

## CITY COUNCIL CONFERENCE MINUTES

June 13, 2017

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a conference at 5:00 p.m. in the Municipal Building Conference Room on the 13th day of June, 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 Allison, Castleberry, Chappel, Clark, Heiple, Hickman, Holman, Karjala, Mayor Miller

ABSENT: None

Item 1, being:

### DISCUSSION REGARDING THE ISSUANCE OF REVENUE BONDS IN THE AMOUNT OF \$30,950,000 FOR THE NEXT PHASE OF NORMAN FORWARD PROJECTS.

Mr. Anthony Francisco, Finance Director, said Norman Forward was first voted on by the citizens and voters in order to move projects forward faster with the accumulated sales tax collections. He said it was always anticipated there would be some debt issuances to finance the projects as they have moved forward. He said it was assumed there would be at least three different debt issuances or tranches debt. He said the first debt financing of approximately \$43 million in December, 2015. He said this is the second debt financing and a request of proposal was sent to qualified banking firms and the responses came back this morning. He said basically these bids are for the lowest interest rate for the 13-year maturity of Norman Forward Sales Tax notes of 2017. He said this financing will pay for the construction, furnishings, and equipment for the Central Branch Library. He said bids were taken for about \$29 million for the project plus three to four million dollars' worth of furnishings, computers, and equipment. He said they estimated this tranche to be about \$35 million and this proposal is less than \$31 million, which is good news because less interest costs over the life of the bonds is expected. The interest rate on this financing was projected to be approximately 3% and the recommended proposal received is from JP Morgan Chase at a rate of 2.4%. He said JP Morgan Chase gave two options, option one was for Non-Callable at 2.33% and option two is the Call Option at 2.4%. He said the Call Option gives the Norman Municipal Authority (NMA) the right to repay the bonds in advance of when they would mature and if repaid the NMA would stop paying interest at that point. He said JP Morgan Chase has given them a 7-year call which means in 2024 and any time after that, the NMA could call these bonds and repay them in advance of the 13-year maturity and save some interest costs. He said staff thinks that Call Option is valuable. He doesn't know where the NMA will be seven, ten, or twelve years from now in their ability to repay the bonds, but it would be nice to have the flexibility to do so if the financial capability is there. He said the difference between 2.33% and 2.4% is about \$194,000 and that is worth the cost. He said staff's recommendation is to go with the JP Morgan Chase option two, 2.4% proposal. He said the coverage ratios are very good and they have had an excellent experience with the first tranche. He thinks the third tranche will be issued about two years from now, when the NMA needs the money. He said the third tranche will pay for the Griffin Park construction of the soccer facilities, the baseball and softball facilities at Reaves Park, the indoor multi-sports facility, the indoor aquatic facility, and basically everything else that is projected to be paid for with bonds will be done in that third tranche. He said the third tranche should be about \$37.5 million. He asked if there were any questions and

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said again this is a preview of things to come at the meeting and he will be making this same presentation for Items 22 and 23.

Councilmember Clark asked how you spell “tranche”.

Mr. Francisco said “tranche” is a French word spelled T-R-A-N-C-H-E. He said it is not listed in the Webster’s Dictionary, but you can Google it and it basically means portion.

Councilmember Clark asked if the third tranche was estimated \$37 million. Mr. Francisco said \$37.5 million.

Councilmember Holman said he understands these are the low rates, but were there any local banks in the State of Oklahoma that put a bid in? Mr. Francisco said proposals were solicited to all of the local banks and regional banks. He said Bank of Oklahoma got the first tranche and because they were extended on that, they didn’t submit a proposal on the second tranche. He said everyone had their chance and participation from Oklahoma banks was certainly encouraged.

Councilmember Heiple asked if the City was going to hold any money back to allow individual citizens to buy \$1,000 to \$5,000 lots versus JP Morgan Chase. Mr. Francisco said citizens can go to JP Morgan Chase and request a purchase on the secondary market. He said the reason that there were such good rates; however, is that JP Morgan made the purchase as an investment for their own portfolio.

