



The City of **NORMAN**

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CITY MANAGER'S OFFICE
Phone: 405-366-5402

April 16, 2010

The Honorable Mayor and City Council Members
Municipal Building
Norman, Oklahoma

Dear Mayor Rosenthal and Council Members:

INTRODUCTION

It is my privilege and responsibility to present to you the City Manager's proposed budget for the fiscal year July 1, 2010 – June 30, 2011 (FYE 2011). The adoption of an annual budget is required by the City Charter (Article III, Section 4) and by State law (Title 11, Oklahoma Statutes, Section 17-205). An annual budget must be adopted by the City Council at least seven days before the beginning of the new fiscal year, certified by the Cleveland County Excise Board before July 1 and transmitted to the State Auditor and Inspector within 30 days of the start of the fiscal year.

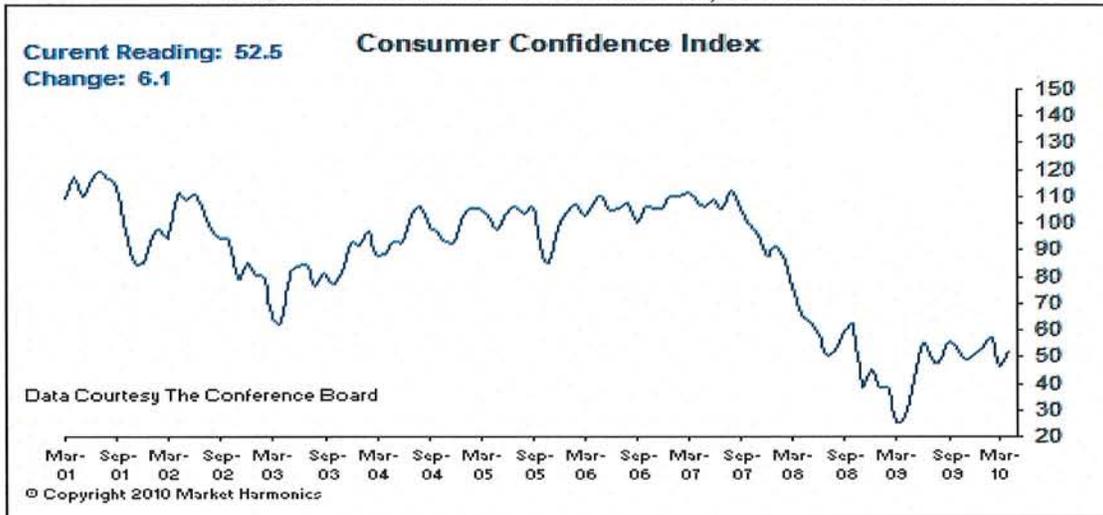
The City Council and Council Finance Committee has been directly involved in providing input and guidance in the preparation of this executive budget. Because of this involvement, you know of the difficult economic and financial conditions under which the budget was prepared. While actions have been taken to address the downturn in our major sources of General Fund revenue, we have had to work very hard to minimize the impact of service reductions to the general public and to maintain existing services where possible. This can not be accomplished within our current levels of staffing in key areas and without the assumption of employee compensation adjustments.

The total budget for all City Of Norman funds for fiscal year ending 2010 was \$161,766,145 and for FYE 2011 is \$134,540,647.

