

CITY COUNCIL STUDY SESSION

April 15, 2014

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a study session at 5:35 p.m. in the Municipal Building Council Chambers on the 15th day of April, 2014, 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, Griffith, Heiple, Holman, Jungman, Kovach, Williams, Mayor Rosenthal

ABSENT: Councilmember Miller

Item 1, being:

DISCUSSION REGARDING THE PROPOSED FYE 2015 CITY OF NORMAN BUDGET – OVERVIEW OF THE GENERAL FUND, SPECIAL REVENUE FUNDS, AND THE COSTING OF COLLECTIVE BARGAINING UNITS' PROPOSALS.

Mr. Steve Lewis, City Manager, said what the City of Norman is seeing in terms of local government finance is what is being seen across the country. He said Oklahoma seems to be doing better than other parts of the country, especially over the last couple of years. He said cities across the country are seeing a greater dependence on their own revenue sources due to cuts in state and federal aid. He said there has also been an increased use of private and non-profit service agreements for delivery of services, an increased use of Tax Increment Finance (TIF) Districts, and more partnerships with social service agencies. He said there has been increased competition for governmental investment with cities trying to maintain tax bases while increasing sales tax revenues. He said there continues to be a strong dislike for property taxes, but according to citizen surveys, citizens do believe they get the “best bang for their buck” through their local government services. He said there has been a shift from a manufacturing base to a service base or information based economy and the implications of that shift regarding internet shopping.

Mr. Anthony Francisco, Director of Finance, said the budget presents a financial picture of the City with a financial plan going forward. He said it is also a communication device and operation guide. He said it is important to understand there are easy ways to find out what you want to know without reading the entire budget. There is a lot of information in the budget document including demographics, socioeconomic information, and benchmark comparisons. He said there are 28 funds in the budget with a summary information page for each of those funds.

Mr. Francisco said the national job market is not that good overall, but Norman is better off nationally. He said the national economy impacts Norman's sales tax because if the cost of goods increase then businesses charge the customer more, which garners more sales tax. While inflation is good for the City's revenues, the downside is the City has to pay more for goods and services. He said one thing that impacts Norman's economy is the building sector because when builders are buying construction supplies that impacts Norman's sales tax. He said in 2013, there was a big jump in the number of building permits issued; however, there was not a big jump in the cost of the permits, which means the value of what is being built, is not that high.

General Fund

Mr. Francisco highlighted FYE 2015 projected revenues and expenditures. He said revenues are projected to be \$210,982,020 while projected expenditures are expected to be \$213,436,778. He said franchise taxes are a large portion of the General Fund, but that revenue is highly impacted by weather factors. He said the largest areas of expenditures are made by police, fire, and public works, which make up about 70% of the General Fund's budget.

Mr. Francisco highlighted General Fund revenue assumptions. He said the sales tax growth rate is projected to be 4.2% based on historic patterns and deterministic methods (best guess). He said there is a \$300,000 increase projected from the reduction in the amount the Oklahoma Tax Commission (OTC) charges for administrative fees for collecting the City's taxes. He said a Bill is pending before the Legislature and the City is assuming that Bill will pass. Use tax, franchise fees, and other tax revenues are projected to increase by 3% and fine and forfeiture revenues are projected to increase by 1%. He said there is a \$500,000 revenue projection built in for the Technology Fee being proposed by Council and licenses and permits are projected to increase by 1%. Revenue assumptions also include transfers from water and wastewater utilities (5% of their revenue); transfers from the Capital Fund for capital outlay expenditures; cost allocation charges based on costs of central services provided to utilities; increased administrative charges to the University North Park Tax Increment Finance (UNPTIF) District; an increase in the Room Tax Fund (recently increased from 3% to 5%); and increased revenues from the Campus Corner parking meters are expected in the amount of \$200,000.

