

CITY COUNCIL STUDY SESSION MINUTES

April 19, 2011

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a Study Session at 5:35 p.m. in the Municipal Building Conference Room on the 19th 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 Atkins, Butler, Cubberley, Dillingham, Griffith, Kovach, Quinn, Mayor Rosenthal

ABSENT: Councilmember Ezzell

DISCUSSION REGARDING THE FYE 2012 BUDGET – GENERAL AND SPECIAL REVENUE FUNDS.

Mr. Steve Lewis, City Manager, said tonight's presentation will include the FYE 2012 General Fund Budget as well as fund balance policy, sales tax, and health insurance issues. He said Staff provided a mid-term budget review in January 2011, and expressed an incremental improvement over FYE 2011 Budget. Although the sales tax collections have increased for Norman, economically the City is where it was two years ago.

One proxy for economic health in the community is home building and one of Norman's greatest years for home building was in 2005, when 722 homes began construction. Home building dropped to 337 in 2009 and 339 in 2010. Mr. Lewis said lending is very rigid especially for spec homes, but conversations with the Home Builders Association are that home building will improve slightly next year.

Sales have shifted throughout the country toward on-line sales and Staff will discuss specifically on-line sales, as they relate to Norman sales tax. Research has shown about six percent of all United States (U.S.) retail sales transactions are done on-line and are predicted to increase to eight percent by 2014. Mr. Lewis said Staff will also discuss expenditures and the continuation of 2010 issues in terms of a hiring freeze, elimination of base budget adjustment, and reductions in departmental operating accounts. He said cities in Oklahoma, in general, are over-reliant on sales tax and Oklahoma is the only state that prohibits the use of property taxes for general municipal operations. He felt cities in Oklahoma are aware of the need to have a more diversified revenue stream to achieve some fiscal stability. Mr. Lewis suggested contemplating the level/quality of services the City will and will not provide and any new initiatives the City may or may not want to pursue when discussing FYE 2012 Budget. He said the budget is a very important policy document for the City but it also shapes the community in which we live.

Mr. Anthony Francisco, Director of Finance, stated the information provided today is the City Manager's proposal of the FYE 2012 Budget and Staff will rely on input from Council and the public to identify any changes. The FYE 2011-2012 Budget calendar began on July 21, 2010, with budget discussions at a Council Finance Committee meeting. A Council Budget Retreat was held on September 18, 2010, where Council directed Staff to prioritize the FYE 2011 Budget at that point in time. Mr. Francisco said throughout the next several months the Finance Committee and Council as a whole have given Staff direction in a series of meetings, phone calls, and emails, etc., and the proposed FYE 2012 Budget reflects that input. He said today's study session is the first of three discussing the FYE 2012 Budget. A study session is scheduled for April 26, 2012, on Enterprise Funds, and on May 3, 2011, when the Capital Budget will be discussed. A public budget hearing is scheduled for May 24, 2011, and Council will consider the FYE 2012 Budget for adoption on June 14, 2011.

The format of budget documents for the proposed FYE 2012 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 highlighted the General and Special Revenue Funds and said the General Fund is the general operating fund of the City and is used to account for all financial resources, except those required to be accounted for in another fund. He said Special Revenue Funds are used to account for the proceeds of specific revenue sources, (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specific purposes and will have specific stipulations attached to particular revenue sources that can only be spent for certain and precise purposes.

Mr. Francisco provided background information on the U.S. economy and said this time last year was the midst, or perhaps the end, of the greatest recession that the Country had faced in over 80 years. He said most economists believe the U.S. economy has stabilized and is slowly beginning to advance, but it is still weak and vulnerable. Although the U.S. is beginning to come out of the recession, employment growth is not advancing as quickly and this concerns economists. Mr. Francisco said housing markets have not recovered nationally and are inconsistent in Norman which is another concern for economists. Inflation has been held to a low rate for a lengthy time, but most economists do not believe that can be sustained much longer. He said the nation could move into an inflationary period bringing both positive and negative issues for national and local economies.

Housing construction, or the lack of, strongly impacts Norman's sales tax, use tax, and permit fees. When housing construction is in high demand construction items, i.e., shingles, lumber, etc., are being bought and sales/use taxes are applied to those purchases. Mr. Francisco said Norman's building industry has had a five year decline causing a negative impact on the sales tax and local economic base thus producing negative impacts and downward pressures on very important sources of revenue for the City.

