

## CITY COUNCIL STUDY SESSION MINUTES

April 17, 2012

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a Study Session at 5:34 p.m. in the Municipal Building Council Chambers on the 17th day of April, 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 Dillingham, Gallagher, Griffith, Kovach, Lockett, Quinn, Spaulding, Mayor Rosenthal

ABSENT: Councilmember Ezzell

### DISCUSSION REGARDING THE FYE 2013 BUDGET – OVERVIEW OF GENERAL AND SPECIAL REVENUE FUNDS.

Mr. Anthony Francisco, Director of Finance, presented the City Manager's proposed budget for fiscal year beginning July 1, 2012, and ending June 30, 2013 (FYE 2013 Budget). He said this presentation was the culmination of approximately ten months and expressed appreciation to City Council and the Finance Committee who had spent many hours providing input. He also thanked Ms. Mary Anne Kirkland, his assistant; Ms. Kris Wiard and Mr. James Johnson in the Office Services and Print Shop Division who copied, collated, and bound all of the budget books; and Ms. Suzanne Krohmer, Budget Manager.

Mr. Francisco said the process began with Finance Committee meetings on April 17 and November 16, 2011, and January 18, 2012. City Council met in conference to discuss the Capital Budget on November 22, 2011, and for a Mid-Year Budget Review on February 14, 2012. He said today's study session is the first of three discussing the FYE 2013 Budget with this session covering the General and Special Revenue Funds. City Council Study Sessions will be held to discuss Enterprise Funds on April 24, 2012, and on May 3, 2012, to discuss Capital Funds. A Public Hearing on the FYE 2013 Budget is scheduled for May 22, 2012, and Council will consider the FYE 2013 Budget for adoption on June 12, 2012.

The format of budget documents for the proposed FYE 2013 Budget include the City Manager's letter to Council; Community Profile/Demographic and Socioeconomic Information and Benchmark Comparisons; Overview/Statistical Aggregated Data; Financial Policies/Municipal Budget Act; Financial Summaries and Budget Highlights; Fund/Departmental Detail, Mission Statements, Organizational Charts, Goals and Objectives by Division; and Capital Summary/Capital Project Budget.

Mr. Francisco said an economic overview is included in the Budget statement and Staff has summarized the considered opinion of several economists who have opined that the United States economy is slowly advancing and has recovered from the economic recession; however, it is has not been a quick comeback. The Oklahoma City metropolitan area's economy is doing relatively well as it compares to the United States' economy as a whole and Norman is part of the Oklahoma City metropolitan area. He said Norman benefits from the growth in the petrochemical employment base which has been ongoing for several years. The world economy is extremely volatile, particularly in Europe, Greece, Spain, Italy, and the Middle East. He the cutbacks in military and defense spending could have a negative impact on Norman and central Oklahoma economy. He said the aging of our workforce is a concern both nationally, regionally, and for the City of Norman.

Mr. Francisco said there is a historical growth trend in sales tax of approximately 4.4% per year which goes back approximately 30 years. He said the recession of 2009-2010 interrupted this growth trend. The City has recovered and the recovery is reflected in sales tax growth and it is projected it will continue to increase but at a slower pace. He said the growth or decline in the building sectors has had a major effect on the economy and sales tax base. The City of Norman experienced a building boom period in the early to mid-2000s that declined, but not as severe as the national trend. He said there has been a slow growth from that decline in the last few years which he hopes will continue.

Mr. Francisco provided FYE 2012 projected total revenues in the amount of \$204,926,959 which reflect all of the operations of the City and said it is a fairly low amount for a city our size and population. Sales tax is one of the major revenue drivers of the overall budget; however, 20% of the budget comes from fees and charges, primarily by utility customers. He said total expenditures for FYE 2013 were in the amount of \$204,163,417. He said the utility

expenditure side as it relates to the Water Reclamation Fund (formerly the Sewer Utility or the Wastewater Utility) has increased to 22% because the City is budgeting for the multi-million dollar expansion of the Water Reclamation Facility scheduled to start construction this year.

