Works, said that project is in the Capital Budget, which will be discussed April 21st. He said the City will need to be creative on the funding sources.

Councilmember Holman said he was never under the impression the Porter Corridor Project included the Porter Avenue and Alameda Street intersection, but was under the impression there would be a Streetscape Project that would end before the intersection and additional funding would be needed to complete the Streetscape Project to Alameda Street.

Councilmember Holman said he would support a resolution for a moratorium on evictions to help people in the community.

Councilmember Bierman said Mr. Francisco stated there are no cost of living adjustment (COLA) increases in the budget and asked what that figure would be and Mr. Francisco said usually a 1% across the board COLA costs approximately \$600,000. Councilmember Bierman said a large percentage of employees will be receiving merit increases, but a large percentage will not and she is disappointed there is no COLA budgeted for FYE 21. Mr. Francisco said the negotiation process is separate from the budgeting process so no budget for COLA does not mean there will not be one negotiated.

Councilmember Bierman said other than the CDBG COVID 19 Grant, are there any other federal funding opportunities available either in the existing stimulus packages or future stimulus packages. Mr. Pyle said there was recent discussion regarding local government relief that would have to come from the federal government and he is anticipating conversations in the next week about what is being called “Round Four of the Corona Virus Response and Relief Bill.”

Mr. O’Leary said he recently received the good news that Norman will be receiving \$5.1 million earmarked for public transit, which could be a major fix to Norman’s Transit Facility problems. He said Staff will know more about what the money can be spent on in the coming days, i.e., operations, maintenance, facilities, infrastructure, etc. He said the City received a grant from the Association of Central Oklahoma Governments (ACOG) for the purchase of an electric bus and is currently pursuing another grant for another bus.

Councilmember Carter asked how Council should offer amendments to the budget and Mr. Pyle said Staff would love to hear Council’s comments and concepts on recommended tweaks to the budget as early as possible. He said those notes or adjustments will be made and presented to Council in a conference or study session for review.

Mr. Francisco said Council must approve budget amendments so Staff would like to have proposed amendments as soon as possible in order to research the proposals and prepare amendment language for Council’s review.

Councilmember Petrone said she is uncomfortable budgeting UNPTIF Funds in the General Fund Budget without knowing if the court’s decision on the petition will be appealed. She said a huge assumption is being made that the City will win the court case and can place the UNPTIF money into the General Fund. She said the pandemic has put everything on hold, including the court system, and adoption of the budget is not that far away so she is concerned that if this assumption is wrong, the City will be in financial trouble. Mr. Francisco said that is why the City has continued to apportion sales tax in the UNPTIF Fund until a final determination by the court is made, but if the decision is not in the City’s favor it will have an impact on the FYE 21 Budget. Councilmember Petrone said she would rather look into some type of settlement agreement with the petitioner so the City can move on with the budget.

Councilmember Petrone said according to the budget document, future use tax growth is proposed to be 4%, but she thought that was a little high and Mr. Francisco said 4% is a conservative figure if there are more online sales and better enforcement of the existing statutes for the collection of taxes.

Councilmember Petrone said according to the budget document, franchise fee growth is proposed to be 3%, but last year that figure was a negative and wondered if this change of growth was due to a mild winter. Mr. Francisco said it would be based on a mild summer so if there was a mild summer as opposed to a mild winter, a 3% growth assumption would be low because the figure would be growing from a depressed situation.

Councilmember Petrone said Council discussed increasing the room tax administrative fee to 5%, but the presentation has it at 4% and the budget document has it at 3%. Mr. Francisco said he will double check, but is pretty sure the actual calculations are based on 4%.

Mayor Clark and Council thanked Staff for their hard work on the budget.

Items submitted for the record

1. PowerPoint presentation entitled, "City of Norman Fiscal Year 2020-2021 Budget," dated April 7, 2020, by Anthony Francisco, Finance Director, and Kim Coffman, Budget Manager

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The meeting adjourned at 7:40 p.m.

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City Clerk

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Mayor