STATE OF TEXAS §

June 25, 2020

COUNTY OF GRAYSON §

BE IT REMEMBERED THAT A Called Meeting of the City Council of the City of Sherman, Grayson County, Texas was begun and held in the Sherman Municipal Ballroom, 405 N. Rusk Street, Sherman, Texas, on June 25, 2020.

MEMBERS PRESENT: Mayor David Plyler; Deputy Mayor Willie Steele.
Council Members Holland, Howeth, Melton, Stevenson, Teamann.

MEMBERS ABSENT: None.

STAFF PRESENT: Robby Hefton, City Manager; Terrence Steele, Assistant City Manager; Clint Philpott, Assistant City Manager; Brandon Shelby, City Attorney; Wayne Lee, Director of Engineering; Rob Rae, Director of Development Services; Scott Shadden, Director of Development Services; Danny Jones, Fire Chief; Leah Campbell, Human Resources/Organizational Development Administrator; Cathy Perkins, Human Resources Manager; Zach Flores, Police Chief; Danny Jones, Fire Chief; Bruce Dawsey, Assistant Police Chief; Chris Olson, Assistant Fire Chief; Billy Bob Hartsfield, Fire Marshal; Tom Pruitt, Utility Engineer; Mary Lawrence, Director of Finance; Kevin Winkler, Public Works Manager; Eric Sandberg, Assistant Public Works Manager; Tammy Davis, Controller; Theresa Hutchinson, Parks and Recreation Manager; Karen Wolff, Administrative Secretary; Jim Cross, Water Systems Manager; Nate Strauch, Community and Support Services Manager; Shawn Hackworth, IT Manager; Melissa Eason, Library Services Manager; Jimmy Mrozinski, Solid Waste and Recycling Superintendent; Mike Grant, Facilities Superintendent; Sarah McRae, Tourism/Main Street Manager; Kent Sharp, Sherman Economic Development Corporation President; Moises Duran, Emergency Management Coordinator; Junior Jaimes, Computer Support Technician; Albert Garza, Events Coordinator; Pam Cloer, Assistant to the City Manager; and Linda Ashby, City Clerk.

PURPOSE: **CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN**

INVOCATION BY COUNCIL MEMBER SHAWN TEAMANN

2020-2021 BUDGET REVIEW

ADJOURNMENT

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Plyler called the meeting to order at 8:09 a.m., declared a quorum present, and opened the meeting.

INVOCATION BY COUNCIL MEMBER SHAWN TEAMANN

2020-2021 BUDGET REVIEW

Opening Comments/FY 2020 Work Plan Update

Robby Hefton, City Manager, said a lot of effort, hours, and days have been put in by City staff to develop this budget, which is basic and sufficient. He said originally, the budget process was started pre-COVID-19, but as it is right now, it's ample, safe, predictable. There aren't a lot of capital expenditures or capital projects, other than those that were already in progress. Only the types of projects that are related to ongoing development are included in the proposed budget.

He presented an update on the work plan and the Council's direction from last year's budget process. For the most part, the items that were part of the current work plan have been completed. Items that are not complete, are the Capital Improvement Projects, which by nature are long-lasting. He discussed the list and updated the Council on the status of those items that had not been completed.

He discussed the stormwater fee and said the staff is not proposing any increase in this fee for the upcoming year. He also outlined several projects that had been done through the program. He added that the reauthorization of the Street Sales Tax was held on the November 2019 Election, and there was overwhelming support for the program. It was approved for another four years.

Mr. Hefton also discussed projects that were not originally part of the 2020 budget, but have happened since that time. These include projects such as the Hwy 75 "Gap" Project, the widening of FM 1417, and Heritage Ranch Planned Development.

As for prior initiatives, Mr. Hefton said the proposed hotel/conference center in Legacy Village, Schulman's Movie Bowl Grille, is being re-evaluated because of the effect COVID-19 has had on tourism and the hospitality industry. He said it was hard to determine what the future holds and to say whether or not it will "come back" strong or even in the same manner. He said it is still a valid project.

There has been significant development in Sherman Crossroads over the past few months, and Quik Trip is now open. McDonald's is scheduled to open during the first part of July 2020. The Quik Trip in Sherman Landing has been open for over a year and Legacy Bank should open soon.

Legacy Boulevard was started over 18 months ago, and because of the Bel Air Village development, the decision was made to phase the project instead of doing the entire project. He felt the staff would have a proposed agreement on Bel Air Village for Council consideration within the next month. He felt the Council's Economic Development Subcommittee had been an asset to the process. The staff expects the land that is being held by the City at FM 1417 and West Travis Street, should be sold in the next few months.

Mr. Hefton said there are "two main thrusts" with this budget, and there is pressure from the impact of COVID-19, especially on the General Fund. The General Fund includes sales tax, property tax, franchise taxes, and most of the impact is felt in these areas, with items that are most effected by people staying at home. There is also some impact on trash utilization and things that are effected through business closures.

He said the main impact and the major challenge for the current budget and the upcoming budget, is in the General Fund. "Balancing" is the immediate priority and what must be done to "keep the doors open." The staff's goals were to make sure they were providing the same level of service, to protect the employee's jobs, not start new things, and implement a hiring freeze,

They have also tried to "scrape together" money to make the budget work and make transfers from "healthy" funds, such as the Group Health Fund. Mr. Hefton said the Group Health Fund is doing very well and is being used to help "prop up" the General Fund. Most of the cost of the

Health Fund comes from General Fund employees. These things are being done for the immediate balancing of the General Fund, to finish out 2020 and to plan for 2021.

Mr. Hefton said the Utility Fund is a different problem. There has been no significant “dip” in the Utility Fund like in the General Fund, because citizens staying home are still using water and the industries and businesses are still open and using water. However, there is a longer term issue in that the debt has doubled in the last five years. This was intentional, but the Water Treatment Plant alone was a $30 million project. There has not been a rate increase in the Utility Fund since 2017.

There has been an increase in the property tax base. A significant part of that increase, about $150 million, has been from new value, with the rest being from existing value. The total tax base increase was about $340 million. They do expect sales tax revenue to be up slightly. Restaurant revenues have been down, but the large, box stores have increased revenue. He said total sales tax revenue has not been down as much as was originally anticipated.

Mr. Hefton said the staff will be proposing a rate increase in the Utility Fund, but nothing in the Solid Waste or General Funds. However, with debt and debt service climbing, and with the construction of expensive infrastructure, the Utility Fund must be addressed. There will be some offsets in the future, with impact fees, but other steps need to be taken too.

Curbside recycling has now been suspended and the new recycling program has been implemented. The staff will also address the effect of the Texoma Area Solid Waste Authority on the City’s budget.

CIP/Projects Update
Clint Philpott, Assistant City Manager, presented a “drone flyover” and update of current Capital Improvement Projects. Projects covered included:

- Water Treatment Plant
- Northwest Sewer Extension
- TIRZ #6 -- Sherman Landing/Sherman Corners
- Fallon Drive Extension
- Park Street Extension
- Lamberth Road Drainage Improvements
- Pecan Grove West Athletic Complex
- FM 1417 Expansion (US 82 to SH 56)
- FM 1417 Expansion (SH 56 to West Travis Street)
- FM 1417 and West Travis Street Intersection
- Steeple Chase Drive
- Moore Street Extension – Phase 1
- Moore Street Extension – Phase 2
- Moore Street Extension – Phase 3
- Sewer Line North to High School
- West Travis Street (US 75 to FM 1417)
- Sherman Police Station
- Marilee SUD Water Extension
- US 75 GAP Project
- TIRZ #7 -- Legacy Village
- TIRZ #5 -- Crossroads

Mr. Philpott asked if there were any questions. Council Member Teamann asked if the money that Marilee SUD was paying was being bonded or if they were just "writing a check" for it. Mr. Philpott said he understood that they had cash. Council Member Teamann asked if Sherman should bond the project and utilize the capital to keep the utility rates down, and prevent the proposed rate increase. Mr. Philpott said it might depend on the timing of the situation. Mr. Hefton asked how the $1 million was reflected in the 2021 budget.

