

CITY COUNCIL STUDY SESSION MINUTES

June 4, 2013

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 Conference Room on the 4th day of June, 2013, 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, Jungman, Kovach, Lockett, Williams, and Mayor Rosenthal

ABSENT:

Councilmembers Gallagher and Spaulding

Item 1, being:

CONTINUED DISCUSSION REGARDING THE FYE 2013 CITY OF NORMAN BUDGET AND THE FYE 2014 CITY OF NORMAN OPERATING AND CAPITAL BUDGETS.

Mr. Anthony Francisco, Finance Director, said Council directed Staff to make the following amendments to include:

1. General Fund allocations for employer contributions to the Oklahoma Firefighters Pension System be increased by \$107,500, and Public Safety Sales Tax (PSST) allocations be increased by \$10,875;
2. University North Park Tax Increment Finance (UNPTIF) Fund expenditure allocations be increased \$127,275, for an inter-fund transfer to the General Fund to offset administrative costs, and that General Fund inter-fund transfer revenues be increased by \$127,275;
3. As permitted by City Legal opinion, PSST Fund expenditure allocations be increased by \$1,031,330, for an inter-fund transfer to the Net Revenue Stabilization Fund, and that Net Revenue Stabilization Fund inter-fund transfer revenues be increased by \$1,031,330;
4. PSST Fund expenditure allocations be increased by \$339,291, for a one-time inter-fund transfer to the General Fund to offset costs of the emergency communications function.
5. \$1,156,150 of the \$3,708,020 budgeted for the PSST Fund Capital Expenditure allocations be reduced from the FY14 Budget and programmed in FY15 to pay for programmed fire equipment replacements over a two-year period;
6. The Community Development Block Grant (CDBG) expenditures and revenues be reduced by a total of \$37,517, with \$6,679 for the CDBG program and \$30,838 for the HOME program. The reduction in the CDBG funds will reduce the allocation for housing rehab and the reduction in the HOME funds will give us less to utilize to leverage other funding to develop affordable housing; and
7. Grammatical and typographical corrections to the Budget documents, with no financial impact, be made as necessary.

Councilmember Kovach said if Council approves the proposed administrative fee for the UNPTIF, is Council limited to that specific amount should the numbers change, i.e., the formula will be applied to whatever number comes through on the budget, etc., and Mr. Francisco said that is an option Council can choose. Mr. Francisco said Council directed Staff to budget 3%; therefore, Staff applied 3% to the revenues from the UNPTIF. He said if the amount of the actual revenues change at the end of the year an additional appropriation could be presented as an agenda item for Council consideration at that time. Mayor Rosenthal stated any "trueing up" transfers and/or appropriations will come at the end of the fiscal year and Mr. Francisco said that is correct.

Mayor Rosenthal asked if Council had additional budget amendment proposals to discuss. Councilmember Castleberry said he would like to discuss a 2% across the board reduction to the budget and/or other ways to close the difference between the Fund balance and Overages and Expenditures. Mayor Rosenthal reminded Council this proposal would be approximately \$490,000 in personnel costs; \$420,000 in supplies, materials, and vendor services; \$86,000 in overtime; \$27,760 in consultant services; and \$27,000 in travel and training. Councilmember Castleberry asked if the overtime allocations could be cut without cutting personnel and Mr. Steve Lewis, City Manager, said cutting the overtime would cut some personnel and impact Staffing by making Staff/services tighter in terms of weekend inspections, overtime during the storm disasters, etc.; however, the emergency reserve could be utilized to cover overtime for storm disasters.

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Item 1, continued:

Councilmember Castleberry said he did not want to impact Staffing or services, but felt the City needed to tighten its belt but cutting supplies, materials, vendor and consultant services, travel, and training. He is hopeful once the final numbers are in that the General Fund balance is higher than projected so that those cuts could be put back into the budget as a mid-year supplement. Mayor Rosenthal said she is concerned with cutting the travel and training because the monies are set aside for job requirements such as certifications and recertification. She said it was suggested to have the employee pay for training, but she felt that is not reasonable. Councilmember Castleberry suggested Council could look at each travel and/or training issue on a case by case basis and do a special budget allocation versus pre-approving a lump sum. Councilmember Kovach asked for the dollar amount tied to required training and Mr. Lewis said he did not know the exact figure, but Staff will bring back information on the required and/or non-required amount(s) to the next Council meeting. Councilmember Kovach said he could support removing the travel and training expenditure from the budget; however, he would like to at least have a discussion if there is a certain amount of training that is required in order to determine whether or not the expenditure must be left in the budget.

