

FINANCE COMMITTEE MINUTES
November 9, 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 9th day of November, 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, Bierman, and Allison

ABSENT: none

OTHERS PRESENT: Mayor Lynne Miller
 Bill Hickman, City Council Member
 Breea Clark, City Council Member
 Steve Lewis, City Manager
 Anthony Francisco, Finance Director
 Suzanne Krohmer, Budget Manager
 Jud Foster, Director of Parks and Recreation
 Gala Hicks, Director of Human Resources
 Clint Mercer, Chief Accountant
 Debbie Whitaker, Municipal Accountant III
 Ken Komiske, Director of Utilities
 Jeff Bryant, City Attorney
 Joel Haaser, BKD, LLP
 Cassie Norris, BKD, LLP
 Joy Hampton, Norman Transcript

Chair Castleberry called the meeting to order at 8:31 am.

Item 1, being:

DISCUSSION REGARDING THE FYE 2017 CITY OF NORMAN AUDIT

Anthony Francisco gave the presentation. He stated that we had an unmodified “clean” audit. Joel Haaser with BKD took over the presentation. He stated that included in the draft Comprehensive Annual Financial Report (CAFR) is the Independent Auditor’s Reports, which is where BKD will enter their opinion (clean audit report) on the City’s financial statements as of June 30, 2017. After that the CAFR presents a Management’s Discussion and Analysis, which is a high level approach that tells the big changes in the City and the causes for those changes. Next, there are basic financial statements that include many reports, and then the individual fund statements that break down the General Fund and various Capital Project Funds. Then, there are Notes to the Financial Statements, and Required Supplemental Information which includes general pension information. Supplementary Information comes next, with a Statistical Section coming last and explaining trends for the last 10 years in Norman.

Item 1, continued:

Chair Castleberry stated that we look at the General Fund on a monthly basis, but this is the one time a year we look at the other funds such as the pension funds. The reason for this is that those types of funds are what they are and there is not much to manage throughout the year.

Mayor Miller asked if the best way to look at this type of report is to focus on the 10 year trends instead of the current reports. Haaser stated that this was correct. Chair Castleberry stated that on page 112 you can see our actual trend where for the last 5 years we have spent more money than we have brought in. He stated that this is a better picture of our actual position with the budget.

City Council Member Hickman asked about page 123 and the report on City Employees by Function. He stated that the report says in 2016 we had 867 full time employees versus 913 in 2017. This seems to be a significant increase in full time employees. Francisco states that the largest amount of that increase is in the public safety sector (police officers). The School Resource Officer program was expanded this year.

Chair Castleberry asked why the report on page 115 seems to indicate that we are up by \$3 million when the report on page 114 seems to indicate we are down \$3 million from 2016. Francisco stated that he does not know off hand but he thinks that it has to do with the tax liability that may not be measured the same way. Chair Castleberry stated that he believes it means that all of the funds (Capital, Norman Forward, PSST, etc.) were up by \$3 million but that the General Fund is down by \$3 million.

Joel Haaser stated that the information in the report shows that the City of Norman is not growing, and if we do not start to grow we will not be able to fund the things we would like to fund as a community. Member Wilson asked if there is a tipping point where growth overrides sustainability. Chair Castleberry stated that we have been 2-3% growth consistently. Member Allison stated that the citizens of Norman want more things done, such as infrastructure improvements and additions, but these items cannot be accomplished if we do not continue to grow and therefore have more revenue coming in.

Member Wilson asked if the only other option is to increase the amount that citizens are paying in to the City. Chair Castleberry stated that we could raise sales tax, but we do not want to do this. We grow as a city at 2-3% every year. If our revenue doesn't grow by 2-3% every year as well, that is the tipping point.

Council Member Hickman stated that we should prepare an average home cost that includes the revenues brought in from each house from permits, materials, etc. If we knew the cost of a single family home construction it would help us with growth discussions in the future. Member Allison stated that it is more expensive to live in Norman than it is in Moore.

Member Bierman asked how well we are funding pensions. Haaser stated that we are maintaining our state obligations at 100%.

Item 1, continued:

Haaser stated that the most important figure was the unassigned fund balance of \$7,166,425 on page 19. This is the unallocated portion of what the City has to use. It is recommended there be between 1-2 months' worth of expenditures in this fund, which for the City of Norman is between \$6-12 million.

Haaser also stated that on page 63 in the footnotes you can see that the net pension liability has gone up by \$12 million this year. It also shows the net Other Post-Employment Benefit Obligation, which is primarily explained by a state law that states a City employee that has retired and served a certain amount of time is eligible to continue on the City health insurance until they are eligible for Medicare. Next year this liability will be required to be funded at 100%.