NATIONAL AND REGIONAL ECONOMIC TRENDS

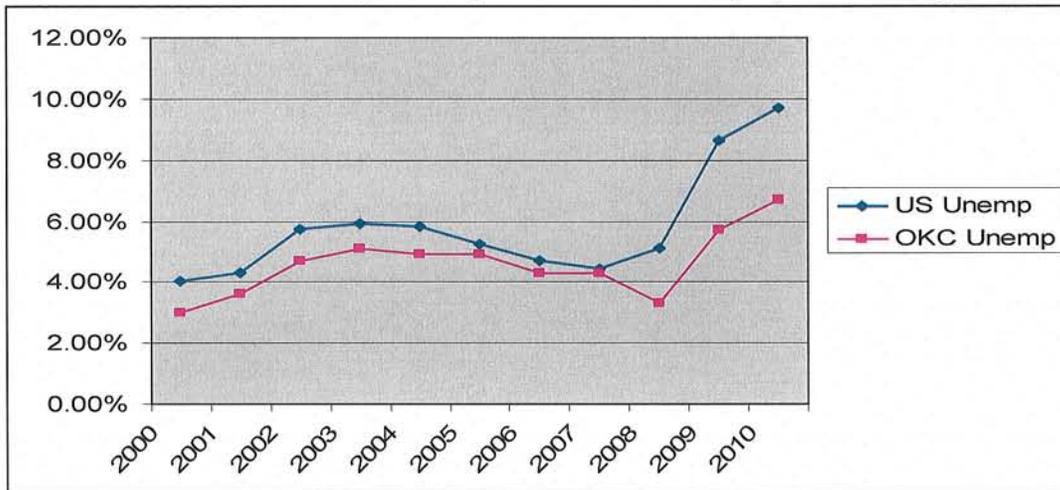
The United States' economy began its deepest and longest-lived recession in over 80 years beginning in late 2007. The housing depression experienced in coastal areas severely depressed financial markets and national employment levels and led directly to the collapse of the financial markets in the third calendar quarter of 2008. This financial collapse was absolutely unprecedented in the United States since the Great Depression of the 1930's, and led to a further collapse in Consumer Confidence that is reflected in the retail sectors that are so critical to the health of the City of Norman's General Fund.

CONSUMER CONFIDENCE INDEX, March 2001-2010



While the Oklahoma City metropolitan area has fared somewhat better than most regions of the nation during the “Great Recession of 2007-2010”, our local and regional economies have suffered in concert with the national economy, with metropolitan area unemployment rising from 3 percent in 2008 to 6.4 percent in 2010.

U.S. and Oklahoma City Metropolitan Area Unemployment Rates, 2000-2010



The economic crisis has enveloped every level of government in the U.S. and across the world. National economic forecasts vary. Some forecast prolonged drudgery, others foresee recovery. However, both camps seem to agree consumption will be held back as households struggle with a U.S. unemployment rate of 9.7% and the significant plunge in household net worth. Cities in Oklahoma are unique in the nation in their singular reliance on sales tax – Oklahoma is the only state in the United States that has sales tax as the only major source of general governmental revenue – and forecasted consumption trends do not bode well for sales tax revenues.

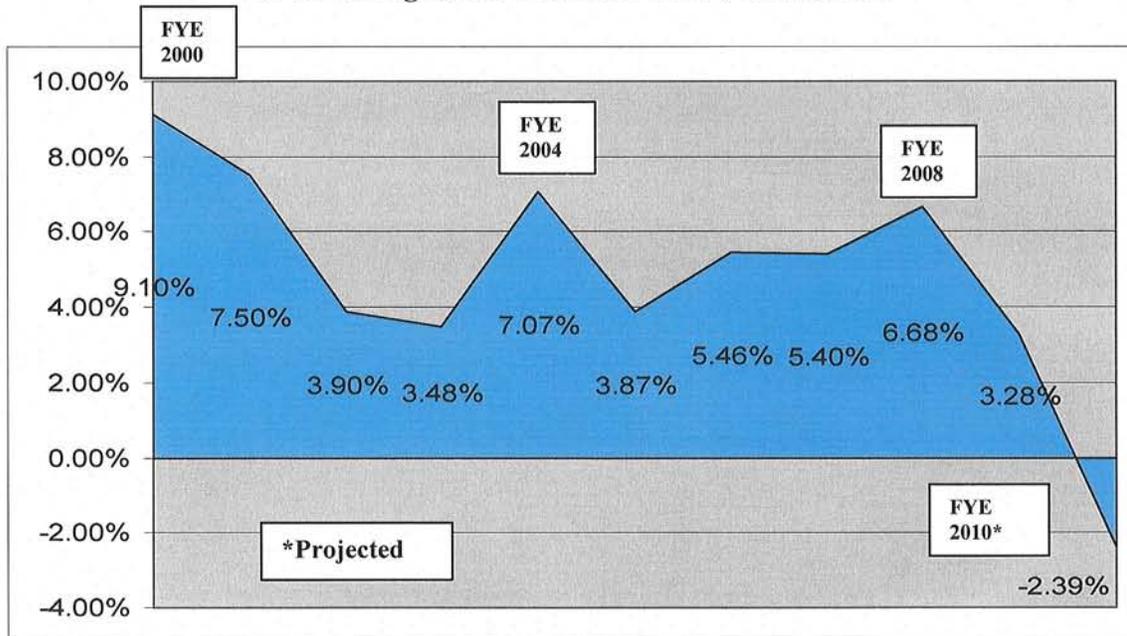
From past experience along with current trends, certain assumptions can be drawn related to the near-term behavior of the Norman and central Oklahoma economy. Generally speaking, Oklahoma is always late to recessions, but the exit from recessions tends to be more simultaneous across regions of the country. With this experience and with the considered opinions of local economists in mind, we may assume:

- The economic recovery will be gradual and modest, as opposed to abrupt;
- Government revenue sources do not track directly with the rest of the local economy, and Norman's economy in particular may lag recessionary trends, due to our reliance on governmental employment. Hence, our revenue recovery may lag behind overall economic growth;
- Energy prices continue to be a risk for the regional economy;
- FYE 2011 will be extremely challenging for the City of Norman and the impacts of the current economic recession will continue to linger into FYE 2012.

MAJOR GENERAL FUND REVENUE SOURCES, Fiscal Year 2009-2010

Sales and Use Taxes - The major source of General Fund revenue is sales tax and by its nature sales tax reflects the overall vitality of the local economy. By this proxy, the City of Norman's economy reflected the downturn in the national and regional economies in fiscal year 2009-2010:

**CITY OF NORMAN SALES TAX COLLECTIONS
In % Change from Previous Year's Collections**



The City of Norman has not experienced year-under-year declines in its sales tax revenue since fiscal year 1987-1988 (22 years ago). This is very indicative of the state of our local retail economy. In addition, negative trends have also been reflected in the City's Use Tax (a sales tax on goods purchased outside the City for use within the City, such as catalog and on-line purchases) which are projected to decline in FYE 2010 for the first time in eight years (-10.3%). Other General Fund revenue sources such as fines and service charges are also below projections and prior-year levels in fiscal year 2009-2010.

Franchise fees – These are payments made by private utility companies (Oklahoma Gas and Electric, Oklahoma Natural Gas, Cox Cable, etc.) to the City of Norman General Fund for their use of the public rights of way. Franchise payments are level with last year's collections and on budgeted projections for FYE 2010.

Licenses and Permits – These are payments made for obtaining licenses to do business in Norman and for constructing structures in Norman. Budget projections for this category were lowered to their historically low levels of fiscal year 2008-2009. Actual collections in fiscal year 2009-2010 have increased from prior-year levels (+23%) as the home building industry has recovered somewhat from the levels of FYE 2009. Home building is another important indicator of the health of our local economy. While construction is up from FYE 2009 levels, it is still below the levels of "historical boom" years such as FYE 2007 and 2008.

Other Taxes – This revenue category primarily reflects the City of Norman's receipt of state shared Motor Vehicle and Tobacco Taxes. This revenue source is on budget and stable with prior-year levels.

Fines and Forfeitures – This revenue category is for citation payments for municipal offenses (traffic and parking fines, DUI, assault, etc.). Revenues from this category are substantially below budget (-13%) and prior-year (-6.3%) levels.

Investment Income – Investment income for the General Fund is substantially below budget (-44%), reflecting the decline in fund balances available for investment (see discussion below) and bond market conditions.

GENERAL FUND RESERVE LEVELS

The City of Norman, in keeping with State law and standards of financial prudence, seeks to maintain adequate levels of fund balance to meet emergency expenditure demands, unexpected claims for worker's compensation, medical or torts against the City. By adopted policy, the City of Norman targets an unrestricted fund balance of six percent (6%) of budgeted expenditures to be held for "operating" and "self-insurance" reserves, and an additional two percent (2%) is appropriated within the General Fund for emergency expenditures (total reserve target of 8%). These reserves are projected to have fallen well below these targeted levels as of June 30, 2010 (subtracting out reserves held for the temporary earmarked Public Safety Sales Tax, encumbrances and self-insurance):

	<u>8% Reserve Target \$</u>	<u>Actual GF Reserves \$</u>	<u>Actual GF Reserves %</u>
FYE 2007	\$4,506,216	\$6,025,780	10.70%
FYE 2008	\$5,369,685	\$6,776,019	10.10%
FYE 2009	\$5,501,624	\$5,962,137	8.67%
FYE 2010*	\$5,740,926	\$2,173,492	2.93%

*Projected (with 2% Emergency Reserve unspent)

Based on these revenue and expenditure trends, costs saving measures were implemented during fiscal year 2009-2010 with a goal of saving \$1,500,000 in budgeted costs. Among these measures was the implementation of a “smart hiring freeze”, fuel savings, elimination of base budget adjustments for inflationary cost items, reductions in departmental operational accounts, and revenue enhancement methods such as more aggressive collection of outstanding municipal court citations.