Councilmember Jungman asked what specific items would be cut if reducing \$420,000 in supplies, material, and vendor services and Mr. Lewis said street sweeping, outside legal assistance, and a reduction in asphalt supplies to name a few. Councilmember Jungman said he did not like the idea of the City foregoing a pavement project because of reduced asphalt supplies. Councilmember Castleberry said if asphalt supplies were needed for a paving project then Staff could request a special budget amendment. Councilmember Kovach said another option is for Council to review budget numbers and, if necessary, add back in those items at the mid-year budget review in January 2014. Councilmember Jungman felt this particular expenditure item could be left in the budget; stating the City Manager could safe-guard the expenditure, making certain the City is not spending the supplies, material, and vendor services on things that are not needed. He felt the outcome is the same; however, the procedure would take fewer steps. Councilmember Castleberry felt the process is not the same because one issue is a pre-approval and one is a subsequent approval.

Councilmember Jungman asked whether or not the City spends all the expenditure simply because it is pre-approved and Mr. Lewis said historically the City has underspent the budget appropriations. He said every budget year the overall efforts are to get closer to the precise budget that is necessary and felt a reduction of this particular expenditure could have an impact and possibly less maintenance on some roads; however, he felt Council will not see drastic service reductions. Mayor Rosenthal asked Mr. Lewis if he was comfortable with eliminating the supplies, materials, and vendor services expenditure and Mr. Lewis said eliminating this expenditure will have a definite impact on items previously requested by Council such as contracting street sweeping; however, Staff can bring back a proposed list of specific service reductions/cuts for Council input. He said over the last two or three years Staff has continued to squeeze a majority of the reductions from the budget, particularly in the materials and vendor services because Staff understands Council wants to keep the personnel providing the services. Mr. Lewis felt this expenditure could be absorbed a little more; however, at some point he felt the solution will be to cut services. Mayor Rosenthal suggested Staff bring back a more itemized list of what supplies, materials, and vendor services actually represents and said while she appreciates the motivation behind the proposal to reduce expenditures, she felt it is Council's job to look at the services in order to respond accordingly.

Councilmember Castleberry felt Council needs to keep in mind that the revised budget is still projecting a \$2.5 million loss, i.e., the City is planning on spending \$2.5 million more than the revenue being brought into the City. He said this will be the seventh consecutive year to do this type of budget planning and will leave the City with \$1.2 million in Fund Balance.

Councilmember Jungman said there is a path to financial stability and felt the budget as written is a stepping stone on that financial stability path. He said additional aspects of the financial stability path will come later and/or some will come very soon; however, cutting asphalt material and/or services out of the budget does not get the City any further down the financial stability path. Councilmember Williams disagreed and felt eliminating \$420,000 from the budget will help the City move further along the financial stability path.

Councilmember Kovach said some cities have incentive programs for their employees to come up with cost saving measures and sometimes people working on the front line(s) have the best idea(s) of how to save money without affecting the job. He felt this issue could be discussed further at a future Finance Committee meeting.

Item 1, continued:

Mr. Francisco provided pro forma fund summaries as they would appear if these amendments (and no others) were approved by Council as well as information related to the Railroad Corridor Quiet Zone capital project discussed at the May 7, 2013, Study Session. Councilmember Kovach said the City could come up with a policy that when/if projects comes in under budget, the under budget funds are transferred in an account that could assist in funding the Railroad Corridor Quiet Zone, as well as other needed capital projects.