Councilmember Allison said since 3% was budgeted and the bid came in at 2.4%, what money will be put in the Norman Forward Budget. Mr. Francisco said it all comes out in the wash, where the City might be saving a little bit in interest costs, but we might be spending a little bit more over there but know that the sales tax revenues are not coming in at the rate projected. He said if you just compare a 3% rate to this 2.4% rate over the life of the 13-year note, the City will probably be saving about \$2.5 million. Councilmember Allison said this is significant so the City probably needs to make sure to show a surplus. He said something may happen between now and two years from now and it is possible the next tranche will be 5%. He said he feels there should be a note made showing the 2.5% savings by getting this better interest rate and it could be used for other projects as needed.

Councilmember Castleberry asked if the Norman Forward budget will automatically be adjusted. Mr. Francisco said yes, staff will build the amortization schedule and update projections for Norman Forward. He said after the first financing, projections were performed and presented to Council and the Citizens Financial Oversight Board, and it will be done again sometime this summer. Councilmember Castleberry asked if this is the budget Council is voting on tonight. Mr. Francisco said the budget being voted on tonight actually is the projected revenues and expenditures for this financial year (FYE 2017). Councilmember Castleberry asked if the FYE 2018 budget would be updated. Mr. Francisco said he would not suggest it be updated. Councilmember Castleberry asked why not. Mr. Francisco said because as we move forward with the projects, all of the revenues and expenditures will be in future year budgets. He said where there were projections of debt service costs in FYE 2018; the amortization of these debt service costs might be a little bit lower than projected. Councilmember Castleberry said that is the reason you update it. He asked if we needed

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to put \$30 million of revenue in there. Mr. Francisco said revenue of about \$35 million is in FYE 2017 and yes, when the budget becomes a reality, the changes will be made and the budget will be updated. He said that it says in the General Fund or the Norman Forward Fund "FYE 2017 Actual" column. He said when the audit is completed for FYE 2017, everything will be updated in that column and those things would be moved forward as Council adopts the FYE 2019 budget. Councilmember Castleberry said when budget to actual is compared; the City will be \$30 million in the hole for revenue, because the tranche wasn't issued until FYE 2018. Mr. Francisco said no, that is why staff is trying to close this before June 30th. Councilmember Castleberry said okay.

Councilmember Hickman said his understanding is that the budgeted revenues and projected revenues have come in less than was predicted. He asked if that is for both FYE 2016 and FYE 2017. Mr. Francisco said FYE 2016 is pretty much right on target. Councilmember Hickman said maybe we don't have all the actuals for 2017 and Council will be voting on FYE 2018 tonight. He said for those that staff have listed, have revenues actually been updated to what the budget was? Mr. Francisco said the revenues that were projected at mid-year sometime around March where we would finish the year were built into the proposed budget. Councilmember Hickman asked if the actuals were in there for the first half of the year. Mr. Francisco said not the actuals; again, the projections for where we would end the fiscal year. He said there is a budget projection and then Council adopted the budget last June, there is the mid-year projection, and then there is a projection for where we think we will be at the end of this fiscal year, which was done around March or April. Councilmember Hickman said what he is trying to understand is if the future Norman Forward projects come forward and trying to do his fiduciary duty as a councilmember, he asks the question is this project within the budget?. He asked if Mr. Francisco is interpreting that to be within the budget of what was projected although we know actuals are lower than budget is it within budget based on the updated actuals that we are aware of and are factored in, because it sounds like the budget is always running a little out of date. Mr. Francisco said the budget is always running a little bit out of date. He said the best thing is to give an example. The Westwood Project that is being done right now has a budget, he believes, of \$11 million for that project originally. The design was done and there are now actual costs associated with the design. He said then the project was built and there is a bid estimate for the project which was plugged into last fiscal year's budget. He said as staff moves forward with construction on the project, they are getting real figures on what the cost will be. He said after any change orders have been approved and as they get to the point where they can close out the project, there will be a line item in the Form 51 Budget for the project. He said, yes, there is always some time lag, but, yes, the actual figures will be before them when they close out those individual projects and as they move forward with future year projections, those figures will be built into those future year projections at their actual cost. Councilmember Castleberry asked if the only number that changes in Fund 51 is the fund balance. Mr. Francisco said the fund balance is affected by revenue and expenditures. Councilmember Castleberry said from a different standpoint the beginning fund balance is projected to be what they think they are going to spend and then they get the actual number, and adjust the fund balance in the budget. Mr. Francisco said that is exactly right.