This proposed budget reflects a total General Fund Reserve Balance of 4.0% (2% Emergency Reserve plus 2% Fund Balance).

FISCAL YEAR 2010-2011 OPERATIONAL BUDGET PREPARATION

Given these negative trends and challenges, we set out to prepare the fiscal year 2010-2011 budget with a mandate to cut over \$6 million dollars from projected General Fund expenditures in order to produce the positive fund balance that is required by Oklahoma Statutes. In order to balance the budget, three general approaches can be considered: reducing employee compensation and benefits; reducing City services; and raising additional revenue, including taxes and fees. The proposed FYE 2011 budget follows each of these approaches to a certain extent. The cutback management principles below, discussed with the Council Finance Committee throughout the budget process, were evaluated as every effort was made to maintain the basic services that our citizens demand and deserve:

- A balanced operating budget
- Secure cost savings allowing for continuing declines
- Maintain essential services
- Minimize service impacts to the public
- Maintain City’s long-term fiscal integrity, including appropriate fund balances
- Consolidate similar activities
- Emphasize administrative efficiencies
- Avoid short-term remedies such as deferred maintenance
- Avoid budget cuts that could threaten our ability to leverage other resources
- Reject the view that new revenues are a panacea
- Continue to invest in technology, equipment and training that improves effectiveness
- Reduce energy consumption
- Evaluate overtime usage
- Pursue health care cost containment

- Improve billing/collection practices
- Explore inter-organizational cooperation

The FYE 2011 budget is based on several important revenue and expenditure assumptions. As over two-thirds of the General Fund budget is based on personnel costs, the budget cannot be significantly impacted without impacting on personnel costs. The proposed budget takes a two-pronged approach in order to reduce personnel expenses within available resources: reductions in the labor force and implementation of mandatory unpaid leave (“furloughs”) for all employees.

A reduction in force is a necessary and major approach that provides immediate savings in both salary and benefit costs by reducing ongoing payroll obligations. These reductions will provide savings during the unpredictable duration of this economic downturn. **The proposed budget also recommends and is predicated on the implementation of a citywide mandatory furlough program of 96 hours per year (approximately one eight hour day per month) for all employees.** The program will allow the City to further reduce costs and minimize the need for additional layoffs. This program may include closing some facilities on pre-determined days which can also lead to additional savings in general operating costs such as building maintenance and utilities. The direct impact of implementing the furlough program is a personnel expense savings of approximately 4.65% or \$2.2 million. Approximately 79 percent of the City’s workforce is unionized and as such wage and benefit adjustments must be bargained in the appropriate negotiation processes with bargaining unit representatives.

The major assumptions on which the FYE 2011 General Fund budget is based include the following:

- No growth in sales tax from projected fiscal year 2009-2010 levels. This is based on the considered opinion of our Finance Department staff, local and regional economic experts. As always, sales tax trends will be monitored closely during the course of the budget year.
- Increased revenues from fines and forfeitures, both from increased court cost charges approved by ordinance and from more vigorous collection practices allowed by Oklahoma Statutes and recently authorized by the City Council. Taken together, these actions are projected to generate approximately \$300,000 in new revenues in FYE 2011.
- The establishment of a new Public Safety Sales Tax (PSST) Fund, as recommended by the Council Finance Committee. This new fund will allow for more evident tracking of revenues and expenditures related to the temporary and dedicated PSST and will also demonstrate the budgetary status of the General Fund more readily.
- No merit/step increase payments during FYE 2011 for all City employees.