Mr. Francisco stated the City was continuing a historical growth trend in sales tax (approximately 4.5% per year growth) for Fiscal Year Ending (FYE) 2009. He said the City experienced a decline of 4.5% overall in the sales tax for FYE 2010 and although the sales tax has slightly increased in FYE 2011, the growth started "in the red" thus only bringing the sales tax back to where it was two years ago. Mr. Francisco stated the City's expenses over the last two years have continued to increase causing serious issues and Mayor Rosenthal said it was important to remember the increase in the 2008 General Fund revenues was largely due to the Federal Emergency Management Association (FEMA) reimbursements from the 2007 Ice Storm. She said since 2007 there has been virtually no growth in the total of the sales tax revenue that is available in the General Fund.

Mr. Francisco provided the FYE 2012 projected total revenues in the amount of \$165,831,409 and the total expenditures in the amount of \$179,299,062. He said the largest area of expenditures are for Public Safety, i.e., Police and Fire; Utilities for Water, Wastewater, and Sanitation; and Public Works; and stated all are areas of service the City provides to citizens.

Mr. Francisco highlighted the General Fund revenues by source and said sales/use tax dominates the General Fund at 59%. He said it is not good to have such a strong reliance on the sales/use tax as the primary General Fund revenue source. He felt the City should diversify the revenue base in the General Fund as much as possible, but under State law there is not much the City can do to make those changes. Mr. Francisco provided information for the FYE 2011-2012 General Fund expenditures by department and stated direct services to the citizens provided by Fire, Police, and Public Works are approximately 65% of the General Fund budget.

Mr. Francisco provided a 10-year history for Norman's use tax revenue and said online purchases are a growing trend in consumer behavior. He said by law when a Norman citizen makes an online purchase from an out of state retailer and has it shipped to Norman, a use tax should apply to the purchase, but this is very difficult to enforce. He said use tax has been a rapidly growing source of revenue for eight of the last ten years, but even so, the last two years the use tax has declined, and this is an issue. Mr. Francisco said the City is doing the best it can to get voluntary compliance with use tax statutes, but it is a difficult issue to implement when retailers are out of state. He said when retailers evade the payment of lawfully required taxes it is a direct hit to Norman's General Fund.

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Mr. Francisco said there is a substantial level of trepidation concerning the General Fund revenue assumptions, but said history tends to repeat itself and a 4.6 % growth rate appears to be sustainable. General Fund revenue assumptions include:

- Sales tax projection of 4.6% growth from projected fiscal year 2010-2011 levels, based on the historic growth patterns
- Sales tax projections account for estimated apportionments to the University North Park Tax Increment Finance (TIF)
- Assumption of a 3% growth rate for use tax, franchise fee, and other tax revenues from FYE 2011 levels
- Fine and Forfeitures revenue estimate excludes revenue from one-time collections of past due citation payments in FYE 2012
- Licenses, Permits, and Service Fee revenue are projected to grow by 1% from FYE 2011 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
- General Fund internal service charge revenue is decreased due to creation of Risk Management Fund
- Cost allocation charges based on costs of central services, i.e., legal, financial, etc., provided to utilities

Mr. Francisco said there is a small increased projection for investment revenues. He said investment revenues in FYE 2011 are predicted to have declined and the small growth projected for FYE 2012 is from a lower base. The major General Fund Budget expenditure assumptions include:

- Salary and benefit category expenses budgeted for each position in FYE 2012 based on negotiated costs and assumed to grow overall by 5% in FYE 2013 to FYE 2016, i.e., salaries for full-time and part-time employees, overtime expenditures, health care expenditures, worker's compensation premiums, unemployment compensation premiums, etc.
- Expenditures in Services and Maintenance and Supply and Materials maintained at FYE 2011 levels and assumed to grow by 1% in FYE 2013 to FYE 2016
- Expenditures in Internal Services category based on budgeted costs in Internal Service functions and assumed to grow 2% per year in FYE 2013 to FYE 2016 – this includes departmental payments to the Fleet Maintenance Division for fuel. Fuel has been increasing at a much larger rate than 2% per year the last several years. If this continues then the City will not be able to hold to the 2% projection.
- FYE 2011 Outside Agency funding cuts (10%) are maintained
- Increased fuel costs reflected in Internal Services expenditure category

Major salary and benefit assumptions include:

- No budgeted cost of living increase for FYE 2012
- No budgeted merit (“step”) increases for FYE 2012
- Health insurance cost (City contribution) increase of 5%, to \$7,780 for single employee and \$15,727 for family coverage (premiums increased by 15% mid-fiscal year 2011 and the 5% increase is in addition to that)
- “Employee turnover savings” estimated at \$1,000,000 under assumption that “smart hiring freeze” will be maintained. Overall turnover remains extremely low.

