

CITY COUNCIL STUDY SESSION MINUTES

January 19, 2011

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 19th day of January, 2011, 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 Atkins, Butler, Cubberley, Dillingham, Ezzell, Griffith, Kovach, Quinn, Mayor Rosenthal

ABSENT: None

DISCUSSION REGARDING THE MID-YEAR REVIEW OF THE FYE 2011 BUDGET.

Mr. Steve Lewis, City Manager, said the City follows the best practice for reviewing the budget, particularly during the mid-term. He said it is hard to detect changes in a budget on a month-to-month basis and although you can find good trends after the first quarter, you have a better grasp of the data mid-year. He said a mid-year review also gives decision makers time to consider actions that may be needed if there are major deviations in the budget. He said the budget can be impacted by the national and regional economy, legislation, mandates, and the weather.

Mr. Lewis said, during the course of the year, Staff keeps Council abreast of the budget and the Finance Committee reviews the budget monthly as well. He asked Council to think about the financial condition of the City and distinguish that from the budget performance, which looks at revenue and expenditures. He said the financial condition is a much broader issue with broader array of factors that have long term implications for the financial health of the City.

Mr. Anthony Francisco, Director of Finance, said Council adopted a General Fund balance of \$3,753,850 with a projected net loss of \$3 million; however, the mid-year projections are \$7,544,067. He said there has been a 5.4% sales tax increase and Staff has made the assumption that this trend will continue through the end of the fiscal year with an estimated revenue of \$35,052,000. He said the new revenue projections are \$1,000,000 more than what was originally budgeted, but new expenditures projections are about \$1,200,000 more than budgeted. Mayor Rosenthal said expenditures are exceeding revenues and are not meeting the policy fund balance by approximately 3% and Mr. Francisco said it was closer to 5%.

Councilmember Kovach said he understood the difference between the ending fund balance and beginning fund balance is due to the Public Safety Sales Tax Fund (PSST) being out of the General Fund, but he did not understand why the FYE 09 Fund Balance was different than the FYE 10 beginning fund balance. Mr. Francisco said when Council adopts the budget, it is not known what the actual fund balance will be at the end of the preceding fiscal year. He said the beginning fund balance for FYE 11 would be captured in the FYE 12 budget as an updated estimate.

Mr. Francisco highlighted and detailed revisions to the following funds:

- Public Safety Sales Tax Fund
- Room Tax Fund
- Water Fund
- Wastewater Fund
- Sewer Maintenance fund
- Sewer Development Excise Tax Fund
- Sewer Sales Tax Fund
- Sanitation Fund

Mayor Rosenthal said a question circulating among citizens is why the City does not use other fund balances to supplement the General Fund and asked Mr. Francisco to explain. Mr. Francisco said the Water Fund, Wastewater Fund, and Sanitation Fund are Enterprise Funds, which are funds set up to operate separate and apart as sub-businesses of the City with their own revenue sources and, more importantly, their own customer bases served by those revenue sources. He said it would not be fair to charge rate payers for anything other than the services they are paying for and, in Norman, rate payers vote on the rates charged for the services so using those funds for the General Fund would be a violation to the voters as well.

Mayor Rosenthal asked if there were any capital projects that might have to be deferred if revenue projections are not met. Mr. Francisco said projects already in the pipeline have been financed and the decision point the Norman Utilities Authority will have to consider will be the expansion of the Wastewater Treatment Plant that is anticipated to start in FYE 2013, which may have to be deferred. Mr. Mark Daniels, Utilities Engineer, said the project is estimated to cost \$18 to \$20 million. Mayor Rosenthal asked if that expansion included plans to move the City toward water reuse and Mr. Daniels said the majority of the expansion plans will be for overall capacity.

Councilmember Kovach questioned the Comprehensive Annual Finance Reports (CAFR) excess of expenditures over revenues for the last ten years and asked if it would be fair to say there are a variety of factors as to why there is excess expenditures over revenues and does not necessarily mean the Council is not watching the budget. Mr. Francisco said yes, there are a variety of reasons and of those ten years, the City has had revenues exceeding expenditures in prior years. He said recent trends have been to spend down fund balances and that is a concern because the City is spending down fund balances for ongoing expenditures.

Mayor Rosenthal asked what assumptions were made in the General Fund for FYE 2012 in terms of projecting big categories on revenues and expenditures. Mr. Francisco said the City is projecting an increase in sales tax of about 4.6%, 1% in use tax, and 1% in most of the other General Fund revenue sources.

Councilmember Cubberley said there is a savings in salary and benefits of 26 to 28 open positions and asked if those same savings are calculated into FYE 2012 budget and Mr. Francisco said no, those positions are still in the budget and the money is assumed to be expended unless the positions are closed, eliminated, or a policy is set to keep the positions open for another year. Mr. Lewis said, currently citywide, there are about 38 positions below the authorized staff level. Councilmember Cubberley asked if some of those positions were being filled and Mr. Lewis said yes, and the City is also filling approximately seven police officer positions. Councilmember Kovach asked how many PSST positions are currently filled and Ms. Suzanne Krohmer, Budget Manager, said fifteen in the Fire Department and thirty in the Police Department.

Mayor Rosenthal said it is not the Council's practice to amend the budget mid-year, but there has been discussion regarding an amendment and Council needs to give Staff direction on that matter. She said the City is already working on the FYE 2012 budget and that General Fund balance will reflect the mid-year assumption projections. She said one issue raised to her has been the continuation of furloughs for the non-union employees as a matter of fairness and whether or not that should continue. She asked Council how they wanted to proceed.

Mr. Lewis said Staff has reviewed past history practices in terms of budget amendments and asked Ms. Krohmer to address that history. Ms. Krohmer said the Oklahoma Municipal Budget Act has a budget amendment process. She said the City would have to post a public hearing notice, hold a public hearing, amend the budget in a regular Council meeting, and file the amended budget with the State Auditor and Inspector. She said the last time Council formally amended the budget was in January 2007. Councilmember Ezzell asked why the City went through the process in 2007 and Mr. Francisco said the major change at that time was related to salary settlements with the unions where cost of living adjustments (COLA) were granted, but had not been budgeted.

Councilmember Cubberley asked how much it would cost the City if non-union furloughs were stopped effective January 31, 2011, and Mr. Francisco said approximately \$250,000 for the remainder of fiscal year.

Councilmember Kovach asked how much the merit increases for Fire Department union employees would be since that have not agreed on a contract and Mr. Francisco said about \$80,000.

Mayor Rosenthal said she was not hearing any consensus to direct Staff to bring forward a budget amendment or other issues. She said there will be continuing Finance Committee meetings to review the budget and perhaps recommendations would be made during those meetings. She said the budget will go forward as projected and Council will continue its monitoring.

Councilmember Kovach said the CAFR included a ten year review of full time positions in the City and with the number of vacancies, at this time, staffing is at a historic low even though the population has grown. Mayor Rosenthal said there are trade offs made in tough economic times, but she agreed the City is not operating within a margin of significant comfort in terms of staffing levels.

Items submitted for the record

1. General Fund with FYE 2011 Summarized Revisions and Revisions; Public Safety Sales Tax Fund and Revisions; Room Tax Fund and Revisions; Water Fund and Revisions; Wastewater Fund and Revisions; Sewer Maintenance Fund and Revisions; Sewer Development Excise Tax Fund and Revisions; Sewer Sales Tax Fund and Revisions; and Sanitation Fund and Revisions

The meeting adjourned at 6:05 p.m.

ATTEST:

City Clerk

Mayor