- No cost of living adjustments
- 96 Hours of Unpaid Leave (one “furlough” day per month) per employee, as discussed above
- Across-the-board decreases of 2 percent in maintenance and operation allocations
- Ten percent across-the-board reductions in social service agency support allocations
- Elimination of the Westside Link bus route

The proposed FYE 2011 budget also eliminates 38 positions (12 of which are currently vacant), as described in the Tables below. While adjusting for the positions approved in the Public Safety Sales Tax, this will reduce staffing to levels akin to FY2006-07. The following positions are proposed to be eliminated from the General Fund:

<u>DEPARTMENT</u>	<u>POSITION</u>
City Manager	Assistant to the City Manager
City Clerk	Custodial Coordinator
City Clerk	Administrative Tech. III (reduced to part-time)
Municipal Court	Administrative Tech. III
City Attorney	Legal Administrative Technician
City Attorney	Assistant City Attorney
City Attorney	Legal Intern (Temporary)
Finance	Customer Service Rep. I
Planning	GIS Analyst I
Planning	Planning Intern (permanent, part-time)
Planning	Building Inspector
Planning	Permit Technician I
Public Works	Bond Project Manager
Public Works	Engineering Technician I
Public Works	(3) Maintenance Worker I (Street Division)
Public Works	(3) Maintenance Worker II (Street Division)
Public Works	Traffic Technician
Public Works	Auto Service Technician
Fire	Fire Inspector
Police	Forensic Investigator
Parks	(2) Maintenance Worker II (Park Maintenance)
Parks	Heavy Equipment Operator (Park Maintenance)
Parks	Forester
Parks	Sports Coordinator
Parks	Assistant Golf Professional I

The following positions are proposed to be eliminated from Utility Enterprise Funds:

DEPARTMENT	POSITION
Utilities	Plant Operator
Utilities	Lab Technician
Utilities	Crew Chief (Line Maintenance)
Utilities	Heavy Equipment Operator (Line Maintenance)
Utilities	(2) Maintenance Worker I (Line Maintenance)
Utilities	Sanitation Worker I
Utilities	Refuse Container Repair Technician

The elimination of these 38 positions represents a 4.5 percent decline in the City’s full and permanent part-time workforce.

Public safety remains the largest investment within the City’s General Fund expenditures. As a proxy for public safety expenditures (many other expenditures of the City’s General Fund promote the safety of the public, such as traffic control and street maintenance), the budgets of the Police and Fire Departments account for over 55% of total General Fund expenditures (not including expenditures of the Public Safety Sales Tax Fund). As promised with the passage of the temporary Public Safety Sales Tax in May 2008, several positions are proposed to be added to the new Public Safety Sales Tax Fund in the FYE 2011 budget:

DEPARTMENT	POSITION
Police	(5) Police Officers
Police	(3) Master Police Officers

The effect of all of these reductions on the General Fund is a budgetary savings of an estimated \$5.6 million.

UTILITY ENTERPRISE FUNDS

The City of Norman operates three utility enterprises: Sanitation, Wastewater and Water. Enterprise funds are established to account for the operations of the City that endeavor to operate like private businesses, in that their services are provided to a discrete base of customers, as opposed to the citizenry as a whole, and user fees are charged to those customers at a level that seeks to recover the full costs of providing the services. The budgetary status of the Water and Wastewater Utilities are driven in large part by major capital projects. Major capital projects in the Water Utility include improvements to the Water Treatment Plant and the addition of ground water wells to the Utility’s water supply and distribution network. Capital improvements in the Wastewater Utility include the completion of improvements to the sludge handling process and continuation of major interceptor and lateral sewer line improvements. Details of capital projects are discussed in the City of Norman Capital Improvement Projects Budget.

The budget of the Water Utility Enterprise assumes the implementation of a 3.5 percent (3.5%) across-the-board rate increase to be implemented through the full fiscal year. The Water and Wastewater Utilities were successful in obtaining American Recovery and Reinvestment Act (ARRA, or “Stimulus”) funds for moving forward planned projects in a faster and more cost-effective manner. The Stimulus funds will come in the form of forgiveness of up to 20 percent of the principal on low-interest loans taken from the Oklahoma Water Resources Board’s Statewide Revolving Loan Fund. ARRA funds will be used by the Water Utility for the first phase of improvements to the Water Treatment Plant, including electrical improvements, replacement of clarifiers, and installation of a backup generator. The Water Utility is also progressing with the addition of ground water supply from new wells in the east Norman well field.

The Wastewater Utility is using ARRA funds to reconstruct the Lift Station D sewage conveyance facility. The enlarged lift station will take sewage from drainage basins throughout north Norman to the south side Wastewater Treatment Plant. The Wastewater Utility is also progressing with ongoing sewer main and lateral line improvement projects and recently completed improvements to the sludge handling process for sewage treatment by-products.

The Sanitation Utility has completed the reconstruction of its Compost Facility. The enlarged Compost Facility will more efficiently process vegetative wastes into useful mulch and other products. The Sanitation Utility’s Transfer Station is under reconstruction and enlargement. The Utility recently took delivery of the first Compressed Natural Gas (CNG) refuse collection trucks to be delivered in the state of Oklahoma. The additional purchase cost of the CNG vehicles over traditional diesel trucks was partially offset by grant funds from the U.S. Environmental Protection Agency administered by the Association of Central Oklahoma Governments.

CAPITAL BUDGET

Detailed information on individual capital improvement projects is given in the FYE 2011 Capital Improvements Project (CIP) document. Pursuant to voter-approved ordinances, seven-tenths of one percent (0.7%) of sales tax revenue is dedicated for capital improvements, and this is the primary source of revenue for the Capital Fund. By Council budget policy, these dedicated capital sales tax funds are set aside according to the following formula:

- 38% for pay-as-you-go capital projects
- 27% for capital outlay
- 25% for street maintenance
- 5% for maintenance of existing facilities
- 5% for contingency

The major theme of the capital budget for fiscal year 2010-2011 is an emphasis on maintaining existing City facilities. Early in the budget process, the Council Finance Committee directed this emphasis, in addition to the increase in the formula allocation to

facility maintenance from three percent to five percent. The City of Norman Facility Maintenance Division has substantially completed an exhaustive assessment of the condition of all of the existing City facilities (park buildings, fire stations, Municipal Complex, North Base Facilities, Sooner Theater, Historical House, Firehouse Art Center etc.) to identify near-term and long-term maintenance needs (roofs, plumbing, heating/ventilation/air conditioning systems, water heaters, etc.). The assessment identified over \$8 million of needs that had not been included in the five-year capital plan. The assessment classified needs as critical, short-term or long-term. Staff was directed to identify plans to address these needs within the five-year capital plan to be adopted with the FYE 2011 budget process. With the resources that will be added through this added emphasis, the City's facilities will be brought to a much higher standard over the next few years.

On March 2, 2010 the voters of Norman approved a continuation of a five-year General Obligation Bond-funded program to resurface and reconstruct streets throughout the City. An estimated \$19 million in additional street maintenance work will be conducted by this bond-funded program, in addition to the street maintenance allocation within the capital sales tax discussed above. The voters also approved a \$2.25 million replacement and expansion of the City's Outdoor Warning System (storm sirens). This program will enable the City to provide better warning to the full City area, as well as providing the capability of zonal warning coverage (due to the large geographic size of Norman, storms can often strike in one area of the City while other parts of the City are not experiencing severe weather at all). The system is planned to be fully operational by the spring storm season of 2011.

Over the last four years, the City Council has focused on issues related to storm water management. Completion of the Storm Water Master Plan was accomplished this year and we are moving forward with the implementation strategies. In furtherance of those efforts, a new position of Storm Water Engineer was created in FYE10. This position is planned to continue in the FYE11 Budget as well.

The City of Norman's capital outlay allocation is primarily used for the replacement of the fleet of vehicles and rolling stock. Due to increased per-vehicle costs (new emission standards and safety features for all vehicles) as well as significant increases in the cost of equipping police vehicles, the allocated funds for capital outlay provide for less of the justifiable demands. As the public safety vehicle fleet expands with the Public Safety Sales Tax, these needs will become even more critical. Among the major capital outlay items recommended for inclusion in the FYE 2011 budget is the replacement of a fire pumper truck (\$420,000).

Dedicated capital outlay funds will also continue the City's investment in technological resources to improve operational effectiveness. Digital recording equipment in the Emergency Dispatch Center will be replaced (estimated cost \$93,000) in FYE 2011 and the Development Service Center operations will be made more efficient with the installation of graphical user interface software (estimated cost of \$96,500). Ongoing

programs to replace personal computers and traffic signal control equipment will also be funded from the Capital Sales Tax.

CONCLUSION

The fiscal year 2010-2011 budget has been prepared in the most difficult economic times experienced in Norman in decades. With the direction and guidance of the City Council, we have to date maintained the vital public services that our citizens demand and deserve while addressing the difficult task of balancing the budget. Providing public services in this environment will require the cooperation and continued hard work of our dedicated City staff and we are confident in our ability to do so. With that said, revenues for local government may continue to deteriorate and an ongoing review of the services we deliver will be required to realign resources with community goals.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven Lewis", written over the printed name.

Steven Lewis
City Manager