Mayor Rosenthal asked Staff what would be the employee's contribution for health insurance and Mr. Francisco said it family coverage would be approximately \$260.00 per month. Councilmember Dillingham asked if the coverage for family would be the same if for one child or two, three, etc., and Mr. Francisco answered in the affirmative. Mr. Lewis said there are some provisions for the new federal health care law discussing high value plans and based on where the

City is currently and future projections, Staff may recommend a high value plan in 2018 when that particular provision of law will go into effect. He said there are not any regulations at this time and depending on how the health care system remains and/or escalates; the City could be vulnerable to that increase (increment above a threshold).

Councilmember Cubberley asked if the \$1,000,000 savings for the salary assumptions included a certain number of City positions held vacant and Mr. Francisco said no, it is only assuming that the non-critical positions that come open/available, will remain and be held vacant. Mayor Rosenthal said there are approximately 45 positions in the City that are vacant and Mr. Francisco said some of those positions will continue to remain "frozen". Councilmember Cubberley asked Staff why not just eliminate those vacant positions and Mayor Rosenthal said the vacant positions may be unevenly spread throughout the City.

Councilmember Cubberley said the City is in a budget crisis and felt a false impression is being given to the public when the public is told that the level of service will not be affected/adjusted. He said City employees are already stretched, some more than others, and felt the City needed to look at how to deliver services differently or determine what services are most critical, eliminating those that are less critical. He said the City's budget, based on Staff's projections and over time, is not sustainable. He said FYE 2012 Budget is a constitutional budget, but when looking at the future projections the deficit will continue to grow. Councilmember Dillingham agreed but would rather have the City Manager look at open positions to determine where eliminations may occur. She felt additional public input and education would further establish where the City is stretched to thin and whether or not the City should consider the way services are delivered.

Councilmember Kovach asked about voluntary furloughs and feasibility of buy-out programs and Mr. Lewis said Staff has been working with the City's labor counsel. He felt adding furlough days to the current staffing levels will only compound the workload issue. He said Staff can provide information to Council in reference to buy-out, at an appropriate setting, when the City begins moving into the upcoming labor discussions.

Mayor Rosenthal asked Staff if the longevity program would continue in the proposed FYE 2012 Budget and Mr. Lewis answered in the affirmative. He said under the employee handbook and as part of the collective bargaining agreements there is a longevity program stipend available to employees which equates to approximately \$910,000 annually. Mayor Rosenthal said the original longevity program was designed to begin after an employee reached the last step of their position but now the longevity program begins at five years for an employee and she felt the design of the longevity program was not in sync with the original intent. She understood the longevity program is a negotiable item but said it would make sense to get it back to the original design and intent and suggested this issue be looked at going forward. Councilmember Atkins asked if the City has benchmarked benefit packages using public sector versus private sector in surrounding communities and Mr. Francisco said yes. He said total compensation and all the components were benchmarked and Councilmember Atkins wondered if any of the "fringe areas" i.e., funeral leave etc., could be eliminated without impacting the employee.

The proposed position changes for the General Fund include adding three part-time dispatch "call takers" and deleting one part-time Planning technician intern. Councilmember Kovach said the Planning Department recently had an administrative level employee leave the City and felt now might be the time to consider the creation of a new position, i.e., ombudsmen, to assist new businesses. Councilmember Dillingham agreed but felt the City Manager should weigh in on any open, vacant, or new positions, and Mr. Lewis said Staff will provide cost estimates to Council on the position. Mayor Rosenthal understood the extra demand on support services since the inception of the Public Safety Sales Tax (PSST) and said Staff previously mentioned the PSST also affected Information Technology (IT), Fleet Maintenance, Municipal Court, etc. She asked Staff for clarification as to why three part-time positions were only being added to the Police Department/Dispatch and not any other City departments and Mr. Lewis said Staff looked at approximately \$453,000 total PSST support positions but felt the proposed positions for the Police dispatch "call takers" were the best options at this time. He felt going forward positions would be needed as additional Police Officers and/or Fire Fighters are hired. Mayor Rosenthal appreciated the explanation of the "downstream" effects of the PSST hires and said there is no question the PSST is generating additional demands/burdens on the rest of the City Staff and Mr. Lewis agreed.

Mr. Francisco highlighted major issues for the FYE 2012 Budget and beyond to include:

- General Fund balance (reserve) policies
- Health insurance program changes
- Implementation of GASB Statement #54
- Long-term realignment of resources and program priorities
- Outside agency support and phase-out of utility payments
- Public Safety Sales Tax (PSST) fund “surplus”
- Implementation of Stormwater/Drainage Utility
- Utility Enterprise Capital Improvements Projects (CIP) and Operations funding
- University North Park (UNP) Development and Tax Increment Finance District (TIF) financing

Currently the City pays utilities for some of the City owned facilities that are contracted to outside agencies to operate and provide services to Norman citizens, such as Firehouse Arts Center and Sooner Theatre. Staff proposes over a five-year period those outside agencies will begin paying their own utilities. The Stormwater Utility has been discussed for several years and will have major impacts on the Utility and General Funds. Many of services the General Fund is currently paying for would be allocated by the Stormwater Utility.