Items submitted for the record

1. Memorandum dated May 30, 2013, from Anthony Francisco, Finance Director, to Honorable Mayor and City Councilmembers with proposed General Fund 10, Fund 11 Net Revenue Stabilization Fund (Rainy Day Fund), and Fund 15 Dedicated Public Safety Sales Tax summaries and map of the Railroad Corridor Quiet Zone Capital Project

Item 2, being:

UPDATE ON THE UNIVERSITY NORTH PARK TAX INCREMENT FINANCE DISTRICT.

Mr. Jeff Bryant, City Attorney, provided an update on activities in the University North Park Tax Increment Finance District (UNPTIF). He said the Project Plan components include: Conference Center/Cultural Facilities (Rock Creek Overpass), Traffic and Roadway Improvements, Economic Development – Quality Jobs, Lifestyle Center, and Legacy Park.

Hotel Conference Center/Cultural Facilities/Rock Creek Overpass

The original allocation was \$15 million and had a contingency of \$1.5 million. Mr. Bryant said the Hotel Conference Center opened in October 2008 and the City ended up not spending any of the allocation for the conference center. He said the City formed an agreement with both the developer and John Q. Hammons which allowed \$7.75 million of the original allocation to go towards the Rock Creek Overpass with the remaining \$7.25 allocation for Cultural Facilities. Mr. Bryant said the Rock Creek Overpass Project (bridge and Rock Creek/24th Avenue N.W. intersection) opened September 2011 and had a total cost \$12,696,922. He said the Oklahoma Department of Transportation (ODOT) paid \$4,000,000, and Association of Central Oklahoma Governments (ACOG) paid \$2,932,444; therefore, the actual TIF expenditure was \$5,764,478 and the \$2.5 million of the \$8.75 million balance was reallocated to Legacy Park per Development Agreement #5.

Traffic and Roadway Improvements

The traffic and roadway improvements had an allocation of \$11.55 million and \$5.29 million has been expended leaving a balance of \$6.29 million allocation remaining. Traffic and roadway improvement TIF projects completed through 2011 include:

- Robinson Street and 24th Avenue N.W. intersection: \$675,000 expenditure;
- Robinson Street at East I-35 Drive: \$287,742 expenditure;
- Tecumseh Road at Flood Street and 24th Avenue N.W.: \$238,973 expenditure;
- Mount Williams and 24th Avenue N.W. intersection (substituted for Rock Creek Intersection): \$328,585 expenditure;
- Frontage Road to Conference Center Drive (.6 miles): \$659,305 expenditure was paid from accumulated revenues in June 2008;
- Conference Center Drive and 24th Avenue N.W. intersection: \$525,797 expenditure;
- Legacy Park and 24th Avenue N.W. intersection: \$722,770 expenditure; and
- Robinson Street and East Interstate Drive (northbound): \$1,851,138 expenditure which originally was \$2.87 million less ACOG funding of \$1.02 million.
- The total updated allocation is \$16,500,000; total actual TIF expenditures is \$5,764,478; and 35% of the Tax Increment Finance (TIF) Projects are 35% utilized and 53% remains for the Cultural Facility.

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Item 2, continued:

The remaining traffic and roadway improvement TIF projects are estimated to cost \$6.21 million. Mr. Bryant highlighted the remaining traffic and roadway improvements and said a portion of some of the second priority improvement (*) are funded through other mechanisms to include:

First Priority

Frontage Road Extension:	\$1,525,000
Design of Robinson Street/West Interstate Drive and Crossroads Boulevard:	<u>\$ 200,000</u>
TOTAL	\$1,725,000

Second Priority

Tecumseh Road/Flood Avenue and *Tecumseh Road/24 th Avenue N.W. intersections:	\$ 846,712
*Tecumseh Road/East I-35:	\$ 946,723
*Tecumseh Road/West I-35:	\$ 650,000
Robinson Street/West Interstate Drive and Crossroads Boulevard:	\$1,110,583
Remaining intersection:	<u>\$ 200,000</u>
TOTAL	\$3,754,018

Mayor Rosenthal said she would like to see aesthetic enhancements to the Robinson Street bridge retro-fit and the Tecumseh Road bridge retro-fit included as future TIF projects, stating both bridges are part of the nine bridges over I-35 that are being re-done. She said both bridges are in the TIF District, are currently not in the capital budget, and felt it would be very appropriate to include them in projected figures for the remaining traffic and roadway improvements. Mr. Shawn O'Leary, Director of Public Works, said each bridge would have a \$500,000 cost, stating the design work has already been done for the bridges.

