

Meeting of 2004-5-4 SPECIAL MEETING

MINUTES
LAWTON CITY COUNCIL SPECIAL MEETING
BUDGET WORKSHOP
MAY 4, 2004
WAYNE GILLEY CITY HALL COUNCIL CHAMBER

Mayor John P. Purcell, Jr. Also Present:
Presiding Larry Mitchell, City Manager
 John Vincent, City Attorney
 Kathy Fanning, City Clerk
 Col. Gregory K. Herring, Fort Sill Liaison

The meeting was called to order at 6:00 p.m. by Mayor Powell. Notice of meeting and agenda were posted on the City Hall notice board as required by law.

ROLL CALL

PRESENT: Rex Givens, Ward Two
 Amy Ewing-Holmstrom, Ward Four
 Robert Shanklin, Ward Five
 Jeffrey Patton, Ward Six
 Stanley Haywood, Ward Seven
 Randy Warren, Ward Eight

ABSENT: Randy Bass, Ward One, Glenn Devine, Ward Three

CONDUCT ELECTION OF MAYOR PRO TEM

MOTION by Shanklin, SECOND by Patton, to nominate Randy Warren as Mayor Pro Tem. AYE: Givens, Ewing-Holmstrom, Shanklin, Patton, Haywood, Warren. NAY: None. MOTION CARRIED.

AT THIS TIME COUNCIL CONSIDERED THE ADDENDUM ITEM FIRST.
BUSINESS ITEMS:

1. Presentation of Municipal Budget FY 2004-2005.

Mitchell presented an overview of the proposed budget for FY 2004-2005. Proposed Budget Books were distributed to Council. He provided a narrative overview of where we've been and where we are going. He gave a slide presentation along with this. He went over the Charter Requirement and the General Overview.

Mitchell said we are required to submit a budget to the Comanche County Excise Board and the State Auditor Inspector by July 1st. We are also required, by State Law, to approve a budget by June 23rd. He said he hopes over the next six weeks we can move through the budget process and by the second week or so of June have everything reviewed and concluded, so we can meet our June 30th deadline.

Mitchell then went into the General Overview. He said 12 months ago the City was in the grips of a structural budget deficit that forced us to make some very tough choices. We had to take some very different approaches to solving our \$2.5 million revenue shortfall. Last year we were talking about layoffs, freezes, and furloughs. He said we have resolved that problem to some extent. He referred to a National Survey the NLC conducted in Jan.-Feb. 2004 which shows the City of Lawton was not alone in it's attempts to find solid economic footing. Some of the results of that survey were: overall economic conditions and physical conditions of cities have worsened for at least 40% of those responding; worsening unemployment was reported by 45% of those surveyed; tow out of three (or 65%) respondents said the effects of unfunded federal mandates and preemptions of local authority have worsened. The cost and availability of health care has been a worsening problem for at least 60% of the respondents. He said within four out of five cities and towns in the 2004 survey reported being less able to meet their financial needs compared to the previous year. Cities responded to these problems by raising user fees for services, drawing down reserves, dramatically cutting investment and infrastructure maintenance, and laying off city staff, including police and fire.

Mitchell referred next to our current year, stating it's critically important to establish a relative health of the city's

current year budget in order to gain a perspective of the recommendations under consideration for the coming year. He said our primary goal ending the 2003-2004 fiscal year was to bring the city's general operating funds into structural balance and start building the depleted funds. To accomplish this, the City Council approved a budget document that included a 15% increase in the city's water and sewer rates, deleting 18 full time positions, projected total sales tax collections to grow by a minimum of 2.5%, establish the fund balance goal of 5%, increased water rates for outside city customers, placed a Waurika assessment on the city utility bill, and increased employee contributions to the self-funded health plan. He said on June 17, 2003, at the time of the adoption of the 2003-2004 budget, the city's projected fund balance stood at \$536,000 and was estimated to be \$1.1 million by the end of the fiscal year, July 1, 2004.

He said one way to measure how far we've come over the last 12 months is to revisit the four objectives we established in the preliminary budget submitted last year on May 6th. He said the first projective was to bring the general fund budget into structural balance and he would give us an A- on that effort. During the first nine months of this fiscal year the city has been successful in stabilizing its personnel costs and capturing new utility revenues. He said they believe our financial picture has improved far beyond what we thought could be possible, due in large part from the rapid turn around in the sales tax collections, which are up by 8%. In fact, he thinks it's probable to expect the City can reach it's goal of maintaining 5% fund balance by July 1st of this year.

Mitchell said on the second projective to reinstate the City's Capital Outlay Program, he would rate us a B+ on that issue. The current budget fully funded the Capital Outlay Program and reestablished the City Council's commitment to spending those dedicated dollars to replace the aging rolling stock. He said they are not only committed to maintaining this Capital Outlay Program but hope to repay the borrowed funds overtime as the General Operating Budget recovers.

Mitchell said on fully funding the Employee Health Plan projective, that would rate us a B+ on that effort. The City's Self-Funded Health Insurance Program traditionally relied on year-end fund transfers. A recent increase in City contributions, coupled with a few changes in the plan's benefit package, has allowed the City to accomplish its goal of putting the Self-Funded Program back on solid ground. We now have a stable bank balance of about \$750,000 and he believes this is a move in the right direction and may lead to improved benefits, should the fund continue to grow.

Mitchell said on the next prospective, to resolve conflict between employee groups he would grade us about a C+ on that issue. He said financial constraints of the previous year, coupled with the City's unsuccessful attempt to control union wages, caused the general employee group to lose ground. General employees faced a salary freeze and the possibility of a one day furlough at the beginning of this fiscal year. The City did manage to eliminate the proposed furlough day in December, as well as unfreeze all step increases. He said obviously more needs to be done to close this sour gap between general employees and the two bargaining units.

Mitchell then moved on to the Manager's Budgeting Philosophy. He said last year he began the budget year by stressing the importance of viewing the budget document as a policy instrument of the City Council and not to look at it strictly from a dollars and cents point of view, but to also look at it as a policy document that sets priorities and goals for the City for the coming year. Each fiscal year an annual budgeting cycle brings with it a new set of priorities, etc. He said we need to look at a question of balance. A question of balance between the three major sections of the General Fund Budget would be personnel, maintenance, and Capital Outlay. Finding the balance between personnel costs, operating expenses and Capital equipment purchases can be extremely difficult without a comprehensive review of current policy projectives and how they might be accomplished. In Lawton's case, the financial difficulties the past two years, required a possible board reductions in all three categories of the budget. He said it is the Manager's view that as operating revenues improve and tax collections increase, the City must allocate those resources through a balanced system management control. For FY 2004-2005 he said they are proposing any new revenue identified for expenditure be allocated in the following manner:

- 1.) 40% of that revenue be allocated or provided for personnel costs, whether they be wages, benefits, any new positions, part time employees, however you would want to break that down;
- 2.) 30% to be allocated or provided for maintenance and operations which covers maintenance of buildings, and other utilities, etc.;
- 3.) 30% allocation to Capital Outlay and equipment.

Mitchell reported on Preliminary Budget recommendations, starting on the revenue side of the budget. He said the year-end projected fund balance of \$3.8 million greatly exceeded even our most optimistic revenue income this year. There are three primary reasons for this unprecedented reversal over the previous two years. First, sales tax collections are up \$857,000. Second, water revenues have raised dramatically due to increased utility rates and a one time collection of nearly \$600,000 in unbudgeted monies from industrial customers. Our budgeted revenues were about \$11.3 million, our projected revenue is slightly over \$12 million and then our estimate for next year is \$11,714,000. Finally, the City's decision to transfer Capital Outlay Funds to balance the FY 2002-2003 Municipal Budget, coupled with the absolute shut down of all non-essential, non-emergency disbursements during the last 60 days do state greater than expected year-end carry over. The carry over change went from \$1.1 million to \$3.85 million.