City Council Members took a break from 9:47 a.m. to 10:02 a.m.

Police Update

Zach Flores, Police Chief, presented an update on Police Department issues. One of the major issues addressed this year is the overtime budget for the department. He said it was easy to blame overtime on getting a call where the officers had to stay past their shift time. They decided to take a stance and give ownership to the lowest level possible.

This year, they were budgeted $530,000 for overtime for the year, and they are on schedule to spend $212,000. There are two budgets in the department, one for sworn officers and one for the civilian personnel. He said, currently it's hard to find personnel for law enforcement and many departments are "throwing money" at it. He wanted to consider salary adjustments this year, but not in a way that strapped the City's budget.

Chief Flores proposed using the money that was saved from overtime for the salary adjustments, which would still put them at or below their FY 2020 budget. He said there is a strategy as to how the salary adjustments will be applied, so it will be responsible. He said Mr. Hefton will speak more to that later.

He said, in the Police Department, they found a way to manage their money, and to give responsibility to the officers that are the ones performing the overtime, to save hundreds of thousands of dollars, and in turn put that money on salary adjustments. He said it was a lot of work in a lot of different areas, but he is very proud of his officers.

Deputy Mayor Steele asked how that was accomplished. Chief Flores said they started tracking salary budget information and could tell where each officer was every week. They calculated how much overtime each officer was allowed per week and passed that to their direct supervisor. The supervisor was then left to make staffing decisions as to who was called in for overtime. He said, for the most part, sergeants, corporals, and lieutenants are responsible for the plan, and the assistant chiefs are "policing" it. The responsibility and accountability is at a lower level.

Council Member Melton reiterated that Chief Flores wasn't saying the officers weren't working. He said they were working, but no one was strategic in how they took care of it. Chief Flores said "there is law enforcement" and then "there is the business of law enforcement."

Council Member Melton asked if this method could be used in other departments. Mr. Hefton said the staff has already implemented the process in other departments, especially the utility and public works areas.

Chief Flores said the Support Services Department has used up about 60% of their overtime budget in the first quarter. There were some shift changes, staffing changes, and schedule changes that were made, and they went from spending almost $9,000 in January to $3,700 for about three months, plus the staffing changes. He said, next year, Support Services will be his main budgetary focus.

He said, Wes Trisler, Assistant Chief, was promoted on February 21, 2020, and had to make some changes that weren't popular, but were necessary. He said the personnel side, is always the most expensive side, and said public safety is very expensive.

Chief Flores updated the Council on the new Police Headquarters. He presented an estimate for the 10-acre proposed site, including construction. Total capital cost is estimated to be $14 million. The proposed site is near Fire Station #4, and will require some sewer work to increase capacity and a new impound yard storage area. The location would be at the intersection of West Travis Street and Northgate Drive, and would have very good traffic access to arteries.

As for general policing, Chief Flores said he had several meetings with community members because of recent events happening across the nation and concerns about the fate of policing. He said the Department already reviews annually their use of force and produces a formal report. Another annual report concerns racial profiling, and is available to the public.

President Trump signed an Executive Order last week saying he wanted a nationwide database on officer conduct and misconduct. Sherman already has that database, and the supervisors are the first to alert that there might be an issue with an officer. It doesn't even get to where there is a problem, but they watch for any aggressive behavior.

The President has also said he wants credentialing for training and for use of force issues. Sherman and Denison are the only credentialed agencies in Grayson County. All policies and use of force are reviewed by a third party, to determine whether or not it is consistent with the best policies and practices of law enforcement today. Sherman is already doing that and is ahead of the curve. They review all the policies, every year.

Some Council Members were in a meeting with community leaders, and the one item that came out of it was better communication through social media. Sherman isn't the best at social media, but Chief Flores said they were already there. He said the police photos that are on the police website are actual Sherman officers and not stock photos. They have been working on the program since February 2020, and it will mostly be on Instagram, but also on Facebook and Twitter. He said, "content is the driver" and it needs better content. This content will be the driver of the messages, and the images will be the backdrop. Chief Flores said by the end of the year, the Police Department will have a very defined media presence.

Chief Flores said the Police Department appreciates the support of the City Council and of the community.

Council Member Stevenson said social media is now the way people communicate, and he commended Chief Flores and the department on their positive efforts. He addressed the overtime savings and said he loved savings, but if the officers are used to getting overtime pay and now they would have a lower paycheck, would Sherman be able to stay competitive.

Mr. Hefton said later in the meeting, the staff will be talking about a police pay change, that would almost completely be paid for in 2021 through the overtime savings. He said the overtime changes were started early in the year and weren't done to add the pay increase. The proposed pay increase will be across-the-board, but by rank and title. Therefore, not every employee will receive the same amount, but it will be based on a peer study.

Chief Flores said they also brought in a program that catered specifically to the officers and discussed financial management for police officers. They couldn't require everyone to attend, but it was made available for those that were interested. There are also off-duty jobs that pay very well that are available to the officers. They are having to open them up to other departments because they can't fill them within the department. He said the expectation for the department is that they operate within the budget and that overtime is not an entitlement. Overtime is a necessity, and that is why they budget for it. He added that these overtime changes were made before there was any salary adjustment involved. The salary adjustment was a "result" of the changes.

Council Member Stevenson said he hoped, since the City was saving money on overtime, that it would be reallocated and get it back into their paychecks. Deputy Mayor Steele verified that it hasn't affected the level of service and has been more efficient. Chief Flores said there are standard employment issues when people are out sick, are injured, or at the Police Academy, however the level of service has been maintained. He said two things make or break everything they do and that's the politeness of the dispatcher and how long it takes to get to the call. Those are the most important things about the level of service.

Council Member Teamann said in most companies, there are a select few employees that get most of the overtime. He said this solution has diversified that. Chief Flores said there are a group of officers that are reimbursed for their overtime through agreements with the Federal government. Those are isolated. Other officers were doing what they needed to do, and there was no thought going into the overtime. Giving the responsibility to the lower level made a difference and it was spread out.

Council Member Howeth expressed concern about costly mistakes that could happen when officers work too much overtime or have a second job. Chief Flores said an officer can only work a total of 16 hours in one day, but that's still a lot.

Council Member Howeth asked about minority recruitment. Chief Flores said the department is the most diverse that it has ever been. They did have one shift that had four female officers. He said in his 14 years with the department, the most female officers they have had at one time was one. He said they have dramatically increased diversity, and he is pleased with where the department is going.

Fire Update

Mr. Hefton said the Fire Department has put together a presentation discussing what they are facing from a "code standpoint." This presentation will be more administrative and how it impacts the City. He said it has been many years since there has been a change in the Fire Code that was adopted from a building standards standpoint.

