

## CITY COUNCIL STUDY SESSION MINUTES

April 19, 2016

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 April, 2016, 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, Mayor Rosenthal

ABSENT: Councilmember Williams

Item 1, being:

### DISCUSSION REGARDING THE PROPOSED FYE 2017 CITY OF NORMAN BUDGET – GENERAL FUND AND SPECIAL REVENUE FUND.

Mr. Steve Lewis, City Manager, said a budget is about choices regarding the types of public services the City wants to provide, types of capital improvements being considered, and how projects will be funded. He once read that a budget is supposed to bring order to an uncertain world and it is certainly an uncertain world right now when you think about some of the economic influences that are impacting the City and State's budget. He said the duration and severity of the downturn in the economy is difficult to determine and factors that impact the economy include trends in inflation, interest rates, commodity prices, State mandates, population trends, income, unemployment trends, etc.

Mr. Anthony Francisco, Director of Finance, said the budget is a policy document that is also the financial plan for the City, the departmental operations guide, and a communications device for the public. He said budget discussions begin in November with a mid-year review in January each year and summarized the FYE 2016-2017 Budget. He said Council will be presented with an overview of the General and Special Revenue Funds Budget tonight and will review the Enterprise Funds Budget on April 26, 2016; Capital Funds Budget on May 3, 2016; hold a public hearing on May 24, 2016, regarding the Budget; and is proposed to adopt the Budget on June 14, 2016.

Mr. Francisco said the format of the budget document is laid out from the most summarized to the most detailed and he recommends that everyone read the City Manager's letter in the document because it gives a brief background of everything in the budget proposal. He said the budget also contains frequently asked questions (FAQ's) such as the number of City employees; Norman's population; Rainy Day Fund balance; progression of Norman Forward Projects; etc. The budget also contains organization charts; sales tax history; unemployment rates; sales tax distribution charts; projected revenues; projected expenditures; property tax distribution charts; revenues by source; expenditures by department; and a glossary.

Mr. Francisco said Norman is better insulated than Oklahoma City and even the State of Oklahoma from the direct and immediate impacts of the petro chemical industry booms and busts; however, Norman is not completely immune and feels those ups and downs on a delayed basis. He said Norman is currently in that delayed period and that is why sales tax is only being projected at a growth of 2%.

## **GENERAL FUND**

Mr. Francisco said General Fund net revenues are projected to be \$77,621,491 and net expenditures are projected to be \$77,860,160 with the largest expenditures being direct service to citizens through the Fire, Police, and Public Works Departments. He said expending more money than what is taken in is a circumstance that cannot continue, but the gap is closing because Council and the City Manager have taken some pretty bold steps and measures to rein in spending.

The major assumptions of the General Fund Budget revenues include a sales tax projected growth of 2% from FYE 2015/2016 levels based on deterministic methods and current economic conditions; projected 3% growth in Use Tax, franchise fees, and other tax revenues from FYE 2016 levels; 1% projected growth in fines and forfeiture revenues from FYE 2016 levels; 1% projected growth in licenses and permit revenues from FYE 2016 estimates; transfers from Water and Wastewater utilities of 5% of their revenue, based on what private utilities pay for use of public Rights of Way (ROWs); transfers from Capital Fund for costs of capital outlay items budgeted in General Fund but paid from Capital Sales Tax and for street maintenance and Engineering Division labor used for capital projects; and cost allocation charges based on costs of central services (legal, financial, etc.) provided to utilities plus increased share for additional meter servicing staff.

The major assumptions of the General Fund expenditures include salary and benefit expenses budgeted for each position in FYE 2017 based on actual contractual costs assuming merit and longevity cost increases and related costs; no cost-of-living adjustment budgeted in FYE 2017; out-year projections made “to determine future financial viability to identify financial strengths and weaknesses and to provide a base for remedial or supportive policy actions”; 5% overall assumed growth in salary and benefit category costs in FYE 2018 through FYE 2021; 1% assumed growth in expenditures for services/maintenance and supplies/materials in FYE 2018 through FYE 2021; 2% assumed growth for services category costs based on budget costs in internal service functions; and employee turnover savings estimate taken from the FYE 2016 salary and benefit category, \$800,000 assumed in the FYE 2017 Budget.