Mr. Lewis said the term Stormwater Utility may be new to Norman but it is a concept that has been used around the country and Staff identified at least eight Oklahoma communities that currently have a Stormwater Utility fee. He stated fees range from \$1.00 to \$5.43 per month with the average being \$3.25 per month. Mr. Lewis said these communities have been able to implement a Stormwater Utility fee that has been able to help them solve some of their chronic stormwater management issues but at the same time has been a derivative of easing up the General Fund. He said ultimately a Stormwater Utility allows the General Fund to concentrate on some of the fundamental issues, i.e., public safety, code compliance, parks and recreation, etc., which citizens have requested in order to improve the quality of life in Norman.

Mr. Francisco said the City’s current balance for the General Fund infringes on the Fund Balance Policy and has been for quite some time. He provided a chart reflecting General Fund balances for FYE 2008 to FYE 2012 and said the City should have a General Fund balance of approximately \$12 million in order to cover self-insurance, operation, and emergency reserves. He said the City has been spending more than it’s taking in for the last four to five years and the FYE 2012 General Fund balance is projected to be approximately \$2 million. Mr. Francisco said it is against State law to deficit spend and stated the Fund balance can be considered a revenue in the General Fund. He said Fund Balance can be used for operations within the General Fund legally but it is not prudent to do so, because Fund Balance is a one time configuration, i.e., once it is spent, it is gone.

Mayor Rosenthal said the City Manager’s letter summarizes the City’s policy has been to have an 8% reserve for the Fund balance with 2%, or approximately \$1.3 million, of which goes into an emergency account. She said the FYE 2012 Fund balance reveals it will be \$1.4 million short of the targeted goal.

Mr. Francisco summarized the Health Insurance proposals to include:

- Encourage employee wellness through mandatory health screenings and education
- Increase deductibles and change co-pay proportions to better share the cost between the City and beneficiaries
- Fund employee health savings accounts to pay higher deductibles if health screenings are done and health maintenance standards are met
- Change prescription drug program to financially encourage use of generic and lower-cost name brand drugs
- Changes require successful negotiation with unions

Mr. Francisco said proposals for the health insurance program have been discussed by an Employee Health Insurance Committee for over a year and the proposal is not a cut but a reduction in the growth rate. He said instead of the Health Insurance growing 10% to 12% per year, the hope is to bring the growth rate down to only 5% per year.

He said the concept encourages employees to make wise choices with their health insurance funds, stating unwise choices would be more costly to the employee. The increased insurance deductibles would be financed with deposits to a health insurance savings account (put into place for all employees), *if* they comply with the mandatory health screening. Mr. Francisco said approximately 85% of the cost for health insurance is being spent on only 15% of the City's employees; therefore, 85% of the City's employees are actually spending more than they are getting out of the City's health insurance plan. He said the Employee Health Insurance Committee has been trying to address this issue as well as employees who have catastrophic illnesses. He said majority of catastrophic illness claims are the result of employees who are not getting annual or upfront checkups but instead employees who are finding out they have health conditions that have reached disastrous levels. Mr. Francisco said if illnesses such as cancers and diabetic conditions could be identified earlier, they can be treated at a much lower cost but more importantly the treatment would be a larger benefit to the employee. He said the intent is to encourage employees to seek health care screenings upfront so any conditions might be identified before the employees become extremely ill, making a healthier workforce which in fact would lower health insurance costs.

Councilmember Dillingham felt incentives, particularly gym memberships, might outweigh some of the perceived negatives when negotiating and Councilmember Cubberley agreed stating it can be very difficult to get past negotiations when discussing mandatory negotiation items. Mayor Rosenthal stated controlling the City's health care cost(s) is a very critical aspect of being able to control the growth in the City's personnel cost(s), even more than the salaries and step increases and she felt the City's health care cost(s) are consuming the City. Councilmember Cubberley asked what the percentage was for last years health care costs and Mr. Francisco said 15%. Councilmember Cubberley felt the City can not sustain 15% on health benefits and hope to meet targets of 0%, 2% or even 5% for the City's FYE 2012 Budget.