Billy Hartsfield, Fire Marshal, said Sherman is now under the 2009 Fire Code, which is four codes behind the current code. The ICC International Code Counsel adopts standards for the Fire Code, and is comprised of fire marshals and inspectors, that recognize the abilities of fire departments and how they operate.

Ten years ago the City of Sherman had an ISO Survey, and the insurance safety ratings count toward points, which relates to citizens and businesses saving money on their insurance. An update of the Fire Code will garner points for the ISO rating.

He said there have been many changes in technology since 2009, such as solar panels, wind turbines, how homes are constructed, and materials used in construction. How the Fire Code addresses schools in 2009 is completely different from how it addresses schools today. He said the world has changed and the new code omits some items. Fire Codes are not designed to increase costs, but life safety is the first priority.

Mr. Hartsfield said there are 15 code changes in the 2018 Fire Code that actually decrease the cost of construction and maintenance. Two of these will have an immediate impact in Sherman. These are an increase in occupancy load in call centers and allowing buildings that are sprinkled to omit fire rated construction in areas of refuge.

He said by adopting the 2018 Fire Code, it will eliminate two of the most common violations. These violations are storage clearance below ceilings and exit signs only maintained to level in place when constructed.

Sprinkler and alarm system changes include no significant changes to where fire sprinkler systems are required. An alarm is required in assembly occupancy with 100 occupant load that is not on an exit floor. The alarm requirement has been removed from R-4 occupancy, because they have an employee on site 24 hours, seven days a week.

He said 146 of the changes are in wording, for clarification or to align with other codes. He said there are 59 changes that will increase the cost of construction, but only 42 of those would apply to buildings that could be constructed in Sherman. The rest are for high rise buildings. There are 15 changes that actually lower the cost of construction.

Mr. Hartsfield said one of the changes with the most impact will be the sprinkler alarm system in apartments. Fires in apartments usually occur in the kitchen, and the code will require newer, safer cooking appliances in apartments and dorms. Apartment fires displace more people and have a higher cost to replace. They are also a great loss of income to the landlord.

What they found was that if there are 20 units in an apartment and there is a fire, most likely residents from all 20 units will be displaced. If the full building is sprinkled, there will be water damage in one to three units, and the fire will be put out. So only three units of people are displaced instead of all 20, and it takes less time to repair the water damage than it would to replace the entire building.

Mr. Hefton verified that this change was also listed in the 2015 Fire Code and is not new to the 2018 Code. This requirement would not be new for many cities, but will be for Sherman because they are so far behind. Apartment builders that build in the Metroplex, are already used to this standard. Mr. Hartsfield said the most common Fire Code being used is the 2015 edition. In this area they normally adopt the North Central Texas Council of Governments amendments that go with it.

Council Member Teamann said there have been several fires recently in Sherman at apartment complexes. Mr. Hartsfield said of the three buildings that burned at Post Oak Crossing, when the owners rebuilt, they voluntarily sprinkled the apartments. Austin College also voluntarily sprinkled the new dorms they constructed. He said this would be the sprinkler system that is included in the attic.

There were also changes to colleges. College classrooms are considered a business and not an educational facility. But because of the chemicals in labs, they require an increased level of safety. Buildings with 1,000 or more occupancy load are required to have a Mass Notification System.

He addressed other changes that are included in the 2018 Fire Code. He said it is no longer all about fire, it is about storm shelters and bomb threats too. One requirement is that schools must have storm shelters. Sometimes this might be an entire wing of the school that is built to withstand storms. Mr. Hefton said the new Sherman High School was built with a "storm shelter" to accommodate approximately 3,000 people.

There are also changes to facilities that sell alcohol. If the building has a 300 or more occupancy load, it must be sprinkled. Mr. Hartsfield said Sherman currently doesn't have any assembly occupancies, out of this code, so no current businesses would be affected. Council Member Teamann verified that if a business was going to remodel over 50% of their business, they would be subject to the new requirements.

Another change that would affect businesses in Sherman is its application for food trucks and trailers. These trucks are often parked closer to more people than a restaurant, and with a large LPG tank, there is a greater life safety risk. Mr. Hefton verified that the trucks that are already permitted would be "grandfathered" and the changes would only apply to those trucks that were permitted after the adoption of the new code.

Some of the changes for schools weigh the threat of fires versus other threats. Because of this, changes are made to the number of doors that can be locked, and the type of doors allowed. Stairs can be locked to allow "out" only, it allows wall penetrations for cameras and fire protection devices, it removes fire extinguishers to areas where they can't be used as a threat, and removes pull stations from hallways and puts them in staff areas.

Mr. Hefton asked about the timeline for adoption of the 2018 Fire Code. Mr. Hartsfield said the Development Services Department also plans to recommend some Building Code changes and he recommended doing them all at the same time.

Permit Fee Increase
Currently when someone builds something that requires participation by the Fire Marshal's Office, there is a permitting process. They get a permit for things such as the sprinkler system and the fire alarm system. This requires the office to review the plans and perform several on-site inspections.

In 2006, the permit fee was set at $50. Mr. Hartsfield said they are proposing an increase to $250. The permit fee is in place to offset the amount of time it takes to perform these tasks. Employee pay has increased and the amount of inspections that are required on a project has increased. Permit fees are paid by the subcontractor and they use an "area standard" to pass their fees along. Sherman's permit fees are the lowest in the area. He outlined the cost of fees in other neighboring cities.

Deputy Mayor Steele verified that the fire permit fee for Sherman High School was $50. Mr. Hartsfield said if that school had been constructed in McKinney, their fire sprinkler permit would have been $22,500. Deputy Mayor Steele said that savings did not "trickle down" to the school. Mr. Hartsfield said he would probably end up making about 40 visits to the school before it's done. The facility has eight separate sprinkler systems. He said he asked to see the bid sheet from the sprinkler company on the high school, and the permit fees weren't broken out separately, however there was a "six figure item" that was listed in their sprinkler contract for "engineering and permit fees."

Council Member Melton confirmed that fees for re-inspects, after hour inspections, and the open burn permit would also increase. Mr. Hartsfield presented the permit fee proposal with specific fees for the individual items.

Deputy Mayor Steele asked if adopting the 2018 Fire Code would require more people to get permits. Mr. Hartsfield said the businesses that have 300 occupancy or restaurants that serve alcohol will now have to be permitted, where they didn't before. Council Member Teamann was glad it would move the inspections back in-house, instead of using the Metroplex inspectors. Mr. Hartsfield said prior to becoming Fire Marshal, he provided inspections for an outside company. This moves those inspections in-house, where fire employees can do it. Council Member Howeth said she would rather have more inspectors in the Fire Marshal's Office doing inspections. That would mean local employees doing local inspections.

Deputy Mayor Steele asked about providing fire inspections to local businesses and asked if that was done randomly and as a service to businesses. He asked how often it was done. Mr. Hartsfield said the City does not charge for those types of fire inspections. The proposed permit fees would only be on new construction or large remodels.

Inspector/Incident Safety Officer Update
Mr. Hartsfield said there are two Inspector/Incident Safety Officer positions in the Fire Department. These inspectors perform annual inspections every day, and when there is a large incident, they take over as Safety Officers. These Captain positions were created in 2016. Since that time, they have responded to over 1,000 incidents and completed over 2,000 inspections. In 2016 alone, the two inspectors made 228 incident responses and completed 915 inspections. In addition to these duties, they meet training requirements and handle regular officer duties. A-Shift does not have an Inspector/Safety Officer.