Councilmember Hickman asked Mr. Francisco if he has any concerns as to whether or not any of the anticipated projects will be able to be funded. Mr. Francisco said he has concerns about whether or not we will be able to do everything that Norman Forward wants to do at the level that we want to do it. He said in all the projects, things that we want to do have had to be taken out so that we could get

**Councilmember Comments/Questions, continued:**

back down to the budgeted amount. He anticipates that this will happen as we move forward with other projects. He said if we continue to have revenues below projections and expenditures at projections for the projects, yes something will have to give. He said his own opinion will be that one of two things or a combination of two things will happen; we will continue to save some interest costs which will allow some of the things that we wanted to do to be added back in. For example, we built in operational support for the indoor aquatic facility and instead of that coming from Norman Forward from year four to year fifteen; we may have to use the General Fund to pay that expense. He said those are some things we will have to grapple with as we consider future year budgets to make Norman Forward, General Fund, and Capital fund balance. He said as we update the projections, based on new knowledge, we adjust and yes, there may be some difficult decisions to be made in the future, but his own opinion is to get the projects done at the level we want them done and then see what Norman Forward can afford to do on these other things we want to do.

Councilmember Castleberry said he knew Mr. Francisco had been on the MAPS Committee. Mr. Francisco responded he had been on MAPS Two. Councilmember Castleberry said the MAPS Committee had a similar situation where when it got to the end, they didn't have the revenue to finish and they actually extended the project six months. He said Norman Forward wasn't projected to spend \$180 million and bring in \$180 million. He said it was not that tight of budget. He said there is a fund balance in there. He said one and a half years into Norman Forward on a 15-year sales tax, he is not at the alarming stage right now that they are not going to be able to get everything done, but he said it all needed to be continually monitored. He said online sales are coming in. He said the state could decide to say we are going to subject everything to sales tax. He asked what if the state takes the sales tax off of groceries. He said no one knows what is going to happen. He said Amazon paying sales tax is a big deal and when Norman Forward began, no one had any idea we would be getting paid for online sales.

Councilmember Hickman said he appreciates Councilmember Castleberry's answer. He said he sent an email to the City Manager on June 1st asking if there should be a discussion through the Citizen's Oversight Committee to prioritize projects in case the City of Norman is short of money. . He said operating costs are a consideration because some communities had to close facilities because they could not afford to staff it. He said everyone has heard his ranting about the Animal Welfare Center and the bond election on the shelter, so he wants them to be thoughtful in advance. He said especially with a third tranche coming up that might include large facilities with significant operating costs associated with them, do we want to go ahead and build these facilities now when we don't know if there will be money in the operating account. He said maybe by then a Stormwater Utility will have passed and they could feel a lot better about it. He said Council should be thoughtful in advance about when \$37 million is issued to build an indoor aquatic center, which he as well as a lot of people and constituents want, do we have the resources to staff and run it adequately or do we delay it or do something else? He said this is a worthy conversation for the Oversight Committee and for Council to eventually have over the course of the next year.

Mayor Lynne Miller agrees but said we are getting off track about what is being looked at tonight; however, it is certainly something to have discussions about. She said right now Council is discussing Tranche Two and there is no big problem right now. She said that is what the Griffin Group is going through right now saying they can't do everything they want to do, such as the indoor

**Councilmember Comments/Questions, continued:**

facility. She said the Ad Hoc Committees are doing a pretty good job of monitoring and being realistic about what we have and what it is going to cost which is a positive thing, but they definitely need to be concerned about those things and they have had lots of discussions about operational costs when they were going through this initially. She asked if there are any other comments about the Tax Revenue Notes. She said with that she will adjourn this meeting.

Items submitted for the record

1. Memorandum dated June 13, 2017, from Anthony Francisco, Finance Director/NMA Treasurer, to City Council related to the issuance of the Norman Municipal Authority Sales Tax Revenue Notes, Series 2017 – Bid Tabulation

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The meeting adjourned at 5:25 p.m.

ATTEST:

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City Clerk

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Mayor