Francisco stated that our retired employees are required to pay the full premium if they continue with the health insurance after retirement, but for older insurance beneficiaries the premium does not cover the cost of health claims. Haaser stated that the unfunded liabilities go through expenditures every year.

Haaser stated that we do a "Single Audit", which is an audit of the federal funds. There is one program with very large expenditures this year, which is the state water revolving loan fund, but no deficiencies have been found. The audit is still being finalized, but it will be finished by December 7th or possibly before. The recommended adjustments for recording are the \$500,000 in accounts payable that are accrued at the year-end and the assistance with the pension balances. The adjustments that didn't get recorded were the self-insurance of the incurred but not reported claims, an \$80,000 stop-loss receivable at the year end, and about \$50,000 in pre-paid insurance. There are no deficiencies to report. They do suggest that we closely track the ten percent (10%) retainage of contractors working on City capital projects due to the increase in projects. There is also a deficiency noted in the review process for the apportionment of sales tax to the Tax Increment Finance Fund. Other than this, there is nothing significant to report. Haaser stated that Clint Mercer and Anthony Francisco do an excellent job of providing information to the auditors. Francisco stated that the audit will be on the December 19th agenda for City Council.

Items submitted for the record:

1. Proposed 2017 Comprehensive Annual Financial Report

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Item 2, being

FINANCIAL UPDATES FOR THE PUBLIC SAFETY SALES TAX AND THE NORMAN FORWARD SALES TAX

Anthony Francisco provided the fund summaries and two reports that are given to the Public Safety (PSST) and Norman Forward Sales Tax Oversight Committees. He stated that the PSST

Item 2, continued:

Fund is problematic in that the expenditures continue to be larger than the revenues. After the capital projects are complete, the negative difference will be a serious concern.

Member Allison asked what we can do about the negative difference projected. Will we be making cuts to programs? Francisco stated that the first things we might look at would be not replacing some vehicles, not filling some positions that are vacant, and pushing back some capital expenditures.

Member Bierman asked if this was a sales tax issue and if we over-promised things that we can't provide. Francisco stated that we did promise some things that became unaffordable. Inflation in built-in personnel costs is outgrowing the revenue we have coming in.

Council Member Hickman asked how many of the School Resource Officer (SRO) positions are funded. City Manager Steve Lewis stated that all of the positions for the SRO program have not been filled because they have not been approved to be filled as of yet. Hickman asked if the cost increase for the City also means a cost increase for the school system. City Manager Lewis stated that it is always a 50/50 share between the City and the school system, so when the cost increases, it does so for both.

Member Allison asked what the percentage of construction versus staff is. Francisco stated that all capital construction cost is up front. He believes it to be about 1/3 capital projects and 2/3 salary.

Chair Castleberry asked if the Use Tax Revenue could be added to the reports on Norman Forward.

Items submitted for the record:

1. Public Safety Sales Tax Fiscal Year End 2018 Financial Report
2. Norman Forward Sales Tax Revenue vs. Projection

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Item 3, being

FYE 2018 BUDGET UPDATE

Anthony Francisco gave the presentation. He stated that on a monthly basis we receive an overall lump sum wire transfer from the Oklahoma Tax Commission for the sales tax. When the University North Park Tax Increment Finance (UNP TIF) Fund was first established, there was not any dedicated sales tax. 2.3% was going to the General Fund, and 0.7% was going to Capital Projects Fund. From the 3% overall sales tax rate, 60% of the collected taxes generated by businesses within the UNP area would be apportioned to the TIF Fund and 40% would go to the General and Capital Fund. In 2008, the Public Safety Tax was introduced; causing the overall rate of sales tax to increase from 3% to 3.5%. When Norman Forward was passed in 2015, the sales tax rate went from 3.5% to 4%. We continued to apportion the full sales tax collected from

Item 3, continued:

the businesses in the UNP area at the same 60/40 split. We should have adjusted the apportionment for the increases to the sales tax rate. We should have been deducting the amount Item 3, being:

that was apportioned to the PSST and Norman Forward from what was being recorded in the UNP TIF Fund. We discovered this over-apportionment last month and realized that over the course of 10 years \$5.2 million was over-apportioned to the UNP TIF Fund. It is now the City Council's decision on what to do with the over-apportionment. We could do nothing with the money and use it to pay for future projects in the TIF; we could restore the three percent (3%) General Fund operating reserve; we could add to the Rainy Day Fund and take it to its maximum; or we could transfer it to the Capital Fund for some one-time project expenditures such as the Enterprise Resource Planning System replacement, stand-alone Senior Citizens Center, sidewalks, handicapped accessibility programs, etc.

