

CITY COUNCIL STUDY SESSION MINUTES

April 14, 2015

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a Study Session at 5:30 p.m. in the Municipal Building Conference Room on the 14th day of April, 2015, 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 24 hours prior to the beginning of the meeting.

PRESENT:

Councilmembers Allison, Castleberry, Heiple, Holman, Jungman, Lang, Miller, Williams, Mayor Rosenthal

ABSENT:

None

Item 1, being:

DISCUSSION REGARDING THE PROPOSED FYE 2016 CITY OF NORMAN BUDGET – OVERVIEW OF THE GENERAL FUND AND SPECIAL REVENUE FUNDS.

Mr. Steve Lewis, City Manager, said budget discussions go on year round, but this is the time of year the City picks up the pace for adoption of the budget in June. He said the budget is one of the most important items Council discusses and as part of these discussions, they set appropriations for the year as well as service levels and policies. He said tonight Council presented with an overview of the FYE 2016 Budget for their comments and suggestions. He said the budget works best when there is a partnership between Staff and elected officials to create a budget that will meet the needs of the citizens.

Mr. Anthony Francisco, Director of Finance, said the budget is a policy document that sets all the financial policies of the City. He said it is the financial plan for the City, the departmental operations guide, and a communication device for the public. He said budget discussions began in November with a mid-year review in January 2015. Council discussed the Capital Budget in a Study Session in February 2015, and tonight an overview of the General Fund and Special Revenue Funds will be presented to Council. This is the first of three meetings on the FYE 2016 Budget. A public hearing will be held May 26, 2015, and Council will consider final adoption of the budget on June 9, 2015.

Mr. Francisco said there is a lot of information in the budget document including demographics, socioeconomic information, benchmark comparisons, financial policies and summaries for 27 funds, fund/department detail, a glossary, and Capital Fund summary. He said the budget also includes a Frequently Asked Budget Questions page and where to find those answers in the budget document.

Mr. Francisco said the Oklahoma City metropolitan area economy is driven by the petrochemical industry and Norman is impacted directly and indirectly. He said the State of Oklahoma is going through some retrenchment in its gross production tax revenues, which will trickle down to Norman and the City needs to prepare for that.

Mr. Francisco said the City bases projections on the lowest point in sales tax revenues over the last ten years. He said the building industry has a lot to do with the local economy from the standpoint of jobs and building materials. He said the most recent rise in the residential building industry has not been driven by the construction of single family homes, it has been driven by the construction of multi-family housing. He said the City is concerned this revenue may not be sustainable going forward.

General Fund

Mr. Francisco said the projected revenue for FYE 2016 is \$195,594,515 with total expenditures of \$205,394,261 (the difference is due to internal service expenditures being counted as revenues and expenditures). He said General Fund revenues by source total \$74,664,876 and General Fund expenditures by department total \$76,755,794. He said the largest areas of expenditures are in services provided to the public.

Mr. Francisco highlighted major General Fund revenue assumptions. He said sales tax growth is projected to be 2.5% from fiscal year 2014-2015 levels based on deterministic methods and current economic conditions. Sales tax projections account for reduced apportionments to the University North Park Tax Increment Finance (UNPTIF) District. He said Use Tax, franchise fees, and other tax revenues are projected to grow by 3% from FYE 2015 levels, fine and forfeiture revenues are projected to grow by 1% from estimated FYE 2014 collections, and license and permit revenues are projected to grow by 1% from FYE 2015 estimates.

Councilmember Jungman asked the growth rate in the UNPTIF in comparison to the rest of the City and Mr. Francisco said the overall amount of funds being apportioned to the UNPTIF is growing at a very fast rate and the February UNPTIF apportionment was 12% of the overall sales tax in the City of Norman.

Councilmember Castleberry said in the February Finance Report, the General Fund variation was 1.39% and the UNPTIF was 29.7%. He said without the UNPTIF growth rate, the City's growth rate might be negative and Mr. Francisco said assuming there was no UNPTIF there would be no University North Park.

