STATE OF TEXAS §

November 19, 2010

COUNTY OF GRAYSON §

BE IT REMEMBERED THAT A Called Meeting of the Sherman City Council was begun and held in the City Council Chambers on November 19, 2010.

COUNCIL MEMBERS PRESENT: Mayor Bill Magers; Deputy Mayor Willie Steele. Council Members Adami, Howeth, Smith, Softly.

COUNCIL MEMBERS ABSENT: Council Member Wacker.

CITY STAFF PRESENT: George Olson, City Manager; Robby Hefton, Assistant City Manager/CFO; Brandon Shelby, City Attorney; Don Keene, Executive Director – Planning and Public Works; Mark Gibson, Director of Engineering and Public Works; Scott Shadden, Director of Development Services; Tom Watt, Police Chief; Jeff Jones, Fire Chief; Mary Lawrence, Controller; Scott Taylor, Assistant Director of Engineering and Public Works; Jacqueline Banfield, Library Services Administrator; Kevin Winkler, Parks and Recreation Administrator; Lisa Whitfield, Engineering and Development Coordinator; Tammy Davis, Grant Writer; April Patterson, Tourism Director; Pam Cloer, Assistant to the City Manager; Linda Ashby, City Clerk.

PURPOSE: **Call to Order, Quorum Determined, Meeting Declared Open**

LONG-TERM PLANNING DISCUSSION

OTHER BUSINESS
Consider Scheduling the City Council's Second Long-Term Planning Meeting for Friday, January 21, 2011

ADJOURNMENT

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Magers called the meeting to order at 9:02 a.m., declared a quorum present, and opened the City Council Meeting.

LONG-TERM PLANNING DISCUSSION

George Olson, City Manager, said the United States is in the worst recession since the 1930's. The City has some tough challenges that lie ahead and they need a strategy to address these challenges. He addressed comments that were made in past budget work sessions pertaining to the state of the budget. He said the City has made many changes over the past few years to better position themselves for the challenges.

The City can't maintain the status quo; something has to change. Mr. Olson said budget cuts and savings have been implemented over the past three years that have resulted in a reduction of over $1 million a year in the operations and maintenance budget of the General Fund. He reiterated that the City is faced with revenue challenges not cost challenges. Expenses are in line or lower than other peer cities

Mr. Olson said today's meeting is the start of a planned approach for some difficult long-term decisions effecting the General Fund. It's about establishing direction for the FY 2011-2012 Budget. It's about finding a balance between revenues and expenditures, between services and expectations, and between decisions and directions. The meeting is not about operating in a vacuum. They are not asking the Council to solve the challenges today. He added that a second meeting would probably need to be held after the holidays to provide additional information to the City Council and will include benchmarking, Council direction and alternatives, contingency planning, and a preview of the 2012 Budget Planning Session.

Mayor Magers reminded Council Members that there is no agenda item for action. This is the first step in the process but it is too early to make any decisions.

Robby Hefton, Assistant City Manager/CFO, reiterated that no decisions need to be made today but that the meeting is to provide an update and to start thinking about the challenges the City faces. The situation is serious, but not grave. The City will devise a plan, but important decisions must be made.

Since 2008, Sherman's revenues, sales tax, property tax, and franchise tax, have been "flat," and franchise taxes have even gone down. The problem is a revenue issue, not an expense issue. The City will need to look at operations and revenue sources, but some things that need to change are out of the City's control. Sales tax needs to pick up and the property tax base needs to continue to grow at historical rates. In the past the property tax base would grow at 3% to 5% annually and the sales tax would increase 2% or 3% annually. These are both "flat." Also, since natural gas prices have dropped, the franchise taxes have also decreased. Because of these changes, the City is down a couple million dollars a year in revenue.

During the last two years, Mr. Hefton said the City has used reserves to pay bills. While that was the right thing to do, the City can't run the reserves down to zero. The main focus of this meeting is to determine the proper balance for the General Fund. In the long-term, the Utility Fund and the Solid Waste Fund don't have the struggles that the General Fund has.

