

## CITY COUNCIL STUDY SESSION MINUTES

August 28, 2018

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 28th day of August, 2018, 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 Bierman, Carter,  
Castleberry, Clark, Holman, Scott,  
Wilson, Mayor Miller

ABSENT:

Councilmember Hickman

Item 1, being:

### DISCUSSION REGARDING POSSIBLE AMENDMENTS TO THE CITY OF NORMAN RESERVE POLICIES.

Mr. Anthony Francisco, Director of Finance, said Ordinance O-1011-58 adopted on June 28, 2011, formalized the City of Norman's General Fund Reserve Policy and was codified in Sections 8-103 through 8-104 of the City Code. He said the Policy requires Council to adopt a General Fund (GF) Budget each fiscal year with an Operating Reserve Fund Balance of at least three percent (3%) of budgeted expenditures, an Emergency Reserve allocation of at least two percent (2%) of budgeted expenditures, and a minimum balance of at least three percent (3%) of GF expenditures in a Net Revenue Stabilization Fund (also known as the Rainy Day Fund). He said these three funds total eight percent (8%) of budgeted expenditures in the GF, as required. In the separate Rainy Day Fund, there is a target of an additional one and one half percent (1.5%) for a total of nine and one half percent (9.5%) and a maximum balance of six percent (6%) for a total of eleven percent (11%). If the City reached eleven percent (11%), the Policy would mandate the City spend that fund down in some way. He said there is an "Industry Standard" Prudent Reserve Fund balance of ten percent (10%) of expenditures that is not mandated, but is recommended to be held in reserve for unexpected shortfalls in revenues or increases in expenditures.

Mr. Francisco said the Policy sets the following restrictions before Council can appropriate any funds from the Rainy Day Fund:

- The General Fund Operating Reserve Fund balance is projected to fall below one percent (1%) of budgeted expenditures; or
- A natural or man-made disaster has occurred; resulting in a federal or state disaster declaration in Norman, AND the City of Norman has spent or obligated to spend the two percent (2%) Emergency Reserve account in the General Fund; or
- A major one-time or capital expenditure has been necessitated, such as for major repairs to or replacement of City of Norman facilities.

Historic uses of the Rainy Day Fund include damages from ice storms; floods; tornadoes; snow storms; blizzards; micro bursts, and wildfires that are beyond City crews' capability.

Mr. Francisco highlighted current reserve levels and said the projected GF balance is \$3,727,604, which exceeds the required three percent (3%) by \$1,556,573, and the two percent (2%) Emergency Reserve Fund balance is \$1,447,354. He said there is a projected Net Revenue Stabilization Fund balance of \$3,359,618, which exceeds the required three percent (3%) by \$1,188,587 and the targeted four and one half percent (4.5%) by \$103,072.

Mr. Francisco said at the August 16, 2018, City Council Finance Committee meeting, Staff was directed to prepare proposed revisions to the City's GF Reserve Policy to reduce the budgeted Emergency Reserve allocation requirement from two percent (2%) to one percent (1%) in each future budget year and potentially use the FYE 2018-2019 Emergency Reserve allocation for other purposes. Based on the FYE 2019 Emergency Reserve allocation, this action could make \$723,677 available for other purposes or to build up the projected year end GF balance. He believes that a one percent (1%) Emergency Reserve budget would still be adequate to provide immediate emergency response when required. He said proposed increases to Net Revenue Stabilization Fund Reserves include four percent (4%) minimum (increased from three percent (3%); five percent (5%) target (increased from four and one half percent (4.5%); and seven percent (7%) maximum (increased from six percent (6%).

Councilmember Castleberry said it is projected that total budget reserves will be a negative \$1.5 million by FYE 2020, and Mr. Francisco said that is correct. Mr. Francisco said the two percent (2%) Emergency Fund allocation ties the City's hands because it has to be budgeted, which means the City does not have those funds available to appropriate for other things. He said that is a good thing from the standpoint that the money is already budgeted and when emergencies happen, the City can immediately respond instead of waiting for Council to meet; however, historically the City has not had to spend that much money before Council could meet so the question is whether two percent (2%) is adequate or is one percent (1%) adequate.

Councilmember Holman asked if there has ever been an emergency where Staff had to wait until Council met before moving forward with repairs and Mr. Francisco said yes, it happened in 2007, but since that time the allocation has been set aside so it has not happened since. Councilmember Holman asked what the negatives were to having to wait for Council action and Mr. Francisco said in that instance, the contractor risked not being paid by agreeing to begin repairs without Council's approval.

Mr. Francisco said the proposal is to change the two percent (2%) to one percent (1%) and set aside an additional one percent (1%) in the Rainy Day Fund so the Rainy Day Fund minimum would change from three percent (3%) to four percent (4%), the target would change from four and one half percent (4.5%) to five percent (5%), and the maximum would change from six percent (6%), which has never been reached, to seven percent (7%). He said during the mid-year budget review in January or February, Council could determine whether to make a deposit or reduction from the Rainy Day Fund. If all projections are correct, it is projected the City would still be meeting the four percent (4%) minimum in the Rainy Day Fund, but the target amount would fall short by approximately \$260,000.

Councilmember Bierman said if the City has never met the six percent (6%) maximum then why would the City want to change that to seven percent (7%) and Mr. Francisco said to keep total reserves at their current level.