Mr. Francisco highlighted the General Fund revenues by source and said sales/use tax dominates the General Fund at 59%. He said the City is very dependent upon what goes on with our retail and local economy. He said the second area of revenue is franchise fees charged to our private utilities, Oklahoma Gas and Electric Company, Oklahoma Electric Cooperative, AT&T, etc., for their use of the public rights-of-way. He provided information for the FYE 2012-2013 General Fund expenditures by department and stated direct services to the citizens provided by Police, Fire, Parks and Recreation, and Public Works are the major areas of expenditures within the General Fund.

Mr. Francisco listed several General Fund revenue assumptions as follows:

- Sales tax projection of 4.25% growth from projected FYE 2011-2012 levels, based on the historic growth patterns and deterministic methods;
- Sales tax projections account for estimated apportionments to the University North Park TIF;
- Use Tax, Franchise Fee, and Other Tax revenue projected to grow by 3% from FYE 2012 levels;
- Fine and Forfeitures revenue projected to grow by 1% from estimated FYE 2012 collections;
- Licenses and Permit revenues are projected to grow by 1% from FYE 2012 estimates with an added growth factor based on industry estimates;
- Transfers from Water and Wastewater Utilities of 5% of their revenue (based on what private utilities pay for the use of public rights-of way and property taxes);
- Transfers from Capital Fund for costs of capital outlay items budgeted in General Fund but paid from capital sales tax, and for Street Maintenance Division labor used for capital projects; and
- Cost allocation charges based on costs of central services (legal, financial, etc.) provided to utilities.

Mayor Rosenthal said in the statistical overview, the General Fund revenues are shown as a ten year comparison and a full recovery to the previous revenue high was not shown. Mr. Francisco said this was correct, and although the City was getting back on trend, it was still trying to recover from FYE 2010.

Councilmember Gallagher asked how the projected growth in industry standards was figured. Mr. Francisco said the projections are based on what the building industry intends to do in the coming year. Councilmember Gallagher asked where the additional people were coming from when growth in Norman is only approximately 1,500 people per year. Mr. Francisco said this projection only relates to license and permit revenues. He said if the population does not increase to fill the houses that were built, the General Fund is no better or worse.

Mr. Francisco provided major General Fund budget expenditure assumptions:

- Salary and benefit category expenses budgeted for each position in FYE 2013 based on negotiated costs, assuming merit and longevity cost increases and related costs;
- No cost-of-living adjustment budgeted in FYE 2013;
- Salary and benefit category costs assumed to grow overall by 5% in FYE 2014 - FYE 2017;
- Expenditures in Services and Maintenance and Supply and Materials categories reduced by 1.5% in FYE 2013 levels and assumed to grow by 1% in FYE 2014 – FYE 2017;
- Expenditures in Internal Services category based on budgeted costs in Internal Service functions and assumed to grow 2% per year in FYE 2014 -FYE 2017;
- *2% Emergency Reserve assumed to remain unspent in FYE 2012 and included in FYE 2013 Budget. This is new and in previous years, we had assumed this would be spent. It is possible some will be spent due to the recent tornado; and*
- *\$1,000,000 Employee Turnover Savings estimate built into FYE 2012 Salary and Benefit category and included in the FYE 2013 Budget.*

Mayor Rosenthal asked what was assumed in terms of health care costs. Mr. Francisco said in the current year there was no growth assumption and in the out years, an assumption is that health care cost inflation will be collected into that 5% overall category of expenditures. Mayor Rosenthal said there have been major steps taken with the Wellness Program and asked what the real growth was. Mr. Francisco said historically health care costs have grown approximately 11.5% per year. We have made some reductions in the current year that we hope will continue and some changes to cause the rate of growth to moderate somewhat. He said there have actually been no savings in the health care plan, the City of Norman is growing less, but costs for health care are still going up.