Mayor Miller stated that she would like to add to the Capital Fund for seed money as part of the negotiations for the Center City TIF.

Chair Castleberry stated that he doesn't think we should do nothing with the money. He believes that \$4 million should be transferred to the General Fund and \$1.2 million should be transferred to the Capital Fund just from an accounting stand point. Once this has been done, then we start the discussion on what to do with the money. He believes it is appropriate to hire an outside auditor for an agreed-upon procedures report. It would be about a \$10,000-15,000 project. Member Wilson agrees with Chair Castleberry.

Council Member Hickman agrees with Chair Castleberry and asked if the money could be spent once we move the money back into the General Fund balance. Francisco stated that it could not be spent since only Council can appropriate funds.

Member Wilson asked if there will be a presentation at the City Council meeting because she believes the citizens will have questions. Chair Castleberry stated that there could be a presentation.

Member Allison stated that he believes the money should go to the operational reserve and capital needs. We should shore up the operational reserves first. Chair Castleberry stated that another option would be to restore the voluntary two percent (2%) cut that was implemented across all departments. City Manager Lewis stated that he would like some time to decide on restoring the cuts due to the fact that sales tax collections are still down. He would like to be more conservative before he will say we have turned the corner. Council Member Hickman stated that he agrees with City Manager Lewis that we should not use it to restore this year's budget; we should use it for the reserves or projects.

Chair Castleberry stated that he thinks the current year's portion of the over-apportionment (about \$291,000) should be restored to this year's budget. The previous years are gone and done with, but we would have had this year's in the budget.

Item 3, continued:

Mayor Miller stated that she believes that everyone wants to be conservative and wait to decide what to do with the money until later. Member Wilson agrees and would like any surplus to go into the account for the Senior Center. Member Bierman agrees and believes that a portion should go towards the Senior Center. City Council Member Clark believes part should go to the sidewalk projects and would like for people to understand that we don't just have millions of "extra" money to spend, as financial sacrifices were made in the preparation of this year's budget.

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Item 4, being:

SUBMISSION OF THE REVENUE/EXPENDITURE REPORTS

Member Allison asked about an article he read that Oklahoma City was discussing raising water rates and how big the increase will be. Ken Komiske stated that Oklahoma City will be increasing their rates by 4.5% and we buy 1 million gallons a day from them. This will result in an additional \$50,000 a year. Oklahoma City set a water rate schedule for 4 years so people and businesses can plan their budgets accordingly. The new rates will be effective January 1.

Chair Castleberry stated that he wants to get all of the revenue for the Norman Forward sales tax in the reports to the Committee in order to compare the actual collections with the projections. Sales tax collection is down 1.7% but Use tax is up 28%, so we shouldn't panic that our main source of revenue is down; the sources are changing.

Joy Hampton asked if the money in the PSST Fund from asset forfeitures that was supposed to be used for the armored vehicle could be used for filling in some of the gaps in the salaries for the public safety employees. Francisco stated that the funds for asset forfeitures should only be used for equipment. Hampton asked if we could use the asset forfeiture money to fund some of the PSST equipment and then free up more money for salaries. Francisco stated we could free up the money to fund the salaries.

Council Member Hickman asked about the concept of providing fire services for OU and the idea that OU would help fund the Fire Department. Francisco stated that there have been talks about this subject over the years, but it comes down to the fact that the students at OU are residents of Norman so are eligible for the same services as the other residents of the community. There has never been any direction from the City Council to charge OU residents differently.

Member Wilson asked if a percentage of property taxes go to the Public Safety Fund. Francisco stated that no property taxes go towards public safety operational costs.

Item 4, continued:

Items submitted for the record:

1. Summary of Major Fund Revenue Sources vs. Budget FYE 2018 as of October 31, 2017
2. Summary of Major Fund Expenditures vs. Budget FYE 2018 as of October 31, 2017
3. Appropriations from Fund Balance FY18
4. General Fund Transfers over \$50,000 between Expenditure Categories FYE 18 October 2017

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Item 5, being:

SUBMISSION OF THE REPORT ON OPEN POSITIONS

Gala Hicks stated that the new Animal Welfare Manager will be starting on November 27th and the Animal Welfare Technician will be coming on board around the same time. One Animal Welfare Technician position is still vacant.

Items submitted for the record:

1. City of Norman Position Vacancy Report dated 11/1/17

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Item 6, being:

MISCELLANEOUS COMMENTS

None

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The meeting adjourned at 9:48 am.

ATTEST:

City Clerk

Mayor