

CITY COUNCIL BUDGET RETREAT MINUTES

October 7, 2010

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a Budget Retreat at 6:08 p.m. in the Municipal Building Conference Room on the 7th day of October, 2010, 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, Griffith, Kovach, Quinn, Mayor Rosenthal

ABSENT: Councilmembers Dillingham and Ezzell

DISCUSSION REGARDING THE FYE 2011 BUDGET UPDATE.

Mr. Steve Lewis, City Manager, said tonight's meeting is an update, at Council's direction, from the Budget Retreat held on September 18, 2010, and Staff prepared additional scenarios that are General Fund oriented. He said Staff would like feedback from Council on the economy, sales tax projections, and fund balances.

Mr. Anthony Francisco, Finance Director, said Staff is providing three budget scenarios to Council. He said the Base Scenario depicts an actual FYE 2011 fund balance of \$5.5 million and there was some confusion over that figure when it went to the unions. He said at the end of FYE 10, the City had a fund balance of \$13.2 million that included the Public Safety Sales Tax (PSST). He said the PSST has been included in the General Fund from the time of its inception until the end of FYE 10. He said there has always been a line item for the PSST revenues and expenditures and at the end of FYE 10, the PSST had a reserve of \$5,968,000. He said there is a \$1.8 million difference in the beginning fund balance in FYE 10 and the beginning fund balance for FYE 11 due to money reserved for encumbrances.

Mr. Francisco said the reserve for self insurance of \$4.2 million is an actuarial figure based on historical experience of what is estimated to be spent in a three month period on tort claims, health insurance claims, and workers compensation claims. He said the City does not have the adequate insurance fund balance to meet those needs and will be approximately \$6.2 million short.

Mr. Francisco said, in Scenario 1, the assumptions include taking the PSST reserve out of the General Fund and moving it into a new fund. Scenario 1 assumes all employees will have 96 hours or one day per month of furloughs for a savings of \$2.3 million. It also assumes no merit increases, no cost of living adjustments (COLA) and no layoffs. It assumes additional revenues for Municipal Court fines, Capital Improvement Project transfers, and Utility Enterprise transfers.

Scenario 1 assumes a 3% sales tax increase based on a 6% increase in July, 3% in August, and 1% in September and said if that trend carries forward in FYE 11, it would generate a little over \$1 million in additional sales tax revenue. He said Use Tax is assuming an increase of \$150,000, a decline in fines and forfeitures of \$300,000, and a decline in investment income projections of \$75,000. He said there is a presumed sales tax increase of 4% in FYE 12 and 4.5% in FYE 13 through FYE 16.

Mr. Francisco said health claim costs are \$1.5 million in excess of projections and although the City can increase health premiums to offset those additional costs, the City would still pay 90% of those costs. He said Scenario 1 also takes into consideration that the Police and Fire Unions will not take furloughs, which will cost \$600,000.

Mr. Francisco said Scenario 1 and 2 have a budgeted savings of \$200,000 for the employee smart hiring freeze and if that trend continues, the City will save approximately \$1 million.

Mr. Francisco said the General Fund Balance will be approximately \$6.6 million short. Mr. Lewis asked if all scenarios excluded layoffs and Mr. Francisco said yes. Mayor Rosenthal asked if that also assumed no merit increases and Mr. Francisco said yes. Mayor Rosenthal asked what it would cost to include merit increases and Mr. Francisco said an estimated \$476,000. He said the American Federation of State, County, and Municipal Employees (AFSCME) would be \$160,000, the Fraternal Order of Police (FOP) would be \$130,000, and the International Association of Fire Fighters (IAFF) would be \$79,000.

Mr. Francisco said Scenario 2 assumes that no employees will take furloughs so the \$2.3 million budgeted in the furlough program would not be saved. In Scenario 2, the City would lose \$5 million in FYE 10 and with an ending fund balance of \$306,000 the City would be \$8 million short of what the General Fund needs to meet targets.

Councilmember Cubberley asked what the cost would be if Police and Fire Unions negotiated for no merit raises only and Mr. Francisco said \$200,000 for both unions. Councilmember Cubberley asked about AFSCME under the same scenario and Mr. Francisco said \$160,000. Councilmember Atkins asked if the budget assumed any pay back to non-union employees that are currently furloughed if unions refused to furlough and Mr. Francisco said the budget assumes no reimbursements.