Mitchell said as a result of this healthy revenue picture, the City can realistically accomplish our goals. On the revenue side of the budget, we are in the enviable position of doing three things; 1) he feels we will reach our fund balance target of 5% and this is certainly a credit to the City Council for the difficult decisions each of them made last June to move us out of a deficit position; 2) discontinuing funding salary lapse; for the last two years the City has budgeted from a savings realized from a gap between employees leaving the City and the hiring of their replacements; he believes this accounting practice is part of the reason the City of Lawton experienced financial instability both in 2001, 2002, and again in 2003; and 3) a deferred utility rate adjustment for one year. He said he realizes the City Council previously indicated they wished to apply an annual CIP Index to the water and sewer rates to offset the inflation in the City's operating budget. He said he is suggesting the current revenue projections are more than adequate to cover the expenditures outlined.

Ewing-Holmstrom asked Mitchell to correct his referencing CIP, which should be CPI.

Mitchell said yes that's what he had on his notes and apologized.

Mitchell reported on the Expenditure Side of the Budget next. He said Council will have the opportunity to allocate new revenues and address critical operational issues and the preliminary budget identifies approximately \$2.6 million which should be available for the upcoming budget year. He said the total department requests in their supplemental budgets received totaled just over \$10 million. Our requests greatly out paced the revenues available. He did point out that in the Capital Outlay column, out of that \$5 million, some of those requests ended up in our CIP. For example, MIS requested \$1.3 million and most of that was upgrading the hardware and software systems. Since we are putting that project into our CIP Program, that really wouldn't be considered as part of this supplemental request, if Council chooses to follow the Manager's Budgeting Philosophy of allocating \$2.6 million in available revenue. Mitchell then went over the handout, which showed the breakdown. For Personnel Services (wages and benefits), \$1.1 million, to include salary adjustments to all three employee groups; adding 11 new staff positions plus a new part time support, and increasing City employee contributions to the employee pension fund. For Maintenance and Operations, they are proposing an allocation of \$778,000; about 30% of the \$2.6 million to be earmarked for repairs to our buildings, primarily roof repairs for the Library, Police, and other buildings, which is \$300,000; adding another \$200,000 for Street Repair Maintenance Program, which totals about \$750,000; adjustments for fuel and utilities are another \$100,000; \$47,500 for the Easement Clean Up Program through Neighborhood Services; and \$65,000 to increase employee training certification.

Mitchell then moved on to Capital Outlay Machinery and Equipment. He said that would be \$730,000, approximately 28% of the \$2.6 million, to go into machinery and equipment. By doing this, it would allow us to take the \$3 we have on our utility bills and earmark that solely for replacing rolling stock.

Patton asked if there was any money left in the account on Fire Station #5. Mitchell said they were down to the punch list, but didn't know the exact numbers but believes we are right at what was budgeted for that.

Mitchell said even with this positive trend there remains some uncertainties in what he calls the external environment. One is the success of the City's CIP Program and the other is Senate Bill 1529, which would recognize general employee unions effective November 1st or there after. If the City is unable to mount a strong legal argument and challenge this new employee law, we will at the very least, incur additional administrative costs associated with the formation of these new bargaining groups. The third is the Department of Defense BRAC Review; we are already seeing some movement in the possibility of making off-base improvements that will support, in some fashion, the joint missions planned for Fort Sill. Mitchell said finally, water conservation measures may be a distinct possibility later this summer. If we don't receive significant rainfall over the next couple months we may be looking at either a voluntary or mandatory rationing program by late summer and obviously this would have a direct impact on our water revenues for the coming year.

Ewing-Holmstrom asked what measures have been put in place in the budget in case the 2005 CIP doesn't pass.

Mitchell said the only measure, so far, is the money that is put into the Maintenance and Operation Budget for roof repair and street improvements, but beyond that, there's not much. We are making the assumption that the CIP Program will pass. Obviously, if it doesn't, we will have to come back. Certainly Council could make the consideration as they allocated the \$2.6 million, but keep in mind that about 65%, maybe 70% of our budget is Personnel Services, so that eats up a lot of that money. We really don't have a lot left, you might have a million and a half to two million, but some of our projects are as much as six to eight million dollars. He said in his view, projects like the landfill improvements or the SE Water Treatment Plant or some of these larger programs, even 38th Street would be very difficult do.