Mr. Francisco said Governmental Accounting Standards Board (GASB) is a committee of accountants, certified public accountants (CPA)s, etc., both public and private, throughout the nation who discuss problems in accounting and GASB issues new standards (or statements) to address issues and determine general accepted accounting principles. He said the most recent GASB Statement 54, will have a wide ranging impact on the City's accounting practices and requires re-classification of fund balance types, basically addressing the concern that the City of Norman is currently facing. GASB 54 also changes the standards for special revenue funds and internal service funds. The previous Fund Balance classifications were Reserved Fund Balance and Unreserved Fund Balance, but under GASB 54 the new classifications will be Non-spendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance. Mr. Francisco highlighted Norman's proposed changes to comply with GASB 54 as follows:

- Recreation Fund and Emergency Communications Fund eliminated and operations included in General Fund
- Establish a Risk Management Internal Service Fund to account for worker's compensation, and health insurance, tort claims cost, and administration
- Risk Management Fund will assume the required Reserve for Self-Insurance, premiums will be adjusted to meet FYE 2012 fund balance requirements, and future year premiums will be adjusted to build Self-Insurance Reserve, by category, by June 30, 2016
- Reclassification of fund balances with FYE 2011 financial statements
- Codification of existing fund balances to clarify classifications

In order to realign the City's mission with the Community Goals, Mr. Francisco felt Council will need to consider the following items, some have been discussed in the past and some may need to be considered in the future:

- Identify program of lower priority for elimination
- Increase sales tax rate for operations
- Increase E911 Tariff
- Broaden Purpose of 7/10% Capital Sales Tax
- Implement Stormwater Utility

Councilmember Kovach felt it would be appropriate for cost allocation(s) to be distributed to the Tax Increment Fund (TIF) from departments and employees supporting TIF items and suggested future discussion on this topic.

The Public Safety Sales Tax (PSST) Fund has a projected beginning fund balance of \$5.8 million and additional personnel added in FYE 2011 include five Police Officers, three Fire Captains, three Fire Driver/Engineer, and nine Firefighters. By the end of FYE 2012 the total number of personnel added due to the PSST will be 65 of the 71 positions promised. Mr. James Fullingim, Fire Chief, said Fire Station No. 8 will be completed in May and Staff is reviewing the preliminary design of Fire Station No. 9. He said Fire Station No. 9 should begin construction in a couple of months with an estimated completion date of 12 to 18 months

Other Special Revenue Funds include Special Grant Fund; Room Tax Fund; Seizures and Restitution Fund; Council on Law Enforcement Education and Training (CLEET) Fund; Art in Public Places Fund; and Westwood Fund.

Councilmember Kovach asked about the Westwood subsidy in the General Fund and Mr. Francisco said those are funds from the General Fund used to subsidize the Westwood facility. Councilmember Kovach stated in the budget the City is continuing to reduce the amount to various agencies and asked whether there will be a reduction for the cost/fee to Oklahoma Municipal League (OML). Mayor Rosenthal said the OML fee was a decreased last year and will remain the same this year.

Councilmember Kovach asked Staff if the FYE 2012 Budget is online for the public to review and Mr. Lewis said it will be online April 20, 2011, but the FYE 2012 Budget is now available to review at the Norman Public Library (NPL). Councilmember Dillingham requested Staff provide the NPL more than one budget book.

Councilmember Kovach requested the numbers in reference to the cost allocation to the TIF. Mr. Francisco said Staff is currently working on a cost allocation study for the entire City but figures may not be available until after the budget process. Mayor Rosenthal asked Staff to provide a rough estimate of TIF allocation. Mayor Rosenthal asked if projects are being charged back to the TIF, such as the Staff work/time on the Rock Creek Bridge and Mr. Francisco said indirectly. He said the approach has been those employee salaries that are dedicated for CIP are being charged to the Capital Fund. Mayor Rosenthal felt there are some very important public policy decisions related to employee/health care benefits that will need to be addressed going forward in the budget process.

Items submitted for the record

1. Memorandum dated April 14, 2011, from Ms. Suzanne Krohmer, Budget Manager, through Mr. Anthony Francisco, Director of Finance, to Honorable Mayor and Council Members
2. Memorandum dated April, 19, 2011, from Ms. Carolyn Stager, Oklahoma Municipal League, to Mayor Cindy Rosenthal
3. The City of Norman Budget, Fiscal Year Ending June 30, 2012
4. The City of Norman Capital Improvements Project Budget, Fiscal Year Ending June 30, 2012, Financial Plan, Fiscal Year-End, 2012-2016
5. PowerPoint Presentation entitled, "City Council Fiscal Year 2011-2012 Budget Study Session dated April 19, 2011"

The meeting adjourned at 7:30 p.m.

ATTEST: