



CITY COUNCIL FINANCE COMMITTEE MINUTES

January 19, 2023

The City Council Finance Committee of the City of Norman, Cleveland County, State of Oklahoma, met at 4:00 pm in the Municipal Building Executive Conference Room on the 19th day of January, 2023, and notice of agenda of the meeting were posted in the Municipal Building at 201 West Gray, 24 hours prior to the beginning of the meeting.

PRESENT: Chairman Heikkila and Members Lynn, Schueler, Holman, and Grant

ABSENT:

OTHERS PRESENT: Anthony Francisco, Director of Finance
Dannielle Risenhoover, Administrative Tech. IV
Kim Coffman, Budget Manager
Travis King, Fire Chief
Shawn O'Leary, Director of Public Works
Mindy Wood, Norman Transcript

CALL TO ORDER AND ROLL CALL

Mayor Heikkila welcomed everyone to the meeting. The meeting began at approximately 4:00 pm.

Item 1, being:

DISCUSSION REGARDING MID-YEAR BUDGET REVIEW

Anthony Francisco discussed the Mid-year Budget Review Report. This report is mandated by the Net Revenue Stabilization "Rainy Day" Fund Ordinance. Francisco presented economic background information regarding the U.S. Treasury yield curve. Francisco stated that, "The yield curve is basically the interest rate or the yield that is returned on investments in United States Treasuries, given various maturities." Over the last year, the Federal Reserve has aggressively changed the Federal Funds' Rate, which is key to short-term interest rates. This has changed the yield curve dynamics that exist. Francisco states, "We are in a very unusual yield curve environment right now because interest rates at the short end of the yield curve are higher than the interest rates at the long end of the yield curve. Usually there is what is called the "risk return trade-off," which means that the shorter end of the yield curve gives you a lower interest rate if you are an investor, than the longer end of the yield curve." The impact of this "inverted"

Item 1, continued:

yield curve is that currently, there would be a lower interest rate on a 20-year bond than on a five-year bond, due to this very steeply inverted yield curve. Francisco also noted that the yield curve changes very rapidly sometimes. Predictions are not clear on what this yield curve might look like when the City pursues a long-term general obligation bond; however, it creates a great opportunity for investments, but not a great opportunity to pursue a general obligation bond at this time.

At the time, that Council adopted the budget for fiscal year 2023 (FYE 23), it was expected that there would be about a \$15 million balance in the General Fund. When FYE 23 started, there was a \$13 million fund balance. The reason for the difference is due to the appropriation of funds, by Council, for one-time capital projects.

Francisco discussed the status of the General Fund. Sales tax is considered on budget. A 2% increase was budgeted for sales tax. Use tax is up some, so approximately \$1 million in additional revenue has been built into the budget from this source. The public transit sales tax is up. Approximately \$3 million/year in revenue is expected from OG&E and other franchise fees. Currently, the City is not making any changes to their franchise fee revenue projections. The cigarette taxes received from the state are down. Fines and forfeiture revenues are down significantly because the number of citations are down. The City has not received a lot of revenue from outside sources, such as FEMA, this fiscal year. The City has not made any changes to their budget projections on the expenditure side. The City is budgeting and expecting that they will expend the 1% emergency reserve. This is always budgeted as if it will be expended. The Employee Turnover Savings is figured at a 1.5% savings that is built into the Fund Summary. With all of the budget items figured together, the City is projected to add approximately \$4 million to the General Fund balance of \$17 million, which is about \$14.5 million above the mandated minimums in the General Fund.

If, over the long term, the General Fund continues to bring in more money, Francisco stated that the City may consider adding some additional services. Those prioritized services per previous Council directive, would include stormwater personnel (street sweeper, maintenance crew), Public Safety Sales Tax (PSST) personnel (4 school resource officers, 2 dispatchers), and fire department expanded staffing (15 personnel for station 10). How these services would be prioritized and if other service options should be considered, would require further discussion among Councilmembers. The question was brought up as to whether Norman Public Schools (NPS) should be responsible for a share of the funding of the 4 additional school resource officers. Francisco reminded the Board that the PSST Ordinance calls for a cost share between NPS and the City of Norman. The PSST Ordinance does not say what the shares will be, thus requiring further discussion among Councilmembers. Norman Public Schools currently contributes approximately \$700,000/year to the School Resource Officers program.

Francisco's mid-year budget review compared the Net Revenue Stabilization Funds from Fiscal Year 2021-2022 (FYE 2022) to the projected funds for the end of FYE 23. The Net Revenue Stabilization Fund began FYE 23 with \$4.168 million. It is projected that the City will be approximately \$266,000 short of the Targeted FYE 23 balance. Francisco stated that the question to Council is, "Do you want to make a deposit from the General Fund to the Rainy Day Fund to return the Rainy Day Fund to its targeted balance?" The question was asked if it would hurt the City to transfer this money. Francisco's reply was,

"No, you have a \$14 million surplus, General Fund balance. Your action would be to appropriate \$265,777 of that money to the Rainy Day Fund." Francisco asked if there was a consensus to prepare this action for City Council. The consensus was unanimous.