Haywood asked if money had been put in the budget for the Airport buildings. Mitchell said he put money in the Building Maintenance Fund and how should we allocate those dollars, the \$300,000. He said they recognize the need and have surveyed all our buildings and got a preliminary estimate on what the total package would cost and it was over a million dollars. Obviously the \$300,000 is not going to fix every roof. It would be up to the Council to determine where the priority should be. He said in answer to Haywood's question, no, he has not specifically put

money in there for the Airport.

Patton asked about adding 11 new full time and 5 part time positions and said he was concerned about getting into an accordion effect where we have a good year and load up on people and if we get into a crunch again we have to be in the same situation of letting them go. He asked if they could get more detail on these positions. Mitchell said Endicott would summarize those. What we tried to do on these 11 positions was trying to get some of what we view as essential needs.

Shanklin asked who did the survey on the roofs and came up with \$1 million. Mitchell said Building Maintenance in Parks and Recreation. He said he has the memo in his office and would provide Shanklin with a copy. Shanklin said he would like to see it because he would hate to see us tear a roof off just because someone says tear it off. Mitchell said we have only done a preliminary inspection, we haven't done any costing out or established any specs for the project. It's basically just a field review of those buildings. Purcell asked if \$300,000 would take care of both roof repairs to the Library and Police Department. Mitchell said he couldn't remember the numbers but believes that just for the Police Department was over \$250,000.

Ewing-Holmstrom said the water rates were increased last year and asked what was the likelihood of not having that increase reflected in this year's budget? She asked if there was anyway we could ever give back to the citizens of Lawton or reducing the water rates? Or is this going to be something you foresee in the future that will always be on our bill? She said we increased it to balance the budget last year and it's not discussed in the budget now, but is it possible we may be able to lower our rates? Mitchell said what he discussed in the budget is deferring to the CPI adjustment this year because the Council mutually agreed last year to raise the rates each year by the CPI. Obviously that's an option for the Council to do. He said if you look at the 12-15 largest cities in the state, we will range anywhere between 8-11, if you look at our rates. Our rates are competitive and may be higher than you are used to. He suggests if Council was to reduce utility rates, you wouldn't be able to do it substantially. You might be able to knock them down 50 or something like that, but he doesn't see reversing the fees. You certainly wouldn't be able to reverse your 15% increase from last year.

Purcell said after the budget's done this year, he would like to put a committee together of Council members and apartment owners and re-look that whole apartment and how we are charging the vacancy rate. We will re-look the whole issue on vacancy rates. We owe them another look at it because the Council may have used the vacancy rate adjustment, or doing it the new way, an eliminating as much as they were getting before, to help balance the budget.

Mitchell said we converted from the vacancy form to a volume. We said we would revisit that issue after we had some experience. Purcell said we planned on looking at this after this year's budget, so we are looking around the August timeframe.

Haywood asked how hard are we working on recruiting minorities. Mitchell said we are doing better on that. He said we're not there yet, but we are doing better.

Endicott said putting together a budget is a pretty big task and he expressed special thanks to Laura Smith, Financial Services Supervisor, Julie Magness, Accountant, and Mary Owensby, his secretary and said they deserved a round of applause, which they received. He explained to Council how the budget is put together and went through each tab section throughout the budget book. He gave a slide presentation at this time.

Endicott said 34% of our revenue is collected through sales tax, 27% through water, Refuse is 13%, Sewer is 10%, Franchise and Ordinance Revenue is 5%, Fines are 4%, and General Government is 7%. That is basically how our revenue is generated, so 74% is generated through Sales Tax, Water, Refuse, and if you add Sewer, we are up to 85%. He said where we spend it is: 34% is Public Works, 21% is Police, 14% is Fire, about 8% in Parks, Community Services about 7%, and all other is General Government at about 16%.

Endicott said we are projecting our Fund Balance to be \$3,850,257 and our revenues at \$25.5 million, we will transfer in about \$11.6 million from the Enterprise Fund, giving us a total revenue base (General Fund and Enterprise Fund) of \$40 million.