Councilmember Castleberry asked why the 2% reserve is not projected in the out-year’s budget and Mr. Francisco said because the 2% reserve is not a compounded figure, it is an annual budgeted figure that assumes to be spent and once it is gone it is gone. If it is in fact gone, Council would have to take remedial action to rebuild it. Councilmember Castleberry felt that was misleading because the City knows it will have a 2% reserve each year and not placing the 2% reserve in out years makes it look as if the City has more money than it does and he would like to see that 2% in the budget. Mayor Rosenthal disagreed and said something that is compounded and grows over time is very different than a one-time expenditure that is spent or not spent. Mr. Francisco said each year the City hopes the reserve is not spent and some of it has been spent in the past, but the City has to project that it is spent annually. He said it would be a bit misleading to project it will be spent each year over the next four years when in reality it is an annual appropriation; however, if Council directed the 2% reserve be put into the out-year projections, Staff would do that. Councilmember Jungman and Councilmember Heiple did not see the need to do that. Mayor Rosenthal said there seems to be a difference of opinion on this issue and suggested Mr. Francisco check with the auditor on best practices for this issue.

Mr. Francisco said FYE 2017 General Fund Budget highlights include added staffing in Animal Welfare, Customer Service, and an expanded Storm Water Program (at the minimal level); mandated Storm Water Program expansion; expanded capital project support staff (paid by the Capital Fund); closing the ongoing gap between revenue and expenditure (negative \$238,669 in FYE 2017); and targeted reserve requirements are met.

**GENERAL FUND, continued:**

Mayor Rosenthal said in the Animal Welfare Division, there is a \$200,000 difference in this year's budget compared to last year's budget, but the City is only adding a part-time veterinarian so what is driving that difference? Mr. Francisco said in addition to the part-time veterinarian proposed to be added in the FYE 2017, the budget also includes a couple of positions added in FYE 2016, a Police Captain and an Administrative Technician for the Animal Welfare Division. Mayor Rosenthal asked if staff is comfortable that the metrics of a part-time veterinarian will be comparable to the metrics of service the City is currently receiving for contracted veterinary services and Mr. Keith Humphrey, Police Chief, said it will be better because the part-time veterinarian can do everything the contracted veterinary service currently does.

Mr. Francisco said net Revenue Stabilization Fund policies and assumptions include the 2% emergency reserve (\$942,261) budgeted in FYE 2017, as mandated, and the Rainy Day Fund Balance of \$3,203,734 as of June 30, 2015 (above its minimum required level, but below targeted levels). He said the Rainy Day Fund is a moving target and as General Fund revenues and expenditures grow, the target for the Rainy Day Fund grows. He said Staff will not know the deposit amount until the mid-year budget review in January 2017, but it is projected to be \$88,000.

**Public Safety Sales Tax (PSST)**

Mr. Francisco said the Public Safety Sales Tax (PSST) Fund has a beginning fund balance in FYE 2016 of \$30,203,891. He said a new Emergency Communications Center (EOC)/Dispatch Facility is being constructed and two additional dispatchers have been added. The Emergency Radio System Replacement Project is currently underway as well. The School Resource Officer (SRO) Program will be deployed in August 2016, with future deployments in FYE 2018 as well as additional mechanic personnel to maintain emergency vehicles.

Councilmember Holman asked if State wide budget cuts to the schools will affect the schools ability to meet their financial obligation toward the SRO Program. Mr. Francisco said the Norman Public School System (NPS) is on track to maintain its obligation to match the City's deployment of the officers this year; however, there are ongoing negotiations regarding additional staff in out years. Mr. Lewis said NPS feels confident in terms of the first phase of rolling out the program but going forward, will negotiate on a year-to-year basis. Councilmember Holman asked if the City is going to be out more money for the program and Mr. Francisco said no, additional SRO Staff will not be hired until an agreement with NPS has been reached regarding their match.