Councilmember Gallagher asked if Staff was looking at trends over the past 20 years. Mr. Francisco said the emergency reserve allocation within the General Fund was only started five to six years ago, so before that, funds would have been appropriated in emergency situations. Council directed Staff to reduce the amount of targeted fund balance from 8% to 6% and include an allocation within the budget for an 2% Emergency Reserve. He said going forward, yes, it is hoped that the money is not spent but in the case that it does have to be used, it is there. He said this fund was not created until an ice storm created a very large expenditure.

Mr. Francisco said there is one position that is recommended to be added in the General Fund, the Development Coordinator, which has been filled during FYE 2012 but will be budgeted for in FYE 2013. He said in past years there were several positions listed in the deleted position category and there were none this year.

Mr. Francisco highlighted major issues for the FYE 2013 Budget and beyond to include:

- Projected ongoing shortfall in General Fund net revenue;
- Health insurance program changes;
- Retirement and pension costs;
- Implementation of GASB post employment benefit standards;
- University North Park TIF apportionment;
- Social Service Agency Support;
- Public Safety Sales Tax (PSST) fund "surplus";
- Implementation of Stormwater/Drainage Utility;
- Utility Enterprise Capital Improvements Projects (CIP) and Operations funding; and
- Long term realignment of resources and program priorities.

Mayor Rosenthal asked what impact current pending legislation would have on Police and Fire retirement. Mr. Francisco said there was a proposal before the legislature for an approximate 1% increase in the City's contribution to the Fire Pension Plan with an approximate cost to the City of \$95,000 per year. If there is a similar mandate for the Police Pension Plan that would be an additional \$100,000 per year and a total of \$200,000 per year for both contributions.

Mr. Francisco said new accounting standards will require the City to include in our balance sheet, a liability for our long-term obligations for unfunded liabilities for pension and health care. Norman had the foresight to change its retirement plan and not provide a post retirement health care plan; however, for the costs of the City's health care plan not covered by the contributions from employees, a liability has to be booked on the balance sheet which will be a significant number.

Mr. Francisco provided a chart reflecting General Fund balances for FYE 2008 to FYE 2013 and said the City should have a General Fund balance of approximately \$14 million and the City has been spending more than it's taking in and drawing down the savings account to pay ongoing expenditures. Mr. Francisco said this is not a healthy thing to do. He said expenditure and/or revenue trends need to be changed. Assumptions are being made within our expenditures for FYE 2012 Actual Budget and FYE 2013 Budget going forward that are much less conservative than they have been in past years. He said in past years, it was assumed that the emergency reserve would be spent and it was hoped that we would not. He said cost of living adjustments were not budgeted in FYE 2012; however, they have been granted which makes for a worse picture. He said this is the first time that the assumption was not made that we would spend

all of our money but instead, we reduced our projected expenditures by 2.5% in the current fiscal year and project a reduction of 1.5% in the next fiscal year.

Mr. Francisco provided the following Net Revenue Stabilization Fund requirements:

- “Rainy Day” Fund deposit of \$1,500,000 made in FYE 2012;
- 2% Emergency Reserve Assumed to be Unspent in FYE 2012 in estimating FYE 2013 beginning General Fund Balance;
- Actual Emergency Reserve expenditures estimated at \$500,000 in FYE 2012;
- 2% Emergency Reserve (\$1,359,357) Budgeted in FYE 2012; and
- Total (combined) reserve requirement = 8% - 11.5% of General Fund expenditures.

The “Rainy Day” Fund ordinance adopted by Council last year required the City by law to have this fund. Council mandated 2% in the Emergency Reserve be included in the budget along with 3% Operating Reserve to be included in the actual expenditures going forward to allow a 3% deposit to the “Rainy Day” Fund over a three year period. Those assumptions are not in the FYE 2013 Budget because the operational reserve is short and there is a \$1.5 million requirement to make deposits to the “Rainy Day” Fund over the next two fiscal years.