COVID-19 has hampered inspections in 2020, and the inspectors were returned to normal duty for now. They will resume full duty upon businesses being allowed to fully open. Inspection priorities include health care facilities that are licensed by the State and require an annual inspection. That amounts to about 10% of the inspections, and includes hospitals, day care facilities, foster homes, and schools. They also do "red tag notice" inspections for broken sprinkler and alarm systems, and retail buildings with large general public traffic, apartments, hotels and motels, new Certificates of Occupancy, and large industry. Smaller office buildings with less than five staff are a low priority.

Mr. Hartsfield said they are requesting a third inspection officer, which would increase the amount of inspections they could complete annually, thereby providing lifesaving changes. A safety officer on A-Shift would also alleviate the need to pull a captain away from his crew to fill that role, when needed. He reiterated that the inspection process has been going on since 2016.

Mr. Hefton said Mr. Hartsfield has brought many structure and process changes to the Inspection Department and has made it much more efficient, since he took the position almost a year and a half ago. He has made significant changes, allowing them to perform more inspections, with the same amount of resources. He knows the Fire Code, but he's also bringing a direction in management that is more efficient.

From a budgetary standpoint, Mr. Hefton said, the Council will need to make a decision about the proposed fee increase. However, the budget for FY 2021, does not include the third inspector position that was mentioned. It was presented as an update, but that request is not included at this point.

Deputy Mayor Steele verified that an apartment builder would pay permit fees on the number of buildings (risers) he has and not on the individual number of apartment units in those buildings. Council Member Howeth said she would like the Council to approve an update of the new Fire Code and all the fire inspection fees, as well as the impact fees and the new Building Code at the same time. Council Member Stevenson said if the same builder is building in Prosper, McKinney, or Frisco, they are already building to the new standard. Why should they build in Sherman and the building be less secure and less safe. He said it should be the same standard for everyone.

Mr. Hefton said the process has been started to review the codes and the staff will present that at a future Council Meeting. By law, some of the fee changes will require public hearings, so there will be a process to "work through." Council will provide their direction here, but he said for various reasons, the formal approval may have to come at different times, but the goal is to complete them by the end of this year. Some changes may come by the end of the fiscal year.

Mr. Hefton confirmed that Council wanted the building code fee increases and adoption of the 2018 Fire Code.

Deputy Mayor Steele said there will be two new fee structures proposed in this budget that will significantly increase the cost of "doing business in Sherman." Both can probably be justified, but there may be some "blow back" because some of these fees are substantial. He said he was already hearing from local contractors about the impact fees. Mr. Hefton said that's the reason there are so many public hearings on the changes, and will give the citizens, that will be most affected an opportunity to have their voice heard.

He said impact fees will definitely have a larger impact than the fire code fees that are being proposed. Mr. Hefton said all fees that are being discussed, whether it's utility fees, fire fees, or impact fees are very low compared to other cities, and really "way out of line." Deputy Mayor Steele said there are still local builders in Sherman that aren't used to building in these other cities.

City Council Members took a lunch break from 11:42 a.m. to 12:01 p.m.

Impact Fees
Mr. Hefton said the study on impact fees began several months ago and Kimley-Horn has been leading the City through that process. This is an important issue for the City, but it's not an easy one. It doesn't matter how typical it is for other cities, it will still be a change for Sherman. He did feel that it was the right thing for the Council to discuss this and plan for it.

Rob Rae, Director of Development Services, said they are about half way through the impact fee process, and have been working with Kimley-Horn. He said in years past, impact fees were a difficult decision for a City to make. But as more cities in Texas, and in North Texas, start adopting impact fees, it is becoming more of a "why haven't you done it yet" discussion.

The Capital Improvements Advisory Committee consists of the Planning and Zoning Commission and one member from the Extraterritorial Jurisdiction. David Baca was appointed by the City Council to fill this position. The first meeting of the committee was held on June 3, 2020. It is expected that the issue will be presented to the Council in September 2020, for a public hearing and adoption. Meetings with the Capital Improvements Advisory Committee will also be held in July and August 2020.

Jeff Whitacre, Vice President, Kimley-Horn, presented an update on the impact fee study, which is a one-time fee, assessed to new development, to help pay for new growth. The concept is that when new development comes in, it impacts the water, sewer, and roadway system, and they are paying their proportional share of the infrastructure. It's basically a tool in the City's toolbox to help pay for infrastructure. The study will determine the overall infrastructure needs, how they are divided among the stakeholders, and who pays for them.

So far the Capital Improvements Advisory Committee has covered service areas, land use assumptions, and capital improvements plan. He said several public hearings are required, some even before the ordinance is presented to the City Council.

The concept behind a service area is that if you collect money in a certain area, you are required to spend it in that same area. For the water and wastewater system, they are "closed systems" so the service area would be citywide. For roadways, a service area is limited to a six-mile trip length, so Sherman was divided into four service areas.

The water service area extends throughout the City and into the ETJ, which is why a City is required to have a representative from the ETJ. There is a little different boundary on wastewater, and the City doesn't serve the entire City. The boundaries for the roadway service areas are US Hwy 75 and US Hwy 82, which divide the City into four service areas.

Mr. Whitacre said Travis Street is actually the boundary between service areas 2 and 4, because it is a construction project on which the City actually spent money. If a street is on the border of two service areas, the City can use two service areas to pay for the roadway.

The Committee also looked at growth projections, and relied on the Future Land Use Plans to determine these projections. They relied on knowing the projects that are "in the pipeline," and he presented a schedule of the growth that was projected for the next 10 years. He added that for infrastructure planning, you always want to be on the aggressive side of planning, instead of playing "catch up."

For example, there are two planned developments planned for service area 4, so you would expect a lot of growth in that area. Service area 3 is the developed part of town, east of US Hwy 75, so there probably won't be a lot of growth in that area. These growth projections are planned for the next 10 years.

Mr. Hefton said this is not just a "guess," it is an "estimate" because they take into account any known planned developments, when they're calculating their estimates for residential and non-residential units. The planned developments are Bel-Air Village (Terra Perpetua) and the Munson tract. They also look at historical building permits, and determine an estimate. The sum of the residential units is about 7,700, for the 10 year period. However, Mr. Hefton said, we don't know how quickly those will build out. If they did build out quickly, and at three people per residential unit, that is 23,000 to 25,000 people. That means there is a potential for the population to almost double, over the next 10 years. He said that could seriously put a strain on City services, from police officers to streets.

Mr. Whitacre said one reason cities consider impact fees is that it's a tool for funding. But if you're funding capital infrastructure, and the development may not be contributing to it, that maybe taking away from some of the operational money that is needed.

He said they also looked at some of the capital projects that would be needed in 10 years. There is a difference between the 5-year Capital Improvement Plan and the 10-year Impact Study CIP.

The Water Impact Fee CIP includes four types of facilities, including tank infrastructure, Water Treatment Plant, water lines, and existing facilities. Existing facilities are constructed for future use, so it's calculated on the percentage that is available for growth. The plan only identifies the projects and anticipates the amount for future growth.

These projects only consider getting the water lines and wastewater lines to the development. They are still responsible for building the local water lines and the local streets, and the smaller streets within the development. These are the types of facilities to get it to the development. Projects have been identified and they are working on cost estimates. Mr. Whitacre said for the Roadway Impact Fee CIP, they have included the Hwy 75 GAP Project, because a portion of that can be attributed to growth and is recoverable.

There are many assumptions that must be made on an Impact Fee Study, including the growth projections, the service areas, and capital improvement plans. There will be a public hearing on the assumptions before they move on to the analysis.