Mayor Rosenthal said Staff is using different revenue estimates for PSST versus Norman Forward and those differences vary quite a bit. She understands the PSST is based on a projection from past figures, but a half percent is a half percent and it seems whatever revenue estimate Staff makes as a total number should be the same. Mr. Francisco said that is a valid point and if Council directs Staff to use the same projections for the Norman Forward Fund as they do for the PSST Staff will do that. Staff wanted to project the Norman Forward Fund based on how it was projected when the vote was taken in October 2015 and that is why it was projected differently. He said it is also because there is no history to grow from in the Norman Forward Fund. Mayor Rosenthal said there is not history for the Norman Forward Fund, but there is history based on the revenues expected and she thinks it is confusing and leads to criticism that the City is using different numbers when the sales tax percentage is the same for both and Councilmember Castleberry agreed. Mr. Francisco said Staff will make that change and have that as an amendment to the budget when it comes before Council.

**Special Revenue Funds**

Mr. Francisco said there are other Special Revenue Funds included in the budget document and highlighted those funds as the Community Development Block Grant (CDBG-DR) Disaster Recovery Grants for rural road improvements; Room Tax Fund (arts/humanities, convention/tourism, park capital projects); Seizures and Restitution Fund; CLEET Fund; Art in Public Places Fund; and Westwood Fund. He said once the Westwood Pool has been reconstructed, the Parks Staff will have to review their assumptions related to the new pool operations and maintenance.

**Major FYE 2017 Budget Topics**

Mr. Francisco said other FYE Budget topics include the ongoing shortfall in General Fund net revenue; storm water mandates that will impact the General Fund; fleet vehicle replacements; PSST II implementation; I-35 Corridor construction; utility enterprise capital improvement projects (CIP) and operations funding; and long-term realignment of resources and program priorities. He highlighted upcoming Study Session topics as follows:

<b>ENTERPRISE FUNDS</b>	<b>CAPITAL FUNDS</b>
Fund Balance and Rate Structures	Fleet Replacement
Stormwater Utility Enterprise	Lindsey Widening/I-35 Interchange
Sanitation Fleet Replacement	State Highway 9 Widening
Water Treatment Plan Improvements, Phase II	Maintenance of Existing Facilities
Water Reclamation Facility Expansion and Improvements	Norman Forward Projects
Enterprise CIP and Operations	G.O. Bond Projects

Councilmember Castleberry said revenues and expenditures should equal and asked the City Manager what the City would have to do to maintain levels of service while cutting expenses to balance the budget. Councilmember Jungman said cutting more expenses should not be necessary as the fund balance is there to maintain services. He said the City does not provide optional services, the City provides services integral to people’s lives and the City needs to use the fund balance to make sure the City can provide those basic services. Council does not need to trim the budget because the revenue numbers are not good enough because it seems the revenue problem needs to be solved since revenues are not sufficient for the services the City provides.

Mayor Rosenthal said if Councilmembers have areas they think should be cut, the City Manager would appreciate hearing about those. She said Council has a tendency to add expenditures so they should take on the responsibility of saying what things should be cut if they believe it is crucial.

Councilmember Castleberry has no problem spending the fund balance, but felt it should be done on a case-by-case basis. The City should not plan to spend more than it takes in and if the City needs to dip into their savings they dip into their savings, but no one should plan to dip into their savings. On the other hand he does not believe the fund balance should be too healthy because that means the City has taken in too much money and has not spent money providing services. He felt the time to spend surplus is when you have a surplus, not beforehand.

Councilmember Jungman would like to increase the Legal Staff by filling the vacant position, which is not in the budget. He would also like to add personnel in the Planning Department to help with Form Based Code (FBC) requirements. Mr. Lewis said Staff has reached out to the FBC consultant, Ms. Mary Madden, regarding training opportunities to help Staff be more responsive should FBC be adopted. Ms. Susan Connors, Director of Planning and Community Development, said there is an online series of instructions regarding FBC and she intends to pursue training with all five planners and Councilmember Jungman felt that was a good idea.

Items submitted for the record

1. PowerPoint presentation entitled, "City Council Fiscal Year 2016-2017 Budget Study Session," April 19, 2016

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The meeting adjourned at 6:46 p.m.

ATTEST:

  
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City Clerk

  
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Mayor