Councilmember Cubberley said he has never seen a budget without insurance reserves, which is significant, and asked how many workers' compensation claims were ongoing and Mr. Bryant said approximately 30 cases. Councilmember Cubberley said a portion of those employees are receiving temporary benefits and medical benefits, which are over and above health benefit premiums. Councilmember Kovach asked if workers compensation claims over \$1,500 go onto the tax rolls or if they are separate and Mr. Bryant said benefits are paid out of General Fund reserves and the disability adjustments are placed on the tax rolls, which reimburses the fund over a three year period.

Mayor Rosenthal said she was not comfortable with the 3% sales tax increase assumption as sales tax revenues are all over the place and there is too much uncertainty and Councilmembers agreed. Councilmember Cubberley said Council must be very cognizant of the budget in outlying years and savings must begin now. He said even with a 3% sales tax increase assumed, the City is still in a bad position.

Councilmember Kovach asked if the City had reviewed early retirement options and Mr. Lewis said Staff has reviewed that internally, but has not presented it to Council for their review. Mr. Lewis said retirement programs that are successful throughout the country offer two to three years worth of health insurance or health insurance until the employee qualifies for Medicare. Ms. Gala Hicks, Director of Human Resources, said there are many employees over 65 that continue to work and qualify for Medicare. Councilmember Cubberley asked if early retirement programs for the unions would have to be negotiated and Mr. Bryant said yes. Councilmember Kovach said he would like to examine plans for an early retirement program since there are employees at retirement age. Councilmember Atkins asked if the City is saving money on those employees that are Medicare eligible. Councilmember Kovach asked if the City had thought about a type of bridge insurance that would be above and beyond what Medicare would provide. Councilmember Cubberley asked if the City was not a secondary to Medicare and Ms. Hicks said she thought Medicare was primary and the City secondary, but she would check to be sure. Mr. Lewis said Staff would draft early retirement scenarios for Council's review.

Councilmember Atkins asked if the City has discussed reducing the pay scale or having two tiers, one for current employees and one for new hires and Mr. Lewis said that could be done for non-union, but would have to be negotiated with the unions. He said the City could "red circle" positions they felt were overpaid and freeze or reduce that rate of pay on non-union only. Councilmember Cubberley felt that any pay scale reduction would have to be done in conjunction with a marketing study and asked what that would cost. Ms. Hicks said it would be in the six figure range and Council felt such an expenditure could not be justified at this time.

Mayor Rosenthal asked for Council input on revenue projections and Councilmembers said they would like to see a budget scenario with 0% sales tax growth. Councilmember Cubberley said the City has cut many expenses, but prices for gas and materials continue to increase. Mr. Lewis submitted a comparison price list for salt, concrete, asphalt, and fuel for FYE 10 and FYE 11. Councilmember Atkins asked if office supplies, electricity, and other utilities have been increasing and Ms. Suzanne Krohmer, Budget Manager, said internal Print Shop Division costs have been much higher recently. Mayor Rosenthal asked if the budget had been adjusted for an expected 10% fuel cost increase and Mr. Francisco said no.

Councilmember Kovach asked if Staff had any sense that more people are looking at retiring or if more positions would be vacated and Mr. Lewis said there have been two major resignations recently, but he is not aware of any others. Councilmember Kovach felt that personnel cost savings through attrition is less painful than layoffs and asked what savings might be anticipated through attrition. Councilmember Cubberley felt that attrition is random and can affect service levels if the position is left vacant so, realistically, costs cannot be anticipated. The meeting was recessed at 6:55 p.m. and reconvened at 7:16 p.m.

Councilmember Kovach said he would like a 2% scenario for revenues. Mayor Rosenthal said she would like to see a separate scenario on the impact of merit increases for unions if arbitrators rule to reinstate merit increases. She said she is uncomfortable having merit increases for unions while furloughing the non-union.

Additionally, Mayor Rosenthal said she would like the budget updated showing increases in fuel costs and Councilmember Atkins suggested adding a column for operating costs for purchases such as fuel.

Councilmember Cubberley asked that the information be reviewed in another meeting as soon as possible in order to give the City Manager direction as employees are waiting to see what Council is going to do with their jobs.

Items submitted for the record

1. Budget Base Scenario, Scenario 1, and Scenario 2
2. Cost per unit for materials

The meeting adjourned at 7:21 p.m.

ATTEST:

City Clerk

Mayor