If the City Council does adopt the ordinance, the State requires a one-year grace period for anything currently platted. There is also some transition time. Mr. Whitacre said the study is not complete, so there are no actual revenue projections at this time. Most cities do not budget in the first year of impact fees.

Mr. Hefton asked what date was used for the one-year grace period on platted properties. Was it when the plat was filed, when it was approved, or what. Mr. Whitacre said it's not really clear, but in most cities, it is based on the final plat. Mr. Hefton discussed timing of any plats that might be filed before the impact fees could be considered by City Council, and how the grace period would affect them. Council Member Howeth verified that Replats would also fall under a grace period.

Mr. Hefton said the staff has tried to estimate revenues for FY 2021, and they are in the budget. The revenue is not real significant at this point. Mr. Whitacre said the revenue projections were based on common numbers across the Metroplex. He used theoretical scenarios of 1%, 2%, and 3%. He presented revenue projections for a 10-year period. He said the projects are large and the City would still need to contribute funding, even with the revenue from impact fees.

As the study progress, Mr. Whitacre said there would be pie charts showing that if the City's needs over the next 10 years are "x dollars," how much revenue from the impact fees would cover those needs and how much other revenue would be needed to cover those needs. The "other revenue" could be taxes or grant money.

Mr. Hefton said for the study, they review projects over the last few years and project the cost of future projects, then cut that number in half. Even if the City decides to assess the maximum that could be assessed by law with impact fees, it will only be capped at what the actual project cost is. By law, a City can't collect more that 50%. Most cities scale impact fees at somewhere between zero and the 50% cap.

The developer will only be asked to pay a portion of the amount and that amount will be set by the City Council, and can be adjusted frequently. Mr. Whitacre said State law, requires that the impact fee amount must be reviewed every five years. Mr. Hefton said the Council can review the fees without redoing the entire plan.

Mr. Hefton said some cities use impact fees to either speed up or slow down development. If they are growing too fast, they will increase the fees, and development will slow down. Impact fees are enacted with an ordinance, which the Council can modify.

Mr. Whitacre said the plan is a 10-year plan and the City can review it at the five year mark and say it's still a valid plan and readopt it without a study for another five years. A new study must be done at 10 years.

Council Member Howeth asked if many cities lowered their impact fees. Mr. Whitacre said some did during the recession, but not normally. Even with a higher impact fee, if a City is experiencing growth, the developer will pay it. Mr. Hefton said some cities will suspend their fees if the infrastructure is already built out and the money isn't needed. The money can't be used for maintenance, and is only for construction of the infrastructure.

Council Member Teamann asked if using impact fees, a City was required to pay cash for the projects or could they be bonded. Mr. Whitacre said they can be put on bonds, and as they go through the process, they will decide whether or not to include that service. A City does have the ability to repay debt service with these dollars.

Council Member Teamann asked if cities could give a deduction or "grant" for local "hometown" builders. Mr. Whitacre said not specifically, but the ordinance can include reductions and criteria for reductions. Mr. Hefton said one thing the City could do is not to technically reduce the fee, but there could be a 380 economic development agreement that would rebate an amount back to them based on certain criteria. Mr. Whitacre said there is flexibility in how the ordinance is drafted.

He presented the schedule for consideration of the impact fees. It is basically a three month adopting process. There would be public hearings on August 17, 2020 and September 21, 2020, with the final ordinance set for consideration at the September 21 meeting.

There was a question about the fee and infill development. Mr. Whitacre said from a policy issue, an impact fee for infill development could be different than for new development. However, fees are also set specifically for a service area. He said he anticipated that the roadway fee for service area 3 would be much lower because of the infrastructure needed. However from the water and wastewater side, that's citywide, and would probably be the same fee. Also, if they have an existing water meter, there wouldn't be a fee. It's only if they pull a new meter.

Mr. Hefton said the way these are calculated, there will be a different roadway fee in the areas of town that are already developed. For example, service area 3 is the oldest part of town and the infrastructure is already in place, so their roadway fee will probably be lower. Mr. Whitacre said it is growth dependent, but it's hard to determine the fees until the maps are completed. He also addressed infill development saying if there was an existing home and it was torn down, if a new home was rebuilt in a reasonable timeframe, there wouldn't be an impact fee because the "impact" was already there. It's for new traffic, new water, and new wastewater usage.

Utility Issues

Mr. Philpott said this year there were several retirements in the Utility area of people that had been at the City for a very long time. There are still a lot of Utility employees that may be close to retirement. He said it would be important to ensure that everything the Council has accomplished over the last 30 or 40 years can continue to operate.

The Water Treatment Plant has been a big push for a long time, and with the recent expansion, can treat more water than before, up to 20 mgd. The City is about four weeks away from getting approval to sell the water. He discussed the process for treating the water.

Mr. Philpott said there are several different projects the City is working on for 2021. Sludge or silt that is removed from the Lake Texoma water is stored and allowed to dry out. It is then transferred to the landfill for disposal, on an annual basis. There's a lot of new equipment at the Water Treatment Plant, but there's also a lot of existing infrastructure that needs to be upgraded.

There is a Federal requirement for a risk assessment and security update. The report must be done and then there must be a plan to implement the report recommendations. Engineers have been engaged to begin the program, which will also be put into place at the Wastewater Treatment Plant.

Mr. Philpott said the brine project is another big project for the Water Treatment Plant. One of the results of the ultrafiltration and reverse osmosis is the brine by-product. This brine is what comes out of the water when it is purified, and it must go somewhere. This project will take that brine into a gravity line and drain it behind Town Center into a sewer line behind Wal-Mart. It then goes into the sewer system, which takes it to the Wastewater Treatment Plant, where it is treated.

To run the plant at full capacity, at full expansion, with all the modules, about 25% of the water is brine. Something must be done with the brine. The current option was to attempt to drain it to the Red River. If it's drained to a water source that already has a lot of water, the solution to pollution is dilution. So if it is drained to the Red River, no treatment would be needed. But that would be a long way to send the brine, and the preliminary calculations indicated it would be expensive. He said the City is trying to find a better way to treat the brine, rather than sending it through the sewer plant to treat again.

Mr. Philpott presented the current projects for the Wastewater Treatment Plant. Greater Texoma Utility Authority recently issued $13 million of funding for most of the projects, which have "been in the works" for the past couple of years. A contract was issued for the storm water project, which came in higher than the budget. It is a State requirement that every drop of rain that hits the site, does not leave the site. There are also some upgrades to the aeration basins and the biological clarifiers. The control building is aged and needs to be upgraded. He said none of the projects are capacity related, and no capacity will be added by the projects. They are adding efficiencies, but most of the projects are just age related. It's an old plant and these projects are to upgrade the facility so it will last another 30 years.

In the current budget, FY 2021, Mr. Philpott said they have added a lab expansion. As growth happens, there are more things to monitor. They need more room, but the projects would also expand their capabilities, so third parties wouldn't have to do the inspections at some of the industrial park areas. There is also a vulnerability assessment for the Wastewater Treatment Plant that is required. From a safety standpoint, gate actuators are needed.

Deputy Mayor Steele asked if the $7 million worth of projects could be bonded and funded through impact fees. Mr. Philpott said the ones that are maintenance related can't be paid for through impact fees. Capacity related projects can be paid through impact fees, however he said these are not capacity related projects. Mr. Hefton said most of the large projects are GTUA projects. The projects that are $50,000 or $100,000 are normally not paid through GTUA, but by the City.

