

FINANCE COMMITTEE MINUTES
September 10, 2015

The City Council Finance Committee of the City of Norman, Cleveland County, State of Oklahoma, met at 5:00 p.m. in the Municipal Building Study Session Room on the 10th day of September, 2015, 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 Castleberry, Heiple, Lang, and Chair Rosenthal

ABSENT: None

OTHERS PRESENT: Lynne Miller Council Member
Steve Lewis, City Manager
Anthony Francisco, Finance Director
Suzanne Krohmer, Budget Manager
Sara Kaplan, Retail Marketing Coordinator
Gala Hicks, Human Resources Director
Shawn O'Leary, Public Works Director
Mike White, Fleet Superintendent
Joy Hampton, Norman Transcript

Chair Rosenthal said Committee would discuss Item #2 – Revenue/Expenditures Reports first and Anthony Francisco will begin the presentation. Francisco began with the handout showing Unaudited FYE 15 figures, dated September 10, 2015. The final figures for FYE 15 have been turned over to the auditors, BKD. The final Figures could maybe be off 1%. FYE 15 Estimated figures were used when the FYE 16 Budget was adopted based on assumptions made at the time. FYE 15 Actual figures is where we are now. On Line #16, you can see Revenues are close to where we thought they would be but we're down about \$900,000. We always try to err on the side of more. Line #22 shows the big difference in the Capital Outlay budget and that's offset by the expenditures on Line #36. The big impact is on Lines #33 and #34 on the expenditure side. Salaries/Benefits in the General Fund (always the largest expenditure) were very close to budget (1/10th of 1%). Services/Maintenance category was helped by not having to spend more than \$250,000 from the \$1.4 million Emergency Reserve. We also had electricity savings (mild weather) and savings in fuel costs. Line #56 shows net difference and we thought we would lose about a \$1 million in the General Fund and we actually think we will make just short of a \$1 million. At the end of the fiscal year we thought we would have about \$2 million balance and we actually have a \$6 million balance to start FYE 16. We are better off but will caution Council to use only for a one-time expense not ongoing expenditures. Biggest surprise in FYE 15 was probably the oil and gas prices. We all thought they would go down but not for this long. The negative impact from the outside utilities and the franchise fees they pay. The Water Fund and Water Reclamation Fund are down due to the mild weather this past year. These three funds are driven by capital outlay expenditures. The bottom line is they will be okay.

Item 2, being

SUBMISSION OF THE REVENUE/EXPENDITURE REPORTS AS OF AUGUST 31, 2015

Sara Kaplan made presentation and reviewed handout detailing sales tax collections for July 2013, July 2014, and July 2015. This is a new report and will be published monthly showing sales tax collections for retail industry and leisure and hospitality industry. They do not represent 100% of our sales tax collections but represent about 79% of these two. It shows retail trends and those hardest hit by the economy, for instance the building trades because people were not spending money to buy a home or work on their home.

A retail store that has a location in the State of Oklahoma that has online ordering will pay the sales tax collection to the city of the person's address when shipped to their home. If Norman citizens buy online from Cabela's and H&M, City will receive sales tax from internet sales.

Mayor said City of Oklahoma City is looking to collect hotel/motel taxes from Air B&B. She asked if staff has looked into this for Norman. Francisco said yes, he had Legal look at the Air Bed and Breakfast and they are a growing concern. They are subject to hotel/motel taxes but enforcing the ordinance will be very difficult. We're cheering on Oklahoma City and if they are successful, we will be successful. He had also read about a new app that allows students with a leased apartment to sublease their apartment on OU ballgame days and people can avoid hotel costs. This can hurt the hotels and our hotel/motel revenue.

Mayor thanked Kaplan for the information and would like to see more years added to information as time allowed.

Items submitted for the record:

1. Summary of Major Funds-General; Capital; Westwood; Water; Water Reclamation; Sewer Maintenance; New Development Excise; Sewer Sales Tax; and Sanitation Fund Revenue Sources vs. Budget, Financial Reports as of August 31, 2015.
2. General Fund Summary, Unaudited FYE 15 Figures prepared by Finance Department
3. City of Norman Retail Report, July 2015, Sales Tax Collections Retail Trade (NAICS 44-45) and Leisure & Hospitality Report, July 2015, Sales Tax Collections (NAICS 71-72) prepared by Sara Kaplan

Item 1, being

DISCUSSION REGARDING FLEET REPLACEMENT PLANNING

Steve Lewis said as a follow up to the Council Member Retreat, the October 2013 Fleet Management Study the Committee needs to look at fleet replacement schedules. Bring issue back up and talk about different financing sources. He likes the idea of what the City did for facility maintenance catch-up improvements and we have about caught up. We should look at possibly altering our Capital Budget Fund for next year's budget.

Shawn O'Leary made presentation and showed slides from the last report two years ago. This is not a crisis situation but it does need to be addressed. It's a chronic situation as we have days we don't know if we have enough trucks to pick up trash. There can be 6 sanitation trucks in the bays needing repairs. Municipal fleets are unique because we have everything – approximately 900 units consisting of backhoes, fire trucks, trash trucks, police cars, etc. The average vehicle age two years ago was 8.9 years old. The four biggest vehicle users are utilities, public works, police, and parks. Vehicle Equipment Unit (VEU) discussion shows that the older fleet needs more mechanics time. We have 21 repair staff members and it just takes longer to repair older vehicles. VEU is based on years and complexity of the vehicle. On the opportunities for improvements check-list, we have done or are doing all but one on the list.