Mr. Francisco said the largest of the Special Revenue Funds is the Public Safety Sales Tax (PSST) Fund with a projected beginning fund balance for FYE 2013 of \$8,704,568. There are two positions that have been added to the PSST Fund, two detectives in the Police Department, bringing the number of positions up to 67 added to the Public Safety workforce with a total of 71 positions to be added during the life of the PSST. He said the personnel staffing plan is right on schedule, Fire Station No. 8 has been built, and bids will be accepted for construction of Fire Station No. 9 on April 24, 2012. The FYE 2013 Budget includes some one-time priority expenditures from the PSST identified by the Police and Fire Chiefs as follows:

Replace Dispatch and Records Systems	\$2,330,000
Renovate Smalley Operations Center	\$1,127,450
Replace 1995 Fire Boom Truck	\$ 591,275
Replace 1993 Fire Pumper	\$ 451,275
TOTAL	\$4,500,000

Mr. Francisco said after these projects are done, there would be \$6,940,831 remaining in the PSST Fund. He said City Council has discussed a mandate of setting aside six months of Public Safety expenditures for the personnel at the close of the authorized PSST period at a cost of \$6.5 million per year and the amount set aside going forward would be approximately \$3.4 million

Other Special Revenue Funds include the Special Grants Fund; Room Tax Fund that includes Arts and Humanities, Convention and Tourism, and Park Capital Projects and this fund has no growth assumption; Seizures and Restitution Fund; Council on Law Enforcement Education and Training (CLEET) Fund; Art in Public Places Fund; and Westwood Fund.

Councilmember Gallagher asked why there had been an assumption made that the Room Tax Fund would experience zero growth with the growth experience in University North Park. Mr. Francisco said this was based on what has been done this year. He said City Council can vote to make a change to that projection. He said there is one hotel in University North Park but several more hotels through the City and the experience has been in this fiscal year that room tax revenues are flat. Councilmember Kovach asked if there was no increase year to date on the Room Tax revenues from last year. Mr. Francisco said as of last month, it is down a little bit.

Mr. Francisco said the Study Session about the Enterprise Fund on April 24, 2012, will provide discussion about the Water Treatment Plant, the Water Reclamation Facility, the proposed Stormwater Utility and related projects; and capital projects for Sanitation, He said the Capital Budget would be discussed on May 8.

Councilmember Kovach said the City Manager's executive summary said that investment income was down 78% below budget. He asked if there would be a budget assumption more in line with the reality of what we can expect to get back. Mr. Francisco said yes, we did reduce our revenue assumption from interest income somewhat and depending on market conditions, it is unknown if this will be met.

Councilmember Kovach said the estimate for the Smalley Center was higher than anticipated and asked for an explanation of the increase. Ms. Linda Price, Revitalization Manager, said the cost estimates were several years old and due to the delay in getting the Smalley Center, the architect determined that there would be an increase. She also said there were items not incorporated into the original design, primarily related to security. Councilmember Kovach said the parking lot was completely under water during the last major rain event and that the bond issue, if approved, would not alleviate the flooding issues until 2016. He said if the City plans to utilize the building, what provision in the budget would help make the parking lot usable. Ms. Price said the parking lot was not included in the FYE 2013 Budget but in the FYE 2014 Budget.

Councilmember Kovach said he thought Council had decided that the projects were not to be done with PSST surplus funds until the ribbon cutting of Fire Station No. 9 and asked if Fire Station No. 9 would be completed in FYE 2013. Mr. Francisco said yes and the fire trucks to be replaced would not be needed until the Fire Station is completed.

Councilmember Kovach said the cost of vehicles and other equipment is inflating at a much higher rate and is that because some of the vehicles to be replaced are Compressed Natural Gas (CNG) vehicles. Mr. Francisco said the cost for individual vehicles is going up, some are CNG which is more expensive, and it is more expensive to equip the vehicles because technology in vehicles is expensive.