Mr. Bryant said there is only \$50,000 of TIF revenue left for traffic and roadway improvements, but Staff continues to seek ACOG funding and other revenue sources; therefore, there could be a possibility that the TIF funding for traffic and roadway improvements could be used for enhancements. He said if another TIF Project Plan component is finished and TIF revenues are remaining they could be redirected at Council's discretion for TIF enhancements. Councilmember Kovach said he would support the Mayor's recommendation for both bridge enhancements, but reminded Council that the longer the City continues to spend more money on TIF projects, the longer it will be before the TIF funding gets diverted to the General Fund.

Mr. Bryant said there is also component of the project plan that provides any expenditure in excess of \$11.55 million for the targeted roadway improvements are actually the responsibility of the developer. He said Council needs to be very cognizant about completing the project plan component(s) for traffic and roadway improvements and any excess may be the developer's responsibility.

Economic Development

An Enterprise Zone in reference to land located in UNP was introduced for economic development and allocated \$8.25 million to help create Quality Jobs. One component of economic development was the opportunity for Norman Economic Development Coalition (NEDC) to buy up to 60 acres of land at a reduced cost. NEDC purchased 30 acres for six (6) building business park on October 15, 2010, and is currently working on purchasing the remaining 30 acres.

Mr. Bryant said another component provides an additional 40 acres to be offered at market value. Councilmember Kovach said there was a condition on the land purchase regarding the timeframe for development before it reverted back to the Foundation and Mr. Bryant said that particular condition is in the purchase agreement and thought it was 10 years but will double check.

Item 2, continued:

Mr. Bryant said the NEDC land purchase had a funding source of 10% TIF sales tax; however, NEDC borrowed money from their own lender and the City used the 10% TIF sales tax as a pledge of economic development portion up to \$800,000 in FYE 2011. Mr. Bryant said the accumulated money will be used as a credit enhancement that will use the funding for interest costs while NEDC works towards getting their first purchaser.

Mr. Bryant said Council did a similar authorization for the second 30 acres that allowed a pledge of accumulated economic development TIF revenues, (approximately \$700,000) through December 2012, which allowed NEDC to combine both notes allowing NEDC to purchase the second 30 acres for an Industrial Park. He said NEDC is also working very aggressively on the financing and received an Economic Development Authority (EDA) grant in the amount of \$2.5 million that will assist in funding some of the Industrial Park infrastructure. Mr. Bryant said NEDC also has a commitment for industrial access money in the amount of \$275,000 and there is the possibility that the Oklahoma Development Finance Authority (ODFA) may offer NEDC flexible financing at low interest rates. He said NEDC did pledge that once the land purchases were made they would reimburse the City for any TIF expenditures that occurred for economic development.

Mr. Bryant said incentive funding includes a debt authorization in the amount of \$8.25 million which was approved in September 2010. He said those notes were issued to NEDC in June 2011 and have draw features to assist the prospects of quality jobs employers, whether office park users or manufacturing projects. No debt has incurred but it is ready in case a potential quality jobs employer is ready to move forward.

Retail Development

Mr. Bryant said the focus for retail development includes facilitating the creation of a retail environment that will be a regional draw for retail customers coming to Norman and designed to complement retail stores that are located outside the UNPTIF Project Area. He said there are two phases to the retail development: west side of 24th Avenue N.W. – Power Center (Target) and east side of 24th Avenue N.W. – Lifestyle Center.

Phase I retail development (west side of 24th Avenue N.W.) already includes several restaurants and retail stores such as Logan's Roadhouse, Cheddars, Qdoba, Pei Wei, Target, Mathis Brothers, TJ Max, Metros shoes, Petco, Academy, and Kohl's. Staff said Designer Shoe Warehouse (DSW), Home Goods, and Michael's will be coming soon and Phase I has an investment of approximately \$60 million in real property so far.

