



City of Duncan, Oklahoma

BOX 969

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MEMORANDUM

TO: CITY COUNCIL

FROM: JAMES M. FRIEDA, CITY MANAGER

DATE: DECEMBER 14, 2015

RE: BUDGET FOR PERIOD ENDING DECEMBER 31ST, 2016

The City Charter at Section 3-3 directs the City Manager to prepare a budget annually and submit it to the Council. In addition, it directs the manager to prepare a report at the end of the fiscal year on finances and city administration. I have determined to use the format that I have provided in the past.

As you are aware the budget process began in September for the 2016 budget. The director of each department received a directive to provide a proposed capital improvement budget to this office not later than October 2015. After the proposed CIP budget for each department was reviewed I met with the directors to determine priorities. Subsequent to preparation of capital improvement proposals a maintenance and operation budget was also submitted. Ms. Donna Howell, Personnel Director, provided projected wages, and those things related to city contributions as well as several spread sheets indicating monetary impact of wage increases. There were a number of meetings with department directors, Ms. Howell and Janice Cain to relook and rethink expenditures, often times adjusting the requested capital improvements. As mentioned in the budget workshop Janice did the lion's share to produce a workable budget. As always we are working to address the primary needs of the citizens but without larger sources of revenue, we will not be able to go beyond this primary need. In 2015 we noted a modest decrease in sales tax (3%) and suffered reduced income for our water utility due to drought. A

number of items were considered in preparation of the budget we are asking the Council to approve. As an integral part of the budget, the following items were considered:

- City street projects
- Improvement of transmission electric lines on 27th Street
- A continuing need for new equipment
- The existing unfunded liability of the city retirement plan
- Safety needs in the Fire Department
- Infrastructure improvements to help in our ongoing water conservation program
- Compensation for employees
- Employee Health Plan

Sources of revenue include our 3 ½ % sales tax, revenues from electric utilities and revenue from other utilities to include water and sewer. As has been noted in the past, sales tax alone is not sufficient to pay for the day to day operations of the city. At the time of our budget workshop, which was open to the public, we discussed not only every revenue source available to the city, but also every expenditure contemplated by this budget. The financial position of the city requires that we be prudent with expenditures.

We have indicated that employee personnel services are the single most expensive cost that the city must satisfy on an annual basis. Personnel services include not only salaries and wages but also contemplate, among other things, the cost of overtime, FICA, Medicare, employee pensions and health insurance. It is anticipated that employee costs for fiscal year 2016 will be \$16,857,289.

The cost to operate the Police Department in 2016 will be \$4,591,232. This is the price we pay for personnel services as well as maintenance and operations. The amount it will take in 2016 to operate the Fire Department is \$3,590,655. This cost includes personnel services and maintenance and operations. The total expense for Police and fire, not including capital equipment is \$8,181,887. That is in excess of (two percent (2%) two cents sales tax collections. Taken on its face, the numbers tell us that payroll for over half of the city employees must come from other revenue sources such as net revenues from the electric utility and other utilities such as water and sewer as well as use tax of approximately \$1,100,000.

The City's personnel are our most valued asset. Therefore it was a very difficult, albeit necessary, decision to forego an across the board wage increase for fiscal year 2016 as in 2015.

In an effort to control costs, the city has operated with fewer personnel than authorized by its table of organization. The City is authorized 238 employees and six part-time employees and yet is operating with twenty-six fewer. It has been determined that the city will maintain a hiring freeze on certain positions that will as a result preclude funding of \$728,4-4 which the City

cannot afford. We do, however, use Department of Correction labor force of some twenty people which also precludes funding of several hundred thousand dollars.

As I have pointed out on a number of occasions, since its inception, the employee retirement fund has carried an unfunded liability. However, the City recognized the unfunded liability and determined to reduce the amount of the liability by the year 2040. In retrospect, in 2011 the City budgeted \$500,000 to reduce the liability, in 2012 \$800,000 was budgeted, in 2013, \$1,000,000 was budgeted, in 2014, \$1,225,000 was budgeted and in 2015, \$1,500,000 was budgeted. However, an actuarial study completed in April 2014 indicated that an unfunded liability of \$18,000,000. In 2015 new governmental accounting principles require this number to be reflected in our annual audit. The new actuarial indicates that at its current funding levels, the plans unfunded liability will continue to increase. As a consequence, during fiscal year 2016 we will modify the plan structure insuring that the retirees will continue to receive complete compensation. The plan will continue with some modifications primarily changing the character of the plan for some newer employees are now enrolled in a defined contribution plan. In addition, we intend additional plan modifications.

It is projected that city sales tax of 3 ½ cents will generate approximately \$14,000,000. Of that amount, .5 cents of the sales is committed to economic development. Further, two cents is placed in the general fund for use other than capital equipment/capital improvements. Of this amount, 1.45 cents is unrestricted and .55 cents is restricted to pay for the street debt. The balance, along with the unrestricted portion can be used to pay for operations in the general fund. The remaining one cent is to be dedicated to CIP at approximately \$4,000,000. Keep in mind that capital improvements equate to city buildings, vehicles, streets, water lines, new equipment and durable safety equipment.