Mr. Francisco highlighted General Fund expenditure assumptions. He said salary and benefit expenses budgeted for each position in FYE 2014 are based on negotiated costs that assume merit and longevity cost increases and other related costs. No cost of living adjustment is budgeted in FYE 2015 and salary and benefits costs are assumed to grow 5% overall in FYE 2016 through FYE 2019. Expenditures in services and maintenance and supplies and materials are projected to be below budget in FYE 2014 and are assumed to grow by 1% in FYE 2016 through 2019. Expenditures in internal services are assumed to grow 2% per year in FYE 2016 through FYE 2019. Employee turnover savings are projected to be \$800,000 in FYE 2015. Councilmember Castleberry asked why Mr. Francisco believed the projected turnover savings will be so much more than the \$300,000 assumed in FYE 2014 and Mr. Francisco said employee turnover is expected to be very low and the City believes assumptions on benefits and salary costs will be accurate. Councilmember Castleberry said some of those savings assumptions are based on unfilled positions, but if the positions are filled the savings will not be there. Mr. Francisco said the City is anticipating fewer turnovers in FYE 2015 and that is when those assumptions are being made in the budget.

Mr. Francisco said some big changes expected in the General Fund budget in FYE 2015 include an added information Technology Department (IT) with adjusted staffing; adjusted Fleet Maintenance staffing; adjusted Animal Welfare staffing; revenue enhancements; and an ongoing gap between revenues and expenditures. Mr. Francisco said the IT is currently budgeted in the Finance Department and the City Manager wants IT to become its own department, which will require some staffing adjustments. He said Fleet Maintenance will be adding two emergency vehicle technicians who will work strictly on emergency vehicles and Animal Welfare will be changing the part-time kennel attendant position to a full-time kennel attendant. Mr. Francisco said the revenue/expenditure gap is currently approximately \$1,184,895 and needs to be addressed. Councilmember Castleberry said this is the lowest gap amount the City has seen so far so the City is narrowing that gap.

Councilmember Castleberry asked if an Internal Auditor position is still being considered and Mr. Francisco said not at this time because any positions added would exacerbate the gap. He said an Internal Auditor position would be a six figure position. Mr. Lewis said there are other things that will have to be dealt with on this issue such as reporting responsibility, which is currently set forth in the Charter. Councilmember Kovach said this is a position that Council recommends and suggested the Charter Review Commission (CRC) be charged to look at the Charter and make recommendations. Mayor Rosenthal said if there is a preferred way to look at this position and a Charter revision is needed, then it makes sense to have the CRC review this and offer a recommendation such as the reporting relationship. Mr. Lewis said Staff is currently working on options for Council on this position.

Councilmember Heiple asked if the City has software that tracks the probability of success of the budget assumptions and Mr. Francisco said no, but the City does have the ability to track how well these assumptions have historically worked.

Mr. Francisco said the City has always had a total requirement for fund balance reserves of 8%. He said per the Rainy Day ordinance, 3% is to be maintained as operating reserve in the General Fund balance, 3% is a minimum reserve to be maintained in the Rainy Day Fund, and 2% is reserved for allocation or appropriation to an emergency reserve account in the General Fund. Mr. Francisco said there is no assumption in the FYE 2015 budget for a contribution to the Rainy Day Fund from the Public Safety Sales Tax (PSST) or the General Fund, but mid-year, Council can review whether or not they want to make a contribution to the fund. Councilmember Kovach thought the Finance Committee had recommended a continual PSST pro-rata percentage contribution and Mr. Francisco said Council can direct that, but it is not assumed in this budget and neither is the General Fund contribution to the Rainy Day Fund. Councilmember Castleberry asked why the PSST percentage would not be assumed in the budget when Council discussed that being done. Mr. Francisco said Council can amend the budget document if they desire. Mayor Rosenthal said if Council wants the PSST contributions to the Rainy Day Fund included in the budget assumptions, Staff needs to know and Councilmembers agreed they wanted the pro-rata share of the PSST to the Rainy Day Fund to be shown in the budget.