Mr. Hefton said the City needs to keep the reserves at an adequate level, which is 60 days. The target would be 90 days. Mayor Magers confirmed that the City can maintain its current bond rating as long as they don't go below 60 days of reserves for any sustained period of time. The most effective way to maintain this bond rating is to reach the right balance of services.

Mr. Hefton displayed the history of changes in the property tax value, which has seen a 3% to 5% annual growth in the past. In the current year, there was a little "shrinkage" in the property tax base. He felt there would be at least 12 to 24 months before this trend turned around.

Sales tax revenue has also been flat for the last two or three years and while Mr. Hefton felt it would pick back up, it probably wouldn't be in the 3% range during the next two years. Sherman never saw a "big dip" in sales tax, like most cities did, but they didn't see the sustained growth that they had in the past either. Mr. Hefton said the City has seen a loss of approximately $1 million in property tax and $1 million in sales tax.

Natural gas rates are also decreasing which causes a $350,000 to $400,000 loss in franchise taxes. All energy prices are based on natural gas rates. These three areas of loss are revenue problems, not expenditure problems and amount to losses of approximately $2 million plus to the City.

Mr. Hefton led the City Council in some "what-if scenario" discussions. He showed Council Members how the fund balance would change if the various scenarios changed. The scenarios that he displayed included the sales tax growth rate, continuation of the street sales tax, property tax rate, property value growth rate, Panda Energy, a cost-of-living adjustment, and any other expense rate changes. Mayor Magers verified that $900,000 of the debt service is paid out of the General Fund.

The City has cut back on the capital and fleet spending, however at some point they will need to replace fleet. He discussed the transfers to help balance the budget and how that is not sustainable on a long-term basis. He added that there might be some other one-time money available, however it is not sustainable either.

The sales tax initiative would account for $1 million. Currently the sales tax for streets will "sundown" in April 2012. An election to consider the option again would be held in November 2011. If it was passed at that time, there would be no lapse in the collections. Mayor Magers reiterated that the street sales tax amounts to $1 million for street repairs, of which 50% is paid by people not living in Sherman. The initiative passed by 70% last time and the City completed 25 miles of street repairs with the money. He urged that the Council specify the projects for which the money would be dedicated.

By changing the specific situations, Mr. Hefton showed how the fund balance would change for the General Fund. He felt the answer would be dependent on the economy turning back around. The longer it takes, the more urgent the City's decisions will become. Mr. Hefton did not feel that Panda Energy should be included in any of the scenarios at the present time. He added that getting property tax and sales tax back in line will be crucial. He reiterated that the City needed to keep the reserves in the 60 day range with no deficit and balance the fund on an on-going basis.

Mayor Magers said if another company comes into the MEMC facility and positive things happen, the scenario will improve. He added that the City needs to "plan for the worse, but hope for the best."

Mr. Hefton addressed the essential services versus complimentary services, and said the City needs to make sure they are doing the right things. They need to focus on the essential first, which are outcomes, not outputs. Essential services deal with the fundamental needs of safety, protection, security, and physical needs. These are services that can't easily be obtained by individuals and are generally supported by taxes and user rates. Complimentary needs are quality of life issues that have readily available alternatives which can be obtained by citizens other than through the City. They are generally supported by user fees.

When determining which services to offer, the Council must consider who delivers the service, the frequency of use of the service, the level of control needed over the service, and who receives the benefit from the service versus who pays for the service. The hierarchy of essential general services includes public safety first, then streets, administration, and community services. Mr. Olson said most of the cuts so far have followed this hierarchy. Mayor Magers verified that the essential services are the core services offered by the City, however there are complimentary services in all departments even in the essential departments such as police, fire and code enforcement. Mr. Hefton added that support of the essential services is also vital.

Mr. Hefton reminded Council Members that 8.25% is the maximum sales tax rate in the State of Texas, with 6.25% actually going to the State. This leaves 2% in sales tax for the local municipalities. Sherman is currently at the 2% maximum, which includes 1% in general sales tax, 1/2% in sales tax in lieu of property tax, 3/8% for economic development, and 1/8% for street maintenance. The street maintenance sales tax will expire on March 31, 2012. After that sales tax expires, 1/8% will be available for either economic development or for street maintenance.