Shanklin asked if we transfer the Enterprise Fund all at one time. Endicott said we transfer it throughout the year. With the proposed budget, our expenditures are a little over \$39 million. With that scenario, we would end up with almost a \$2 million carryover next year, June 30, 2005. He said the City Manager mentioned the 5% Fund Balance Policy and basically he looks at the expenditure side and take 5%.

Shanklin asked if we put the \$1 million back into Capital Outlay would it change the bottom figure? Endicott said we put a million in our proposed budget and we believe we can put a lot of that money back into Capital Outlay, but if you were to take a million off the top of this, yes it would reduce our Fund Balance.

Purcell said one of things Shanklin was asking about that would be helpful is a consolidated list of all the things

being purchased in this budget. Is that in here? Endicott said if you turn to Section F under the Department Request Funding. What we've done this year that we haven't done in the past is actually shown you in one page what's been funded, what's been requested, and what's been funded from the requests.

Patton asked where the projected fund balance go in relation to the estimated revenues of \$25.5 million and \$11.6 million. Endicott explain this to Patton using an example of one's personal checkbook and balancing at the end of the month. What is left is our beginning balance for our checkbook for the City to begin with (the \$3.8 million) and we estimate we are going to collect, from the different sources, \$25.5 million in General Fund, we are also going to collect money in the Enterprise Fund. We will pay the employees from this fund and any excess will transfer to the General Fund, so our total revenue during the year will be \$41 million.

Patton said so it's basically a carryover. He asked if we set aside a 5% fund balance, is it literally set aside somewhere, like a savings account, so it's totally out of the loop, in a separate deal and there for an emergency and we forget about it. He asked if this was more like a cushion or a separate account. Endicott said it is not a separate account but it is, historically been considered from the City of Lawton, a carryover fund balance. That's our reserve if something were to happen, we would have those funds available if we had some disaster or something. Patton asked if we could set that money aside in a separate account. Mitchell said when you adopt a budget, you are basically saying we want to end the year at \$2 million, so every month when you track your expenditures and revenues, you can track that to see if you are on target and keep that money in that unencumbered position. Endicott said we cannot spend this money unless we amend the budget. If Council were to adopt the budget tonight, we cannot spend this unless we come back to Council and amend the budget.

Warren said if we have a carryover of \$3 million and we've adopted the theory that we're going to keep \$2 million of that, \$2 million will be the carryover for the next year and \$1 million will actually be budgeted to be spent. So we would always keep that \$2 million. Mitchell said yes and at the end of the year what you did not expend could be added to that.

Endicott said in this year's budget, we are projecting a 3% increase, which is about 1/2% above what we projected last year. We are not recommending any increase in water revenue rates, sewer rates, and we are not recommending any increases in refuse rates. On the expenditure side, we can fund \$1,268,000 for two rolling stock items, all other Capital at \$983,000, and separate funding items, such as drainage maintenance type items, or those type of items that have a separate funding source. We are funding rolling stock at \$359,000 and other Capital at \$150,869, for a total of \$2,761,805. On the Maintenance Operations side, he said we are funding from the General Enterprise Fund, \$778,000 and separate funding is \$27,000 for a total of \$805,000. He said requested but not funded is \$1.3 million. We are recommending some new positions be added, a total of 16, which includes part time for a total of \$453,432. We are recommending 1 position be deleted which is a retirement and that would be a savings of \$88,000 and we have some separate funding for some positions. For the net cost for new personnel to the General Fund would be \$304,000 and we aren't recommending any reclassifications. He said the City Manager said they are currently doing a review and will bring that back to you in the near future. We have set aside \$714,000 in this budget for personnel issues for all employee groups and also set aside \$83,000 to increase the City's contribution to the General Employee's Pension Plan of 1/2 %, for a total cost of \$1,100,895 for new personnel. He said they are proposing 1 reorganization, based on the retirement of Doug Wells. We are recommending that department be reorganized with the Computer Services portion (MIS) transferred to the Finance Department, Electronic Maintenance to be transferred to Public Works Department, and E911 and Emergency Management Division will transfer to the Police Department.