Item 1, continued:

Francisco discussed the Public Safety Sales Tax Fund. Norman Public Schools (NPS) will contribute about \$664,000 this fiscal year to the current School Resource Officer (SRO) Program. It is projected that this contribution will increase by 1-1.5% per year; however, NPS has not agreed to increase this contribution for the four additional SRO positions mandated by the Public Safety Sales Tax (PSST) Ordinance. Francisco stated the question to Council, "Do you want to just provide for this yearly increase out of the General Fund or add the four SROs with no additional NPS matching funds?" Francisco also pointed out the transfer made from the General Fund to supply equipment for Norman Police Department. It is expected that the money allocated for the Emergency Operations Center (EOC) will be spent in FYE 23 with hopes of construction being complete in January 2024.

Francisco discussed the Special Grants Fund. This fund accounts for the expenditures of the ARPA grant money. The City does not budget for any of the revenues or expenditures going in or going out of this Fund; it simply accounts for these activities as council approves the grants.

Francisco discussed the Seizures and Restitution Fund. Abiding by Council direction, the City does not budget for any of the revenues or expenditures going in or going out of the Seizures and Restitution Fund. There is approximately \$1.5 million available in this Fund. In a previous meeting, it was suggested by Mayor Heikkila that this fund be used to replace police cars. According to Francisco, there is a shortfall in available Capital Sales Tax funds for vehicle replacements; so there is justification to utilize the Seizures and Restitution Fund to replace police vehicles, which would be an allowable use of the funds. The Fleet Maintenance Division's yearly, Critical Capital Needs Report, ranks replacing police cars as an area of need. Councilmember Schueler stated that she would like a larger Council discussion to see what expenditure options are permitted with seizure and restitution funds before committing any funds to targeted expenses. Further discussion of this fund and its appropriate uses is scheduled for January 31, 2023.

Francisco discussed the Public Transit Fund. The sales tax revenues are up. This negated the need for a subsidy to the fund; but, because Council expanded services and created the Micro Transit Program, paid out of this Fund, a subsidy will be needed.

Francisco discussed the Water Fund. Francisco stated that, "The Water Fund is in bad shape." It is projected that the City of Norman will bring in approximately \$25 million in water utility revenue. It is projected that the City will spend approximately \$44 million, primarily on capital programs, and close FYE 23 with approximately \$16,391,000. The \$16,391,000 balance is inflated by the revenue bond proceeds of the Statewide Revenue Fund loan for the Advanced Meter Infrastructure (AMI) program. The grant proceeds for the AMI program can *only* be used for the AMI program. At the end of FYE 23, projections indicate approximately \$17 million in the bank that can only be used for the AMI program and an ending fund balance of \$16.44 million. Francisco stated that the water rate increase proposals mentioned by consultants is a necessity. Francisco also stated that with the limited use and condition of this Fund, there may not be enough money to repair broken water lines. Once the funds for the AMI meter-reading program are spent, this Fund is expected to go negative by \$11 million. In FYE 24, this fund is expected to go negative by \$24 million. After FYE 24, the City will not be able to meet the basic needs of their water utility customers. It is legal for Council to use the General Fund to subsidize the Water Fund; however, this is not prudent because there are thousands of Norman residents who are not served by Norman's water utility and the General Fund revenues should not be subsidizing those who do not have service. Mayor Heikkila stated that the Water Fund situation is dire, needs to be resolved, and that it is imperative to get a water rate increase on the citizens' voting ballot.

Francisco discussed the Water Reclamation Fund. In FYE 23, it is budgeted that the City will spend \$10.7 million of this Fund on capital projects. If so, this Fund will end the fiscal year with a negative balance. Francisco stated that it is illegal to end the fiscal year with a negative balance.

Francisco discussed the New Development Excise Tax Fund. This tax was imposed in 2001 and the tax is paid at the time building permits are acquired. The City projected revenues of approximately \$1.1 million from residential excise tax payments and \$300,000 from commercial excise tax payments. These revenues are on budget. This Fund includes a major capital program keyed toward the Southeast Lift Station project. There is \$6 million allocated to the lift station project for FYE 24. There will be a proposed payback ordinance that would require developers in the Southeast lift station area to pay for this project upfront. The developers will recover their cost from their customers who tie into the lift station. The lift station revenues were not reflected in the report. If the City completes this project without revenues coming from the developer, this Fund will go negative in FYE 24.

Francisco reports that the Sanitation Fund balance is healthy.

Items submitted for the record:

1. U.S. Treasury Yield Curve graphic and PowerPoint presentation
2. Mid-year Budget Financial Statements

* * * * *

Item 2, being:

MONTHLY REVENUE AND EXPENDITURE REPORTS

No discussion

Items submitted for the record:

1. Monthly Revenue and Expenditure Reports

* * * * *

Item 3, being:

ADJOURNMENT

Chairman Hank Hall adjourned the meeting at approximately 5:00 pm.

* * * * *

ATTEST

City Clerk

Mayor