Councilmember Carter said the City obtains better credit rating with a higher fund balance so is that the reason the City wants to keep the fund balance at eleven percent (11%)? Mr. Steve Lewis, City Manager, said a City's fund balance is a key issue that bond rating agencies look at and the City of Norman has a Double A Two rating. Councilmember Carter said the credit rating affects the interest paid on bonds and asked if there is a customary percentage that other cities maintain and Mr. Francisco said it is unusual to budget for an Emergency Reserve within the GF, but a fund balance of eight percent (8%) to eleven percent (11%) is not uncommon. The difference is placing restrictions on when the funds can be used, and the City of Norman's Reserve Policies have been copied by a lot of cities in Oklahoma as well as cited by rating agencies as exemplary.

Councilmember Scott asked if the City frequently uses the Emergency Reserve Fund and Mr. Francisco said since 2007, money has been appropriated for various reasons, the main reason being debris removal from various extreme weather events. He said the last time money was appropriated was in FYE 2016 to upfront money for Community Development Block Grant Disaster Recovery Program where the City was anticipating reimbursements from the Federal Emergency Management Agency. Mr. Lewis said the two percent (2%) being discussed is only used for disaster recovery and \$144,200 was needed in 2010 due to micro-burst storm damages, \$408,075 was needed in 2012 due to tornado damages, and \$600,000 was needed in 2013 due to ice storm damages. He said in these events, no emergency was declared by State or Federal government so the City had to pay out-of-pocket for the damages. He said some events have an impact on Norman but not the County, and those are the events the City ends up paying for and asked Mr. Travis King, Fire Chief, to explain how the State and Federal governments determine when cities will be reimbursed.

Chief King said when dealing with federal disasters, the federal government only recognizes counties and Cleveland County has to meet a public infrastructure damage threshold of approximately \$1 million to be eligible for federal funds and that does not include South Oklahoma City. As for the State, a city can apply for State emergency funding if the federal government says no and the State's infrastructure damage threshold is \$450,000 with cities being eligible for only \$100,000 of reimbursement. He said Congress wants local jurisdictions to take on more responsibility so there has been discussion by Congress on raising the \$1 million threshold.

Councilmember Scott asked if the \$1 million threshold is specific to Oklahoma and Chief King said it is specific to Cleveland County and is based on population. Mr. Lewis said when an event occurs the City begins investigating the damage to roads, infrastructure, and bridges and must substantiate there has been \$1 million in damages in Cleveland County. Chief King said the City will send its evaluation to the State and the State analyzes that assessment and moves it forward to the federal level.

Mr. Lewis said the Norman has a Debris Management Plan and bids out contractor services each year in order to have a contractor available if an event happens. He said this helps make the clean-up and repair processes go smoother and faster and the contractor does not have to wait for Council to meet to begin the process.

Councilmember Wilson asked about the projected revenues and how this proposal will affect the budget and Mr. Francisco said projections assume all the revenue and expenditure projections are exactly right. If revenues come in above projections and expenditures are at level projected the City has more flexibility without doing anything. He said the City always tries to budget conservatively and hopes there are more revenues and less expenditure.

Councilmember Bierman asked what impact this proposal would have on the ending fund balance and Mr. Francisco said there would be no impact on the fund balance because the Emergency Reserve Fund is budgeted with the assumption that money is going to be spent. He said the City hopes it will not be spent, but assumes it will be.

Mr. Francisco said Council can continue with Reserve Policies as is or move forward with Finance Committee recommendations. He said the ordinance language is fairly simple and Council could have First Reading on September 11th with Second and Final Reading on September 25th.

Councilmember Clark said she is all for being responsible and having a savings account, especially in terms of emergencies, but the City has needs that are not being funded. She said Council recently created employee positions that cannot be funded.

Councilmember Wilson said she is struggling with this decision because while she likes having the healthy emergency fund, she understands the City could use some of that money for other things.

Councilmember Bierman said this proposal is a good first step, but it will not help fund new positions and the City has systemic budget problems that need to be addressed.

Councilmember Scott asked what would happen if the City falls short of the minimum requirements and Mr. Francisco said Council would be in violation of its own ordinance and would need to take action to address that by cutting expenditures or creating new revenue to meet minimum requirements.

Councilmember Carter said he is not comfortable with the timeline because he wants to think about this a little more. He would like to see the ordinance coincide with the ordinance to end the University North Park Tax Increment Finance District (UNPTIF) because they both address the budget problems. Councilmember Castleberry said ending the UNPTIF will be a very long process and he would prefer moving forward with this proposal.

Mayor Miller understands Council would like more time to review this, but Final Reading would not take place for a few weeks and this is a simple first step to help the budget so she would like to move forward with First Reading on September 11th.

Items submitted for the record

1. PowerPoint presentation entitled, "General Fund Reserve Policies," City Council Study Session dated August 28, 2018, presented by Anthony Francisco, Finance Director
2. Memorandum dated August 23, 2018, from Anthony Francisco, Finance Director, to Honorable Mayor and City Councilmembers
3. Chart of Major Weather Events in Norman since January, 2007
4. Legislatively notated Ordinance O-1819-10
5. General Fund Statement of Revenues and Expenditures; Net Revenue Stabilizations Fund Budget Highlights; Net Revenue Stabilization Fund "Rainy Day Fund" Statement of Revenues and Expenditures; and 2% Reserve Analysis from 2007 through 2018

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The meeting adjourned at 8:50 p.m.

ATTEST:

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City Clerk

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Mayor