Phase II retail development (east side of 24th Avenue N.W.) has approximately \$4 million in real property investment to date and includes several restaurants and retail stores to include Zios, Five Guys, Chipotle, GNC, Earth Fruits, Starbucks, Sleep Number, Mattress Firm, and Games Stop. Zoe's Kitchen and Crest Market will be coming soon.

Lifestyle Center

The Legacy Village Center/Lifestyle Center provides an additional \$8,250,000 in incentives to help bring forward some retail anchors. Mr. Bryant said a revised layout was presented to Council in 2012, which includes an iconic entry tower and ongoing recruitment efforts are still being conducted by the developer. He said originally the Lifestyle Center had a completion date of January 2016; however, the completion date was revised in Development Agreement #5 and is now to be substantially completed by January 1, 2018. Councilmember Jungman asked what is envisioned as incentives and Mr. Bryant said the incentives are for potential retailers and will relate to public improvements and/or public buildings to include assisting with street improvements, parking lot improvements, etc. He said in the retail development process there may be occasions when Council will need to weigh incentive components and decide whether or not the incentive would be a wise and worthwhile investment for the community. Mr. Bryant said the Project Plan includes criteria in which retailer(s) must qualify for incentives. Mayor Rosenthal said there are criteria within the original project plan for a threshold before incentives can be applied and they must be public improvements.

Item 2, continued:

Legacy Park

Legacy Park project has an \$8.25 million allocation which will assist with park construction, enhanced landscaping, Legacy Trail, and public art. The final design was completed in the Fall of 2009 and was an American Society of Landscape Architecture – Central States Design Honor Award Recipient. Construction began March 2013 and the anticipated opening is scheduled for Summer 2014. Mr. Bryant said Legacy Trail is an extended sidewalk and will be 10 feet wide along the east side of 24th Avenue and eventually cross over I-35 at Rock Creek Road. He said the sidewalks will be constructed as parcels development and include enhanced landscaping.

Project Plan Progress Summary

Mr. Bryant summarized the Project Plan highlighting the total expenditures, allocation, and remaining funds for each Project Plan component. He said a total of \$54.725 million was allocated and \$42.07 million remains after spending \$12,754,844 to date. Mr. Bryant said Development Agreement #5 moved \$2 million in TIF funding, which was remaining after the Hotel/Conference Center was completed, to the Rock Creek Bridge Project which ended up being relocated to the Legacy Park Project. He said part of the motive was to be flexible in the Project Plan since the City came in lower on the Rock Creek Bridge Project and relocating the funds will help to complete Legacy Park as envisioned.

Mr. Bryant said a Cannibalization Study was done in December 2008 and found that new retailers operating within the UNP TIF Project area have not cannibalized existing retail sales in Norman. He said the study found new retailers have served to diversify and strengthen Norman's retail base, improving the City's retail drawing power, creating improved synergy among similar retail categories, and generating increased retail sales. Councilmember Jungman said the study also suggested reducing the transfer adjustment if a new business comes into the empty building (located outside the TIF area). Mr. Anthony Francisco, Finance Director, said the procedure was passed by resolution. Councilmember Kovach asked Staff to bring back information regarding the impact on the General Fund when cutting the backfill/transfer adjustment. Allocation of sales tax receipts generated in the TIF District from October 2006 to March 2013 was \$30,074,504 and \$7,089,285 was transferred to the General Fund; leaving the net TIF generated sales tax at \$22,985,219. Mr. Bryant said the transfer adjustment was designed for existing Norman businesses that relocated to the TIF area. The transfer adjustment process includes taking record of any sales tax that was generated before the business relocated and using that figure as a base. The base amount is then taken out of the total sales tax generated by the business after relocating to the TIF area and transferred to the General Fund.