Endicott said other considerations in the budget that we have proposed to fund is the Sanitation Pilot Program.

Mitchell said this is a pilot program where we would go to semi-automated and look at how the system works and whether or not it is feasible to transfer from our current operation into the semi-automated. If it's workable in one or two routes, then maybe expand that service over time.

Endicott said the next issue is the Utility Easement Clean Up Program. He said the City Manager will speak to Council about capping the Hotel/Motel Tax for the purpose of possibly looking at a Grant Writer type individual in the future.

Mitchell said we currently collect about \$550,000 and all we are suggesting is we cap current levels of funding for the Chamber of Commerce and the Museum. We provide \$490,000 to the Chamber of Commerce and \$55,000 to the Museum. If, during the next year, we collect over that cap, then we're suggesting you might consider earmarking those dollars to fund a Grant Administrator on a contractual basis to capture future grant money.

Shanklin said he would like to be shown how much money we've turned over to the Chamber of Commerce for Hotel/Motel Tax for the last four years. Mitchell said we can do that. We have turned over at least \$1.5 million over the last four years.

Haywood asked if the Grant Writer would get a percentage. Mitchell said we have not discussed that, we're just

conceptually suggesting that might be something Council wants to look at. If that is something Council wants to explore then we would develop a proposal. Haywood said this is important and he believes we would be getting a lot of money this way.

Purcell said there are millions of dollars out there from the Federal Government to do all kinds of things. It is not only do we need someone who knows how to write a grant, but we have people in City Government right now and in the Police Department, Fire Department, Library and elsewhere that are writing grants but it's kind of an additional duty for them when they can get around to it. It would be nice to have someone who not only could write the grant but knows where to go to find those grants. We don't need to hire an employee to do that, the best way to do it is to hire a contractual person, because it gives them an incentive to go and get the money.

Endicott said on page 23 of the budget, you can see that the actual Capital expenditures were \$460,000 and have gone up to \$490,000 for the Hotel/Motel Tax, since 02-03. In 2002-2003 the actual expenditures were \$460,000 and 2003-2004 they were up to \$490,000 and 2004-2005 is close to \$490,000.

Endicott said on the Personnel Side, the Sewer Rehab has 32 employees. When you look at the number of employees in how we've grown or not grown, please consider that's part of it we've added to the City.

Endicott said with this proposed budget, 67% of it is Personnel costs, 28% is our 200 accounts for all the general supplies and services, and 5% Capital Outlay as the General Operating Budget.

Haywood said you guys have done a wonderful job for the last two years and said thank you.

Purcell said so far you have done a super job and explained well how you've gotten to where you are . He said they all are to be congratulated from his perspective. Mitchell said it took a lot of people out there to put this together. Purcell said that's a good example because this whole thing is one big team effort in this community and within City staff.

2. Consider rejecting a solicited proposal received from an auditing firm and direct staff to send additional Requests for Proposal to CPA firms for the annual audit for fiscal years ending June 30, 2004, 2005, and 2006. Exhibits: Withdrawal of Audit Proposal letter from Crawford & Associates, P.C.

Endicott said they had sent our RFPs and received two proposals back. One was from Crawford & Associates and one from Carlson and Cottrell. Since the proposals have gone out, Mr. Crawford has withdrawn his proposal due to potential conflict of interest, since he does a lot of consulting for the City of Lawton. He said at this time he feels he couldn't recommend Carlson and Cottrell and requests going out for bids again.

MOTION by Shanklin, SECOND by Warren, to reject a solicited proposal received from an auditing firm and direct staff to send additional Requests for Proposal to CPA firms for the annual audit for fiscal years ending June 30, 2004, 2005, and 2006. AYE: Ewing-Holmstrom, Shanklin, Patton, Haywood, Warren, Givens. NAY: None. MOTION CARRIED.

COUNCIL RETURNED TO AGENDA ITEM #1 AT THIS TIME

There being no further business to consider, the meeting adjourned at 7:28 p.m. upon motion, second and roll call vote.