Mr. Francisco discussed options on closing the General Fund gap. He said the City can continue to be prudent in its financial management using stop-gap measures. He said all possible revenues have been added to the General Fund. He said a Stormwater Utility Fee needs to be implemented not only to allow the City to do a better job of managing stormwater run-off and improve water quality, but to bring in revenue as well. He said the City can reduce the apportionment amount to the UNPTIF Fund, but the downside would be no new projects could be done after current projects are completed. Councilmember Kovach said projects can be done through bond money or capital funds. He said one way to visualize this discussion is to think of the UNPTIF as a credit card for the City because the City is paying for projects based on future revenues of the UNPTIF and the more the credit card balance is run up, the longer it will be before money flows back into the General Fund at 100%. Mayor Rosenthal asked if the Robinson Interchange project would be affected and Mr. Francisco said no, that project is currently budgeted. Councilmember Williams asked where in the budget document does it state that certain projects are budgeted and Mr. Francisco said in the capital outlay section. Councilmember Castleberry asked for a list of projects that would not be done in the UNPTIF because some of them may not be justifiable or worth doing anymore and Mr. Jeff Bryant, City Attorney, said Staff would have a UNPTIF update for Council next week. Ms. Joy Hampton, [The Norman Transcript](#), asked if other entities involved in the UNPTIF would have to be notified of a change in financing and Mr. Bryant said yes, there is a process to follow for any changes.

Mr. Francisco said the City of Norman is lean and mean with its finances and Norman's government is small compared to other cities. Mayor Rosenthal said Norman is compared to the City of Moore quite a bit and while the graph shows Moore has fewer employees than Norman, Moore pays more on per capita expenditures because they contract a lot of services.

Mr. Francisco discussed the Net Revenue Stabilization Fund Policies/Assumptions. He said the Rainy Day Fund balance is \$2,541,653 and \$363,487 of that allocation has been spent for debris removal due to the ice storm. He said the City is assuming the remaining balance of \$870,590 will not be spent. He said the Rainy Day Fund is at its minimum level and has exceeded it by \$500,000 and is below its targeted level of \$522,084. Mayor Rosenthal said if the prediction is that the emergency reserves will not be used in FYE 2015, it would be prudent to make a deposit to the Rainy Day Fund.

Mr. Francisco quickly summarized the PSST Fund balance. He said existing PSST I Funds will continue to fund the original 71 positions through FYE 2016. He said at the end of FYE 2016 there will be a remaining balance of \$3.9 million. He said the voters approved an extension of the PSST, which will be effective October 1, 2015, and Staff is assuming PSST I pays for the 71 positions through that fiscal year so there will be \$5 million collected between the beginning of PSST II and the end of FYE 2016. He said that balance plus the remaining balance from the PSST I will be applied to the first of the critical capital replacement needs. He said the PSST II mandates the addition of 13 School Resource Officers (SRO), four dispatchers, and two emergency vehicle mechanics which will be phased in over a period of years. After personnel is in place and capital replacements

needs have been completed, 3/8% of the PSST will become a General Fund revenue source to pay for personnel related to emergency needs and 1/8% will become a Capital Fund revenue source to pay for support items such as vehicle replacements related to emergency needs. Councilmember Kovach asked the growth rate of the PSST and Mr. Francisco said 2.2%.

Special Revenue Funds

Mr. Francisco highlighted other special revenue funds that include Special Grants Fund; Room Tax Fund; Seizures and Restitution Fund; CLEET Fund; Art in Public Places Fund; and Westwood Fund. He said the only grant the City budgets for is the Driving Under the Influence (DUI) annual grant. He said there are other grants, but they are not budgeted because they are not a sure thing until they happen. He said the 5% Room Tax Fund is split between Arts and Humanities (25%), park capital projects (25%) and Convention and Visitors Bureau (50%). The Seizures and Restitutions Fund accounts for funds related to items seized from criminal activities. The CLEET Fund comes from a dedicated source of revenue on all citations issued and is used for training Court and law enforcement officers. Art in Public Places Fund is an ongoing donation source of revenue for public arts and the Westwood Fund is a special revenue fund for the activities at Westwood Park. Councilmember Kovach asked if additional Room Tax Fund is earmarked for a particular purpose in the budget and Mr. Francisco said no specific projects have been identified, but \$370,000 is projected for capital projects. Mr. Jud Foster, Director of Parks and Recreation, said proposed projects for FYE 2015 include youth tennis courts at Westwood, recreation center improvements, and Saxon Park upgrade. Councilmember Williams asked what improvements are scheduled at the recreation centers and Mr. Foster said air conditioning replacements at Irving, Whittier, and 12th Avenue Recreation Centers.