Mr. Francisco said transfers will be made from Water and Wastewater Utility revenues (5% of their revenue based on what private utilities pay for the use of public rights-of-way and property taxes), from the Capital Fund for costs of capital outlay items budgeted in General Fund, but paid from capital sales tax, for street maintenance, for Engineering Division labor used for capital projects, and cost allocation charges based on costs of central services (legal, financial, etc.) provided to utilities and an increased charge for additional meter servicing staff.

Mr. Francisco highlighted budget expenditure assumptions. He said salary and benefit expenses budgeted for each position in FYE 2016 are based on contractual costs, assuming merit and longevity cost increases and related costs. He said no cost-of-living adjustment is budgeted in FYE 2016 and salary and benefit costs are projected to grow by 5% overall from FYE 2015 through FYE 2020. Expenditures in the services category and supply and materials categories are projected to grow by 1% from FYE 2015 through FYE 2020. There is a projected employee turnover savings estimated at \$800,000 in the FYE 2016 Budget.

Councilmember Castleberry said the City assumes salary and benefits to grow by 5% with sales tax growth of 2.5% to 4% (in future growth). He said costs are growing at a rate greater than the revenue and asked at what point should Council be concerned and Mr. Francisco said it has concerned him for many years, but Staff has managed expenditures through budget tightening policies. In his opinion, having operations at that lean level might affect services provided to the public, but the City manages within the means it has and that is an ongoing concern.

Councilmember Castleberry asked what the percentage of merit increases were per year and Mr. Francisco said if an employee has been on the job for 11 years or more, they no longer received merit increases, but employees with less than 11 years of service receive a merit increase of 4% per year on top of any cost-of-living increase adjustments. Mayor Rosenthal asked about longevity cost increases and Mr. Francisco said longevity cost increases begin after the fifth year of employment and are approximately 1% of an employee's salary each year. Councilmember Lang asked about employee turnover and Mr. Francisco said turnover, as a whole, is approximately 1.5%.

General Fund, continued:

Councilmember Lang asked how Norman's budget compares with other cities and Mr. Francisco said it varies, but on the whole, Norman's budget is a slightly lower by 2% to 2.5%.

Mr. Francisco said the FYE 2016 Budget includes additional staffing in the Animal Welfare Division, Meter Services Division, and Development Services Division; preparation for stormwater permit renewal; reorganization of the Planning Department's Community Development and Grant Administration areas; ongoing gap between revenues and expenditures; and meeting targeted reserve requirements (a moving target that will be met by year end).

Councilmember Castleberry said the City loses a lot of revenue through non-collection of utility payments and he believes additional meter service positions would pay for themselves. Councilmember Heiple felt that part of the problem could be college students who walk out on their bill. He said on the flip side when you turn someone's water off due to non-payment, it is catastrophic. He said while the City needs to have policies on collecting payments, the City also needs to understand not having water is a dire situation.

Mayor Rosenthal asked Mr. Lewis to talk about the reorganization of the Development Services Division and whether or not this would add additional services in code enforcement and Mr. Lewis said Ms. Linda Price, Revitalization Manager, retired and the City is not replacing that position, but effectively reallocating her duties to other employees within the department. He asked Ms. Susan Connors, Director of Planning and Community Development, to elaborate on the plans. Ms. Connors said the City currently employs five Code Enforcement Officers and the plan is to create a supervisor position for those Officers because Ms. Price served in that position. She said that duty will take that person out of the field more so Staff is expecting the need for another Code Enforcement Officer moving forward, but she would like to wait one year to see how the change affects the department.

Councilmember Castleberry would like more information on the Code Enforcement Division reorganization because the City does not need more management and less people in the field, it needs more people in the field. He wants to know more about how that is being restructured. He said the Mayor had a suggestion about hiring a part-time Code Enforcement Officer to work on weekends because that seems to be when the most complaints take place. He would like to explore that idea and Councilmember Jungman agreed.