Mr. Philpott addressed ongoing projects, which included many utility relocates, and have delayed current street and storm drain projects. Texas Department of Transportation has also asked the City to do some relocates. These include manhole adjustments, fire hydrant relocates, or small line relocates, and are all related to the Hwy 75 access road adjustments, which will be used while they work on the main Hwy 75 lanes.

There were two projects for Hwy 75 that could not be performed in-house because they required two bores. They were for a 16" sewer line and a 12" water line near Center Street. The design was completed in-house to save money and a local contractor won the bid.

Most of the relocates when the highway was first constructed were adequate for this project, and most of this work for Hwy 75 was in the existing right-of-way and within the main lanes. However, the FM 1417 project was actually expanding the road and the City had to relocate the water line for that expansion.

BNSF Railroad also has an expansion project that will require the City to relocate a 12” water line, which was completed in-house. There was a combination of utility crews for the connection to the existing lines, and private contractor work for the bores. A crossing was interfering with a drainage culvert for the railroad improvements. The City also upsized the line to provide better flow and better water quality issues. The relocation involved water for Finisar and Texas Instruments and was a concern for the plan operators. The City staff did a great job coordinating everything and Mr. Philpott said he didn’t think the plants even noticed when it was done.

He said the project for the sewer line to serve the new Sherman High School is moving along on schedule and should be completed in the next several months.

Mr. Philpott briefed the Council on upcoming projects such as the new lift station to serve Preston Club. There is also a new water line to replace an existing water line near Hwy 82 and Naylor Lane. One property owner has requested water service for allowing the easement across his property. In-house crews are being used for this project.

A project at FM 1417 and Hwy 75 replaces existing 10”, 12”, 15”, and 18” sewer lines that were originally constructed in 1961. There are infiltration issues with the lines, and as Crossroads develops, and the industrial area develops, now is the time to upgrade and get rid of the old system. This will also eliminate dual lines that are really, really old.

As new parts of town continue to develop, the City would like to get these areas on surface water instead of ground water. This project is driven by the need for development. The project can be phased as development occurs, however there is a crossing for Hwy 75 for a 20” line to provide surface water. This project would be associated with the impact fees, because it does accommodate new development.

Another project will replace existing 12” and 15” sewer lines with one 27” sewer line near the Municipal Airport. The original lines were constructed in the 1950’s. This is one of the main trunk lines and is in east Sherman. When it rains, there is major infiltration in this line. Reducing that inflow will help the sewer plant and upstream capacity for development.

The goal of the Marilee Special Utility District water line is to go from Shepherd Tank, down Farmington Road to the Dorchester Pump Station. The majority of this project will be funded by Marilee SUD.

Other projects include a project to rehabilitate the five mg Ida Road Ground Storage Tank; replace 5,180 linear feet of an existing 12” water line on Texoma Parkway, that was installed in 1964; install a 12” water line to replace old lines on North Travis Street; and install 1,850 linear feet of a 6” connection line on Birge Street, connecting the east side of Hwy 75 and Fairview Ground Storage Tank.

Mr. Philpott said one issue they have been working on it to troubleshoot issues between the two water zones and the storage tanks in the City. They want to be sure all the valves are open and that they can “bridge the gap” between one side of the City and the other. Everything is currently operational, but is not as efficient as it should be. Doing these types of projects assures that the system is as efficient as possible and that the water tanks are operating as they were designed to operate.

Mr. Philpott said there has been several retirements in the utility areas at the City and there are several plant operators that may be close to retirement. There is a lot of development going on and the City has the capacity to treat the water and wastewater, but they need to assure that the decisions that are being made are good for everyone.

Master Plans help put a roadmap together and help determine what needs to happen. There are distribution needs because it is an aging system. Sherman has been around for a long time and there are a lot of areas that need work. He said, because of their experience, the employees that have been around for 30 years know the areas that need to be improved.

A 30 year plant operator knows what needs to be done from experience, but a new plant operator wouldn't know that. This Master Plan helps the new operator because what he needs to know will be in the plan. All the systems have been analyzed, the staff knows where they need to go, and can be confident about it. Putting the plans together also helps analyze long term rate structures. There is a lot of money involved in the infrastructure.

Council Member Teamann said this seems like a very big year for utility projects in the Capital Improvement Program. Mr. Philpott agreed that the next five years will include a lot of utility projects. He said the question is what projects would be development driven and what projects need to be done anyway. Some items may be on the five year plan, but if development doesn't happen, those projects will "get pushed." But you still have to plan for it.

Deputy Mayor Steele asked what could be paid for with impact fees. Mr. Philpott said if it's capacity related, a portion can be paid with impact fees. Mr. Hefton said the consultants are looking at that now and reviewing the five year plan to determine what could be paid with impact fees. On the utility projects, Mr. Hefton said they will be paid for either with a combination of impact fees and rates, if it's capacity related; or through the rates, maybe with debt through GTUA, if it's maintenance.

Mr. Hefton said growth is coming and they need to look at infrastructure, especially utility infrastructure. This infrastructure is expensive. He added that a part of the Master Plan will be a rate study, which hasn't been done in many years.

Deputy Mayor Steele said some of these projects are 45 or 55 years old. Mr. Hefton said Sherman is one of the oldest cities in Texas and some of the infrastructure has been in the ground longer than we've been alive. It has to be maintained, but it is also hard to do a utility tap on pipes that are 80 years old. There are starting to be failures in these areas, and the City must stay on top of them. If a water or sewer line breaks, it must be repaired and the City needs to be proactive in replacing these lines before they break.

There needs to be an organized look at the infrastructure from a utility standpoint, to get a roadmap for the future. Mr. Hefton said the information today is a priority list for these projects. Impact fees won't help much on these projects.

Smorgasbord – Utility Rates, Staffing/Compensation, TASWA, TIRZ, Debt
Mr. Hefton presented information on utility rates versus expenses, and how they have changed. Expenses have increased by 32% in a 10 year period. He said the debt service and the projects are what's driving the need to review the rates. He showed comparison charts that indicated that the City has done a good job not allowing the costs to get out of hand. The increase is from the

cost of inflation and the debt service that the City is incurring from these projects. He said the actual debt has increased over 100% in the last 10 years. He said it really increased when they expanded the Water Treatment Plant. The debt and debt service is a result of the expansions, improvements, and maintenance on the system. The infrastructure needs are driving the need to look at how the City pays for these items.

He also presented a utility rate comparison with other cities of comparable size and for various usage levels. The comparison included current rates and at a 3% increase. Sherman falls under the median level at all rate levels, even with the rate increase. He said the North Texas Municipal Water District is predicting that their rates will increase by 8% to 10% per year for the next six years. They have many projects and therefore a lot of debt.

Deputy Mayor Steele said other cities have a “sliding scale” for water rates, and he asked if the staff had considered that. Mr. Hefton said those cities do that to discourage water use, because in many cases they don’t have control over their water. It is controlled by a water district that tells them when they need to conserve water.

Sherman is not facing a limited capacity situation on water, and has four times more water than they use on a daily basis. Sherman is also in control of their destiny because they have their own water source, their own treatment plant, and their own distribution system. He added that a tier water usage rate could be enacted, but it would be for different reasons than the other cities use it.
The City of Sherman actually rebates customers for water usage.