After the Rightsizing Study was done, we reduced the fleet by 8-10% by working with the departments as to whether the vehicle was needed or not. Miller asked the cost of the study and O'Leary said it cost about \$30,000 to \$40,000 and we offset with \$82,000 from sale of vehicles plus the cost avoidance savings of approximately \$3,000,000. The procedure manual is almost complete. We have realigned staff and the staff have been categorized either heavy duty/light duty operations. We are in the second year of outsourcing the auto parts to NAPA Auto Parts Program and have saved approximately \$100,000. We are also enforcing the pre-trip and post-trip inspections by forcing the driver to inspect vehicle before driving. There is a form to fill out which helps the mechanic to catch problems early – preventative maintenance. We looked closely at fleet utilization and at certain mileage then vehicle was sold. With the age of vehicle, operating cost exceeds replacement. The maintenance and repair total shown is an actual cost comparison. We have looked at distribution of fleet by model year and we have an enormous amount of vehicles over 20 years old and we need to replace them. Fleet statistics show that we have 122 different classes of assets and the current backlog of vehicles that need to be replaced are a total of \$25.6 million. Forty-four percent of the vehicles exceed the replacement recommendation.

Anthony Francisco discussed financing. He said it's a money problem and how we can identify more money sources for fleet replacement. The two major sources are Capital Sales Tax and Utility Revenue. Sanitation is a problem child but it's its own fund. Majority of governmental fleet paid for by capital sales tax, 7/10th of 1%. When Council adopts the budget, they adopt allocation of capital funds formula.

In FYE 10 the Council increased allocation of general maintenance of existing facilities from 3% to 5%. We suggest setting aside money within the capital formula to replace fleet. Majority of the 27% for capital outlay is used for fleet (2/3) already equals 18% of total capital budget. We suggest increasing the 27% or set aside a specific percent for fleet replacement. We currently use about \$2 million and we need \$4 million. Miller asked how that compares to maintenance of existing facilities. Francisco said we would reduce maintenance of existing facilities back to 3% or reduce 25% for street maintenance to 21-22%. City is making a dent in street maintenance needs due to bond money for street resurfacing. Just reduce existing allocations but we need to tack on another \$1 million to fleet replacement. Castleberry wanted to know about the 7% contingency allocation fund balance. He said we carry a fund balance in capital fund. We don't have the capacity to do everything. City doesn't have the physical ability to do them or outsource them. Francisco said FYE 15 Actual Fund Balance is \$48 million and yes, we could use some of that contingency allocation.

Mayor wanted to know how much savings we would find in fuel savings by replacing older vehicles. O'Leary said it would apply to parts and fuel savings but it accrues to General Fund. They have not worked on that yet. Lang said overtime costs involved with broken down vehicles needs to be considered also. Implication to salary savings need to be looked at. O'Leary said City has its own towing operation. Mayor is interested in having staff look at 20 years or older vehicles and what those costs would be to replace vehicle so we can see how quick or aggressive we could replace. Lang suggested using reserves on vehicles to save City funds elsewhere in overtime, fuel and parts. Mayor said we need to look at aggressive plan versus 5-year plan to see what we can manage. Lang said large order to vendors might be able to make better deals. Francisco said City uses State contract price now to purchase equipment.

Mayor likes Robert's idea to look at using contingency funds rather than other options. Castleberry said there's usually a \$4-5 million constant fund balance not encumbered. This money is used for capital purposes, should not be any fund balance because it's all used for capital anyway. He said he didn't have a problem with drawing down fund balance. Mayor wants staff to bring back figures to see what reducing that balance will look like. She also said we didn't look at lease-purchasing and debt financing operations. Francisco said lease-purchasing is a timing concern. He recommends identifying an ongoing program to reduce amount needed. Lang said we don't want to take from any of the maintenance allocations. Castleberry said we don't want to take money from traffic or roads. Mayor said consensus is for staff to bring back to Finance Committee plan using contingency funds and what it would look like.

Items submitted for the record:

1. Review of Fleet Management and Maintenance Practices prepared by Mercury Associates, Inc.
2. Capital Improvements Fund Budget Highlights, page 105, FYE 16 Budget

Item 3, being:

SUBMISSION OF THE REPORT ON OPEN POSITIONS

Gala Hicks made report. Mechanic I position just opened. It has become more difficult to fill Maintenance Worker I positions and quality of applicants is decreasing (may be effect of oil rigs shutdown). Communication Officers positions are hard to fill. There is a shortage of mechanics nationwide. We have to advertise more and keep open dates open longer.

Items submitted for the record:

1. Position Vacancy Report, dated September 3, 2015

Item 4, being:

MISCELLANEOUS COMMENTS

No discussion.

The meeting adjourned at 5:58 p.m.

ATTEST:

City Clerk

Mayor