A very major consideration of the 2016 budget is existing debt and the resultant debt service which must be addressed during the next twelve months. This item was addressed in the 2014 budget letter and remains an area of concern. As you know, in the past a number of city projects were financed such as the Clean Water Act Sewer Project costing \$9,800,000, a \$10,000,000 street project, a \$4,000,000 water tower, a water treatment improvement costing \$15,000,000, the Honeywell project costing \$14,000,000 and the Waurika Lake debt. On December 31, 2010, the city debt totaled \$60,126,584. Notwithstanding, the debt service requirement is \$5,081,485 for 2016. In addition, the city's annual payment on the Waurika debt is \$660,471. These payments are reflected in the 2016 budget and greatly impact city revenue. That being said it must be noted that in the last three years the city has restructured its debt and has saved \$3,012,856 by reducing the life of the debt service and the interest rate on the obligations. As you are aware we acquired two new obligations related to Waurika Lake Master Conservancy District. The first debt was to acquire the remainder of the volume of the reservoir in an amount of \$9,000,000. The second is for the lake dredging project in an approximate amount of \$3,000,000.

In last year's Budget Letter we stated that "We are continuing with our own street maintenance program; however, our streets are in substandard condition. As a consequence, a street improvement program is essential but costly. The staff has placed a priority on streets most in need of immediate attention. This priority list contains in excess of 250 streets to be addressed. It is anticipated that the total cost of the project will be in excess of \$8,500,000. The 2013 Budget anticipated the passage of a \$9 million general obligation bond which was unsuccessful." The streets continue to deteriorate and as a consequence, in the 2016 budget, we have budgeted \$600,000 for street maintenance and construction.

The City of Duncan Employee Health Plan is an area of concern. As you know, the plan has been self-insured and therefor utilized a third party administrator (TPA). However, the cost of insurance continues to increase and that increase has impacted the City. It was anticipated that the City would realize a 4.9% increase in cost. We have spent quite a bit of time on this item and made several modifications to the plan insuring that our employees still have premium coverage. For that reason the City is moving to a new fully insured plan with OPEH&W, which offers lower cost coverage to Oklahoma Public employees and reduces the risk to the city. The cost of insurance for 2016 is \$2,323,841. We anticipate a \$75,000 savings and avoid the risk of self-insurance.

We have continued to be mindful of the needs of our citizens who are customers of the city owned electric utility. We are endeavoring to improve our transmission and distribution system and as a consequence the Electric Department will improve the transmission line on 27th Street to Bois D'Arc, which was planned for the 2015 budget. This will decrease down time in the event of a disaster such as the 2010 ice storm. We have budgeted \$400,000 to that project. With, among other items, we will insure improvements to the Plato Sub Station at a cost of \$252,000, purchase of transformers, transmission poles, and wooden poles and have budgeted \$911,400 to Duncan Power.

We continue to be proactive by including new vehicles and equipment in those departments that have expressed a need. However, as discussed with the Council at our budget workshop, not all requests were approved because funds for purchases must come from the dedicated 1¢ capital improvement fund which comes from sales tax revenues. While we try to make due with many older vehicles maintenance and repair costs do continue to escalate. These maintenance items are reflected in the maintenance and operation budgets submitted by each department.

Water conservation is a subject that has generated a great deal of concern in the community. Currently the Lake Humphreys pumping project began but has been placed on hold because of a dispute with the contractor. The project has an anticipated cost in excess of \$600,000 which is being budgeted using funds committed by the Duncan Area Economic Foundation. In addition, the City Council has prioritized projects intending to enhance the water storage volume at the city lakes.

It is essential to contemplate revenue increases during the coming fiscal year. The staff has noted that an area in need of adjustment and renew is revenues connected to sewer rates. As discussed earlier, revenues from sales taxes must be augmented by collections for services designated as other utilities which include water and sewer. It should be noted that the Water Advisory Committee commissioned a rate study to be completed by PEC and anticipate a finding that water rates should be raised.

This Budget indicates a concerted effort by the city staff to provide great quality service to our community however in order to do so, necessary purchases of equipment must be approved by the Council. It is incumbent on the employees to maintain equipment, remain dedicated to the community, understand the limitations of our revenue sources and remain good citizens.

In essence, the budget is a planning document for the municipality and the method of authorizing the expenditure of public funds. Adaptation of the budget constitutes the appropriation of the municipality's funds for the coming fiscal year. The allocation of these funds among municipal departments and accounts indicated the governing body's priorities for municipal operations throughout the year.

The City Staff has implemented a method for measuring performance of its budget. As a result, quarterly, a reconciliation of revenues and expenses is made. The budget may need to be amended from time to time throughout the fiscal year to adjust for unexpected expenditures, appropriate unexpected revenues and most importantly, to ensure that the municipality is not spending more than has been budgeted for the fiscal year.

There will always be room for improvement and we should continue to strive for improvement not only in the services we provide but also in clarity of our budget process. The City continues to work with its retained auditors and financial advisors to improve its financial position and eliminate deficit positions reflected in past audits.