Mr. Hefton said other issues and utility concerns include not building money into the rates for minor, non-GTUA projects, which are funded in-house. Two major projects coming include the dual feed from the Texoma pump station, which will probably be needed in the next 20 years; and the brine line. He added that the water in the well system would continue to diminish over time. This is more reason for the City to have a dual feed from the pump station.

He also addressed the retirement of key staff from the Water Treatment Plant, in the next five years. There are three utility personnel that are being requested in this budget and one of them relates to replacing someone at the Water Treatment Plant that is anticipating retirement in the next year or two.

Mr. Hefton said, for employee compensation, the staff is proposing a series of one-time pay compensation. Instead of adding a percentage to their base salary, until there is full visibility as to what’s going to happen from the COVID-19 standpoint, a flat amount would be given in October 2020. If the economy is picking back up, it could also be given again in April 2021. This would be for all employees, except police and fire.

Police and fire are proposing a separate pay structure. On a full year basis, it would be equivalent to a 6% increase. In 2021, approximately 90% of the increase would be paid for by their overtime reduction. Their market adjustment would not be a percentage across the board for everyone, but would be by their rank and year.

This type of increase is not being proposed for the Fire Department this year because their pay and hours were standardized. This relates to the FSLA overtime that one shift receives every pay period. It has to do with the way overtime is calculated, and the effect of that was a 5% raise. Council Members confirmed that the Fire Department still gets the 1% one-time payments twice, as the other employees receive, except for police.

Mr. Hefton also proposed that the City make another contribution to the employee's HSA account in January of $600 per employee.

He said that the staff will come back to the Council in February 2021, to review how things are going and see if there is more that can be done for employees. Something would have to change negatively, to not do what is proposed now.

He also proposed hiring three new employees, two Water Quality Specialists, and one Water Treatment Plant Operator. The Water Treatment Plant Operator would begin training with the long-time employee that is contemplating retirement. This would bring the total employee count from 467 to 470. Mr. Philpott said the Water Treatment Plant Operator position might be filled by a current employee, however their position would then need to be backfilled.

Mr. Hefton briefed the Council on the status of TASWA issues, saying, financially, they are "running well." They are currently in the process of building Cell #5, even though Cell #4 is not full. Cell #5 will cost about $5 million, and they have enough cash to pay for that cell. Generally cells last four to five years. Each cell is a little bigger and will last a little longer.

TASWA also has a gas mitigation project that they haven't started, but that will cost $2 million. They also have enough cash for this project.

Currently TASWA has more cash than is needed for typical reserves, for building Cell #5, and for the gas mitigation project. They are also generating about $8 million annually in revenues. For 2021, they budgeted $6.3 million. There is a gap between budgeting and their actual revenue. In fact, every year there is approximately a $1.5 million gap. At current volumes, they are expected to generate $2.6 million per year more than is needed to fund operations and reserves for contingencies and future events. Their gate rate is $35 per ton. He said Hillside Landfill opened up in 2020, and their gate rate, plus fees, equal an equivalent of $51 per ton.

Mr. Hefton said part of making the proposed FY 2021 Budget work is based on TASWA making distributions of the excess revenue to member cities. Working through to determine what that distribution should be, the TASWA Board decided that 40% should go to the City of Sherman, 30% to the City of Denison, and 30% to the City of Gainesville. That is not based on the proportion of trash that each City delivers to the landfill, because Sherman takes a lot more trash to the landfill than the other cities.

Mr. Hefton said, as a City, Sherman needs to "strongly" encourage TASWA to distribute the cash that is accumulating, that they don't need, for those purposes. Cash is accumulating at a rate of $2.7 million annually, unless the trash going into the landfill increases, in which the revenue would also increase. He said the City is anticipating that there would be distributions by TASWA in 2021. He added that their gate rate is higher than it needs to be, which means that Sherman residents are paying more for their trash than they should. He wanted to "strongly encourage" TASWA to "do the right thing."

He explained that the TASWA Board make up is from the cities of Sherman, Denison, and Gainesville, and from Grayson County and Cooke County. Only the cities would get distribution because the counties don't contribute any trash to the landfill. The County Board Members do vote.

Mr. Hefton spoke with John O'Steen, TASWA Executive Director, and he agreed that his job as a manager is to make sure that the member cities have a return on investments. He told the Council that about $2 million from the distribution is built into this budget. TASWA has not taken any action on the item and no distributions have been made to date. Their fiscal year ends on June 30, 2020.

Deputy Mayor Steele said they have had ample time to make a decision, and he didn't feel like there would be any distributions. Mr. Hefton said, based on their decisions to date, it is reasonable to assume that they will not make the distributions. They are saying they will make distributions. He said they have the capacity to make that distribution today, if they want too. Deputy Mayor Steele suggested that TASWA cut rates too, if it is bringing in too much revenue. If they did that, the City of Sherman would only get half of the benefit from cutting the rates.

Mayor Plyler said there were several landfill issues that they were working through, including vehicle purchases. He felt they would see some action on the distribution. Mr. Hefton said the volumes of trash have not dropped due to COVID-19. Mr. Hefton said the City is counting on distributions, and not just $200,000, but $1 million per year.

Council Member Stevenson asked if the distributions were expected to be an annual thing, or will it be a year-by-year thing. Mayor Plyler felt that it would be on a year-by-year, case-by-case basis. This is the first time in TASWA's history that a distribution has been considered. He said Denison and Gainesville were looking at the money they originally invested to get TASWA started. Mayor Plyler and Bill Magers, Grayson County Judge, were looking at how much Sherman uses the facility. He said they made the best deal they could. Council Member Melton confirmed that the Board agreed and a vote was taken to make the distribution. Mayor Plyler said the TASWA management wants to be very conservative.

Deputy Mayor Steele asked about the debt service. Mr. Hefton said that goes away in 2027. Once that debt service is paid off, they want to set money aside for closure and post closure costs, and they need to do that. They don't need to fund the closure costs today, because they will have $1.3 million per year that will never come back. With as much revenue as they make, they will pay cash for equipment, cells, engineering, for everything, and will not need to use debt.

Mr. Hefton said that excess money belongs to the member cities, and is needed to balance the budget. There needs to be a process in place, to calculate how the excess revenue is distributed annually. He said the City's reserves will go down significantly if Sherman does not have that money.

Council Member Howeth said all the cities involved need money. Council Member Melton suggested looking for property outside the ETJ for a Sherman landfill. Mr. Hefton said it is tremendously expensive up front, and a political nightmare to try and start a landfill. Council Member Teamann asked if Mr. O'Steen could make an annual report to the City Council.

City Council Members took a break from 2:33 p.m. to 2:50 p.m.

TIRZ
Mr. Hefton updated the Council on the status of the Tax Increment Reinvestment Zones. TIRZ #1 is for Sherman Town Center and the debt will be paid off in 2023. Currently they get 55% of the increment back, which generates $330,000 and pays for the debt over the next few years. There are reserves of $440,000 at FY 2021 year end.

TIRZ #2 is for the Central Business District, which has no debt, and is a "pay as you go" TIRZ. Whatever increment they get can be used for projects in that zone. There is about $500,000 available for FY 2021, which can be used for public infrastructure projects downtown. It generates about $200,000 annually.

TIRZ #3 is for Sherman Commons and is near Academy Sports and Cracker Barrel. Debt will be paid off this year. Council Members have talked about expanding the TIRZ southward, to participate in a project to demolish the old Medical Plaza Hospital, including asbestos abatement. In FY 2021 there will be about $250,000 available for projects. At current levels of investment, this TIRZ generates about $200,000 annually. In absence of other projects, that TIRZ should probably go away.