An election would be required for approval of this sales tax for either designation. Specific ballot language is also designated by the State Comptroller. Mr. Hefton said that, with voter approval, the designation for economic development could also be increased to 1/2% or reduced to 1/4% or to zero. All sales tax changes must be done through an election.

An election can be called by adoption of an ordinance by a majority of the City Council, through a petition signed by 20% of the voters voting in the last election, or by a petition signed by 5% of the registered voters. The election would be held on one of the two uniform election dates.

The street sales tax sunsets after four years, which will be March 31, 2012. It can be renewed under the same manner as initially imposed and must be used for maintenance and repair of City streets that were existing streets at the time the tax was passed. It does include curbs and sidewalks, but cannot be used for a designated State or Federal highway or road, or for a designated County road.

If the Council wants the sales tax to remain in force without any gaps, then the election would need to be held on November 8, 2011. Mr. Hefton said the sales tax for streets is really a City Council issue, but from a staff standpoint it is a great idea. Council Member Adami asked if the staff has looked at potential streets that need repair. Mr. Hefton said the City maintains an inventory of streets that are identified and prioritized that need repair. He suggested that the sales tax be used to help offset the cost of street repairs that are normally done, which would provide relief to the General Fund.

Mayor Magers said there are long-term revenue issues and some short-term cash flow issues. The best thing that the City Council can do to make sure that property rates remain where they are is to pass the sales tax for street maintenance issue. The reason the initiative was originally successful was that the City showed voters exactly where their money would be spent and that is where the money was spent. The voters were told that 16 streets would be repaired and the City actually repaired 25 streets with the money. He felt for the initiative to be successful, the Council should use the same type of plan and outline the streets that will be repaired. He felt the voters need to be told how the money will be used. Mayor Magers added that the repairs to Travis Street need to be completed. Mr. Hefton said both the street and the improvements to the street downtown should be completed by October 2011.

<u>OTHER BUSINESS</u>

<u>CONSIDER SCHEDULING THE CITY COUNCIL'S SECOND LONG-TERM PLANNING MEETING FOR FRIDAY, JANUARY 21, 2011</u>

Mr. Hefton asked the City Council about setting a date for the second Long-Term Planning Meeting after the first of the year. Topics will include a peer City review and benchmarking, a Council discussion on alternatives, contingency planning, and a preview of the 2012 Budget planning cycle.

Council Members decided they wanted to wait until the sales tax numbers from Christmas sales were received by the City before they held the next Long-Term Planning Meeting. Sales tax numbers for December 2010 should be received by February 9, 2011. Mr. Hefton said the sales tax numbers would make a difference in the planning. Council Member Adami agreed that would give two more months of sales tax trends if the meeting was held after that date.

Mayor Magers reiterated that through street sales tax revenues and cost deductions "the needle swung" $2 million to the good. After debt service of $900,000 is included, the City is still $1.1 million to the good. Mr. Hefton added that the street sales tax was not offsetting the operations and maintenance costs. Mayor Magers said the City Council took taxpayer dollars that were sitting in the City's bank account and termed excess revenues, and put them to work. Up to this point the reserves have been used and costs cut to get where the City needs to be. He agreed that the City does need a long-term plan.

He suggested looking at the Sherman Economic Development Corporation to see what they can and can't do. They have money in the bank and the City can partner with them. He complimented the staff on their hard work adding that expenses are not the problem. The budget needs to be balanced, and he felt that the small items need to be reviewed too. The City needs to look at stopgap measures in conjunction with long-term things for future years.

Council Member Adami felt better numbers would be available after the Christmas sales tax numbers are received and Council Member Smith reiterated that the budget needed to be balanced. Mayor Magers added that the City must maintain their credit rating too. Mr. Hefton said that the Council can only set the budget for one year at a time. However, there are long-term issues, on revenue generation and on services offered, that will be impacted by these current decisions. Short-term decisions need to "mesh well" with the long-term decisions.

ADJOURNMENT

There being no further business to come before the City Council, motion was duly made and approved to adjourn the Called Meeting at 10:12 p.m.

MAYOR

ATTEST

CITY CLERK