Mr. Francisco said some major budget issues for FYE 2015 and beyond consist of a projected ongoing shortfall in General Fund Net Revenue; social service agency funding; PSST II implementation; I-35 corridor construction; UNPTIF apportionment; implementation of Stormwater Utility Fee; Utility Enterprise Capital Improvement Projects and Operations Funding; and long term realignment of resources and program priorities. Mr. Francisco said the Finance Committee increased social service agency funding, froze agency utility contributions, and authorized 2% emergency allocation to be used for emergency sheltering. Mr. Francisco said the I-35 corridor construction will impact businesses which will in turn impact the City's General Fund. Councilmember Kovach said the Main Street Interchange allowed one lane to be open east and west, but Lindsey Street will not be able to have that feature and wondered if a request could be made to the Governor to help transport citizens around the construction area similar to what the Governor is doing for Lexington/Purcell's bridge closure. He said although closing the bridge on Lindsey Street is not a disaster, it is a special circumstance. He said this would help businesses on both sides of the bridge. Mr. Lewis said Staff is preparing information to be reviewed by the Business and Community Affairs Committee (BACA) for ways to expedite construction and what can be done to make life a little more tolerable for the merchants that will be affected by the construction.

Mr. Francisco said future budget sessions include Enterprise Funds on April 29th and the Capital Fund on May 6th.

Ms. Gala Hicks, Human Resources Director, provided a brief update of collective bargaining requests that could impact the budget. She said the Fraternal Order of Police (FOP) is requesting a 5% across the board wage adjustment; a longevity pay increase from \$3.70 to \$7.40; an increase in comp time accumulation from 160 hours to 240 hours and allow sell back of hours up to 80 hours per year; assignment pay paid using hourly rate instead of a fixed amount; add CLEET intermediate and advanced certification incentive pay; and add interpreter pay.

Ms. Hicks said the International Association of Firefighters (IAFF) is requesting an across the board base wage adjustment (a currently undecided amount); pay all incentive leaves while on OJI (On the Job Injury) leave; increase longevity pay from \$3.70 to \$6.00 per pay period times the numbers of years of service; and sick leave buy back.

Ms. Hicks said the American Federation of State, County and Municipal Employees (AFSCME) is requesting a two year contract with a 3% across the board base wage adjustment each year; pay for vacation hours accrued over the maximum accumulations instead of losing the hours; allow employees to keep all fees received for jury duty; increase pay for cell phones and pagers from \$.70 to \$1.00 per hour; pay all incentive leaves while on OJI leave; pay employees for all hours working out of class with no minimum hours; and change current defined contribution plan to a defined benefit plan that pays employees 50% of salary after 20 years of service.

Ms. Hicks said bargaining is in the early stages and there will be a lot of changes within the next six weeks. She said many factors are unknown at this time.

Councilmember Castleberry said the total, without fire, is approximately \$2 million so if all requests are met, asked if this would be a one-time deal or would it carry on each year and Ms. Hicks said it would carry on. Councilmember Kovach said it has been awhile since the City has had a two year contract and asked how that worked under the Municipal Budget Act and Mr. Bryant said there could be a clause in the contract that allows the contract to continue year after year provided funding is appropriated by City Council on each contract renewal date. If it is not appropriated, then all parties go back to the bargaining table. Ms. Hicks said the FOP has mentioned a two year contract, but has not put anything in writing.

Items submitted for the record

1. PowerPoint presentation entitled, "City Council Fiscal year 2014-2015 Budget Study Session," dated April 15, 2014
2. Collective Bargaining Update FYE15 Economic Proposals as of April 15, 2014 – Fraternal Order of Police (FOP)
3. Collective Bargaining Update FYE15 Economic Proposals as of April 15, 2014 – International Association of Firefighters (IAFF)
4. Collective Bargaining Update FYE15 Economic Proposals as of April 15, 2014 – American Federation of State, County and Municipal Employees (AFSCME)

The meeting adjourned at 7:15 p.m.

ATTEST:

City Clerk

Mayor