Mr. Bryant highlighted the projected and actual sales tax generated in the TIF District from October 2006 to December 2012 as follows:

	<u>Projected</u>	<u>Actual</u>
• Total Sales Tax generated in the TIF	\$ 28,811,495	\$ 28,517,688
• Project Plan Components (60%)	\$ 10,380,233	\$ 12,675,438
• General Fund (40%)		\$ 9,081,935
• Transfer Adjustment to General Fund		\$ 6,760,315
• Total to General Fund	\$ 18,431,262	\$ 15,842,250

UNPTIF ad valorem revenues cumulative through 2013, (properties built by December 31, 2011, assessed in 2012, and taxes payable in 2013) total \$7,133,828 and the TIF portion (50%) totals \$3,566,914. The collected total ad valorem revenues are 14.5% or approximately \$1 million above the projected ad valorem revenues. Councilmember Kovach asked what the City can do to better anticipate the growth in ad valorem tax. Mr. Bryant said one of the best things the City can do is step up the coordination with the Cleveland County Assessor by gathering the assessment information at an earlier stage for budgeting purposes; however, the process for assessing, protesting, paying, and collection etc., can take a year and half to two year before the City gets its collection. He said another unpredictable issue depends on when the business pays their property taxes, e.g., there is an option to pay it all at the end of December or pay only half at the end of December with the remainder due the following March.

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Item 2, continued:

The 2009 TIF note was a \$14.56 million debt authorization, which included \$6,575,153 in initial draws for the Rock Creek Bridge; Legacy Park design; Rock Creek and 24th Avenue N.W. intersection; Legacy Park and 24th Avenue N.W. intersection design; and \$825,000 in principal payments leaving a note balance of \$5,750,153. The final draw of \$7,984,847 will be used for Legacy Park construction and Legacy Park and 24th Avenue N.W. intersection.

Mr. Bryant said the TIF note balance of \$13,735,000 will be refinanced in September 2013. Councilmember-Elect Heiple asked if the downside to having the Foundation as a lender is that the City has to jump through more hoops than traditional financing and Mr. Bryant said overall, the City has had a good working relationship with the Foundation. The City only had to pay interest on the draw amount of \$5.6 million versus paying interest on the entire \$14.56 million; therefore, the interest savings for the City was significant.

Mr. Bryant said the anticipated TIF note refinancing structure include terms of 10, 12, or 15 years with a fixed rate below 3.5%. The principal amount will not be more than \$13,735,000 and amortization includes analyzing the timing of cash needs to minimize future borrowing.

Mr. Bryant said the current structure has 15 years left on the repayment period, with escalating principal payments, next principal payment will be \$450,000 and a balloon payment will be due in 2028. He said the whole purpose of the note structure is to be an encouragement to the City to go get permanent financing as we got closer to the refinance date. Staff will be bringing a refinancing package for Council's consideration in July or August 2013 which will give the City a lower interest rate and possibly a lower term.

Councilmember Kovach asked what the cash reserve is after expenditures and Mr. Bryant said some of the cash reserve is obligated; however, Staff will include the cash reserve and cash analysis need when it comes back to Council in July. Councilmember Castleberry asked if the cash reserve is factored into the rate allowing the City to get a better rate and Mr. Bryant felt the lender would take the overall security of the cash flows and reserves into account.

The next steps and future actions include:

- Explore permanent financing to be completed by September 2013;
- Complete Legacy Park construction;
- Construct entryway at 24th Avenue N.W. and Robinson Street;
- Frontage Road extension and design – west of I-35;
- Begin Exhibit Hall/Cultural Facility discussions; and
- Continue efforts to obtain quality jobs employers.

Councilmember Williams asked if the Frontage Road Extension and Design of West of I-35 Project would be under one contract and Mr. O'Leary said the project will have two contracts, one for the design and one for the construction. He said Staff will present an alternative design for the Robinson interchange improvements west of I-35 for Council's consideration in July 2013.

Items submitted for the record

1. Powerpoint presentation entitled "FYE 2014 Capital Improvement Projects Budget and FYE 2015-2018 Capital Improvements Plan (CIP)"

The meeting adjourned at 6:53 p.m.

ATTEST:

City Clerk

Mayor