Councilmember Kovach said there are two organizational charts that are not the same and if this would affect the audit. Mr. Francisco said they are just presented differently but say the same thing.

Councilmember Kovach asked if the 5% from utilities is referred to in General Fund Revenues by Source, Cost Allocations. Mr. Francisco said no, the 5% from utilities is included in the 6% transfer item. Mr. Francisco said cost allocation are charges for services provided by the General Fund to other city operations external to the General Fund, primarily the utilities. He said where the 5% transfer is being made in lieu of a franchise fee, the cost allocation charges are being made for direct services being provided by the General Fund to the utilities, for example, legal services. Councilmember Kovach asked how this was different than the internal charge. Mr. Francisco said it is a different service, the internal service charge is for areas of the city separately set up to provide services to external agencies. He said, for example, a lot of what he does is serve the General Fund but all of what the Print Shop does is serve customers of the Print Shop, so the Print Shop charges out for all of its services and that is taken up in those internal service charges.

Councilmember Kovach said short-term debt is discussed as well as the idea of funding the parking meters for the downtown parking lot through short-term debt and he wondered how this works under the Municipal Budget Act. He asked if a City was allowed to budget beyond the fiscal year or does the debt have to be paid off in one year. Mr. Francisco said under the Municipal Budget Act, expenditures that are considered immaterial can be budgeted beyond a fiscal year. He said he is not familiar enough with the proposed expenditures for the parking meters, but to the extent that it is a short-term expenditure, less than two years by definition under the Municipal Budget Act is an immaterial act, it could be done without a vote of the people.

Councilmember Kovach asked if the "Smart Hiring Freeze" would be continued. Mr. Francisco said yes. Councilmember Kovach said there is a \$1 million assumption built into the current fiscal year budget and was it being tracked to see if it would be higher or lower. Mr. Francisco said we are tracking right on that number with some trepidation for some recent retirements with pretty big payouts.

Councilmember Kovach asked why there was a 12% increase in services and maintenance costs from the FY 2012 Budget. Mr. Francisco said he would look into that and get back with him.

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Councilmember Kovach asked if the money in the "Rainy Day" Fund is invested and does the interest go back into that fund. Mr. Francisco said it goes back into the General Fund.

Councilmember Kovach asked if the insurance money be part of the budget under the new accounting system. Mr. Francisco said a separate Risk Management Fund was started in FYE 2012 and that is ongoing.

Councilmember Kovach asked why there was an approximate 19% increase in service and maintenance in the General Fund. Mr. Francisco said he would investigate this and get back with him.

Councilmember Kovach asked why there was a large increase in the subsidy to Westwood. Mr. Francisco said this relates to personnel cost increases for Westwood and the unbudgeted cost of living adjustment done this fiscal year will be budgeted next fiscal year.

Councilmember Kovach said the beginning fund balance projected for the General Fund for 2013 is approximately \$3.5 million with an increase to the beginning fund balance for FYE 2012 from \$4.79 million to \$8.04 million. He asked why this difference was not reflected in the beginning budget for FYE 2012. Mr. Francisco said some of it would have been used during the course of the last fiscal year. When these projections are made, there are still outstanding expenditures yet to be booked. Councilmember Kovach asked if all of these expenditures were approved by Council in a previous budget and just had not appeared in that budget yet. Mr. Francisco said these are items that were encumbered but not actually paid out and would have carried over in the fund balance increasing that figure. Mayor Rosenthal asked if one of the differences was the appropriation made mid-year to the "Rainy Day" Fund. Mr. Francisco said that would not make a difference in the beginning fund balance, but would impact operations during the course of FYE 2012.

Mayor Rosenthal said this is a perilously thin fund balance that Council should think about between now and final adoption.

Items submitted for the record

1. PowerPoint Presentation entitled, "City Council Fiscal Year 2012-2013 Budget Study Session dated April 17, 2012"

The meeting adjourned at 6:30 p.m.

ATTEST:

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City Clerk

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Mayor