Councilmember Heiple said it is normal for Utility Departments to collect utility payments and asked if it was unusual that Norman's Finance Department collects utility payments. Mr. Lewis said for many years, the utility function was based in the Public Works Department then the Utilities Department was created so historically, the City did not always have a separate Utilities Department. He said that question has been raised before and there has been discussion on the best place for billing, collection, etc., to have a home. He said it is currently being done in the Finance Department although arguments can be made for both sides and Staff is reviewing the best option.

Mayor Rosenthal said stormwater expenditures continue to rise and that remains an important part of the revenue picture going forward. She said a stormwater utility is still needed. Mr. Lewis said the City will be required to do things in the future they are not currently required to do, which will create new expenses.

Mr. Francisco said Net Revenue Stabilization Fund policies/assumptions include 2% emergency reserve budgeted in FYE 2015 as mandated; "Rainy Day" Fund balance projected at \$3,188,735 on June 30, 2015; above minimum (3% of General Fund expenditures) \$1,058,540; below targeted (4.5% of General Fund expenditures) negative \$6,557; no Rainy Day Fund deposit is assumed for FYE 2016; and total combined reserve requirement of 8% to 11.5% of General Fund expenditures.

Public Safety Sales Tax (PSST)

Mr. Francisco said the Public Safety Sales Tax (PSST) Fund beginning balance for FYE 2015 is \$8,478,229. He said additional staffing for the School Resource Officer (SRO) Program is in the FYE 2016 Budget, which consists of one Police Lieutenant and five police officers. He said the City has completed financing for the Emergency Radio System Replacement, Emergency Operation/Dispatch Facility, and Fire Department platform truck purchases in FYE 2015 and those interest payments begin in FYE 2016. He said additional SRO, dispatch personnel, and mechanic personnel are proposed to be added in FYE 2017 and FYE 2019.

Special Revenue Funds

Mr. Francisco highlighted other Special Revenue Funds that include the Special Grants Fund; Community Development Block Grant Disaster Relief (CDBG-DR) Grant in the amount of \$12,279,612 for rural road improvements; Room Tax Fund (Arts and Humanities, Convention and Tourism Attractions, and Park Capital Projects); Seizures and Restitution Fund; Law Enforcement Education and Training (CLEET) Fund; Art in Public Places Fund; and Westwood Fund.

Mr. Francisco said major budget issues for FYE 2016 include projected ongoing shortfall in the General Fund net revenue; fleet replacement; PSST II implementation; I-35 Corridor Construction Project (impact on local merchants); UNPTIF Business Improvement District (BID); Utility Enterprise Capital Improvement Projects and operations funding; and long-term realignment of resources and program priorities.

Councilmember Heiple asked if it was true to say the budget is lean and the City needs to increase revenue or discuss cutting services and Mr. Lewis said that is a fair statement.

Councilmember Jungman said stormwater utility is one of the ideas to increase revenues and asked about other ideas to increase revenues. Mr. Lewis said the Finance Committee could review fleet issues. He said fleet issues are a growing problem that will continue to get worse and is starting to impact service levels and service continuity.

Mayor Rosenthal said there is a lot to celebrate in the budget such as the ending fund balance, the fully funded Rainy Day Fund, and the fact that the City is adding positions in key areas that has been needed for many years. She said the City needs to be vigilant in not making new commitments that will affect the fund balance. Councilmember Castleberry said the City also needs to be cognizant of the FYE 2015 ending fund balance because fewer revenues and increased expenditures do not mix well. He felt the beginning fund balance would not be as healthy as projected.

Items submitted for the record

1. PowerPoint presentation entitled, "City Council Fiscal Year 2015-2016 Budget Study Session," April 14, 2015

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The meeting adjourned at 6:22 p.m.

ATTEST:

City Clerk

Mayor