TIRZ #4 was an expansion of another TIRZ, and technically, there is no TIRZ #4.

TIRZ #5 is Sherman Crossroads and has outstanding debt of about $3.8 million, with debt service at about $290,000 annually. It generates about $260,000 annually and is not paying for itself, at this point. There is more development taking place in that area. Assuming no construction activity, there will be reserves of about $500,000 at FY 2021 year end.

TIRZ #6 is Sherman Landing, on the north side of town, south of FM 691 at Hwy 75. Between sales tax increment and property tax increment, it is generating about $120,000 annually. It is not paying the debt service, but Mr. Hefton said it is coming. He said if nothing else develops, and money is not used for infrastructure, it can be used to pay the debt.

TIRZ #7 is Legacy Village/Bel Air with outstanding debt of $2.3 million and debt service of about $180,000 annually. If nothing else develops, there is enough sales tax increment to pay for the debt service. More development is expected and they are working through the Bel Air development, which will be brought back to Council at a later date.

Mr. Hefton presented a summary of the CO bonds and the outstanding debt. He said there was no additional in 2020. He also presented possible projects that might be bonded in 2021, 2022, or later. He said the thoroughfare and infrastructure projects are development driven and there probably wouldn’t be other projects like that unless there was development.

There could be project bonds for facilities such as the Police Department, Pecan Grove Phase II, and Central Fire Station/Station #6. The plan is not to actually build anything in 2021, but to use 2021 for planning and development, like they do on the utility projects. He recommended “continuing down the path” on the Police Department for site acquisition and zoning work, so a decision can be made in a year’s time about when to issue debt and start construction.

They could also proceed with an evaluation of the Fire Department facilities and identify a site in 2021. That could be used as a gateway in starting the design of a new station. Mr. Hefton said he was trying to identify things for which the City could possibly issue debt, with possible timing of the project.

Mr. Hefton said they were not proposing a change in the tax rate. The “No New Revenue Tax Rate,” formerly the Effective Tax Rate is $.466 per $100 valuation. This rate is the rate that would generate the same amount of revenue this year, with the property that was on the tax rolls January 1. The “Voter Approved Tax Rate,” formerly the Rollback Tax Rate, is the maximum, and the rate that a City can’t exceed without the vote of the citizens. This rate is $.513 per $100 valuation. Sherman’s current tax rate is at $.489 per $100 valuation, in the middle of the two rates.

FY 2021 Work Plan
Mr. Hefton presented a summary of the FY 2021 Work Plan as follows:

Compensation/Staffing
- Staff 2x one time at 1% each time
- Market adjustments, not widespread
- Police Department adjustments
- Staffing as presented

Facilities
- Police Facilities
  Limited renovation $2 million vs new headquarters $12 million +
  Impact on Central Fire operations and Fire CIP
- Fire Facilities – Training/EMS, Central/Station #2 consolidation

CIP/Capital Expenses
- Limited capital spending
- Development-driven debt issuances
- Continued focus on finalizing infrastructure development
  Thoroughfares – Various thoroughfare engineering and ROW
  Utility infrastructure – especially water/sewer in Planned Development areas
  Wrapping up TxDOT participation

Planning Focus
- Utilities Master Plan (including rate study)
- Police Department Headquarters – site purchase, design to be completed
- Fire Department – Station #6 site selection and purchase

Rates
- General Fund – No change in tax rate
- Utility Fund – 3% rate adjustment
- Solid Waste Fund – No change in solid waste rates
- Impact Fees – Adopt Impact Fee ordinance
- Fire Inspection – Rate increases

Financials
Mr. Hefton said there would be a list of CIP projects and there is about $15 million in utility issues that will potentially be funded by GTUA. Most of the other projects are smaller projects.

Mary Lawrence, Director of Finance, presented an update on the FY 2020-2021 financials and capital. The debt rate is based on the preliminary estimates from the Appraisal District. The certified numbers won't be available until July 25, 2020. There is still about half a billion dollars that is listed under review, but they do expect to receive most of that amount. The proposed budget includes some tax notes to finance about $1.8 million in equipment. About $1.1 million of that is for Fire Department equipment and $600,000 is for parks.

Mr. Hefton said normally this type of financing would be done through cash or a long-term lease. The tax note financing is currently at about "point something percent." Even though a lease has pretty low financing, the tax note is currently lower, and he felt this was a better way to purchase now. There is no pre-payment penalty. He said the cost of issuance is low and the cost of capital is low, so he felt it made sense.

Ms. Lawrence said utility rates have not kept up with the increase in expenses, especially the debt. The Water Treatment Plant debt alone is $1.8 million annually, and is a long term investment. The staff is proposing a 3% utility rate increase, which will help for now, but doesn't even get the fund balanced ongoing. A rate increase of 4.5% would be needed to balance the fund. However, next year there will be a rate study, which will help set the rates appropriately for the customers we have and the projects that are planned. There will also be a Master Plan for the wastewater system.

When debt is issued through GTUA for the utility system, the City has a rate through Standard & Poor's. One of the things they look at is a City's willingness to raise rates to adequately fund the system, especially when revenue is not keeping up with expenses. Therefore, she said this is also an important signal to the bond market.

In the Solid Waste Fund, the City is not purchasing the normal level of equipment, due to the suspension of the curbside recycling program. This has allowed the City to forgo the purchase of a recycling truck.

The General Improvement Fund does not contain a debt issuance, but has a continuation of street projects and smaller projects that are funded from the land sale near the high school.

The proposed budget also includes a 4.5% market adjustment for the Police Department, funded by the decrease in overtime.

She said the good ending fund balance in the General Fund is due to good performance in group health for the last two to three years, and the anticipated distribution from TASWA, of $1 million in 2020 and 2021. The General Fund would have 11 less days of fund balance without the TASWA distribution, which would put it in the low 60's for fund balance.

The Utility Fund ended up better than the adjusted budget, largely because of debt service that would have come on line in 2020. Most of that won't be seen until 2021.

In the Solid Waste Fund, without the distribution from TASWA and transfers from group health, the fund would be about $2 million "under water." She said the only reason why the Solid Waste Fund is okay and the General Fund has an additional 11 days of fund balance is totally dependent on the distribution from TASWA, in both 2020 and 2021. The 88 days of reserves in the Solid Waste Fund is normalizing the equipment purchases and taking out the 2021 TASWA distribution.

Mr. Hefton asked if the TASWA distribution was zero, how many days of reserves would the Solid Waste Fund have. Ms. Lawrence said if the City didn't receive the $1 million disbursement either year from TASWA, the reserves would be negative. Mr. Hefton reiterated that it would be negative or "under water" without the TASWA distribution.

Deputy Mayor Steele asked what caused the Solid Waste Fund to go so low. Mr. Hefton said the City lowered residential solid waste rates and raised commercial solid waste rates. He said if the City doesn't get a disbursement from TASWA, then they wouldn't make any transfers from the Solid Waste Fund to the General Fund, but then the General Fund would be down by that amount. The domino effect would ultimately affect the General Fund and probably put reserves at 60 days or in the high 50's for that fund.

Mr. Hefton said the City had to "prop up" the General Fund with the Solid Waste Fund because of COVID-19. Projected revenues were down in the General Fund and the City was trying to find a way to "prop it up" without raising taxes. Council Member Teamann asked how many days of reserves were affected in the General Fund by COVID. Council Member Melton asked what besides sales tax was affected by COVID. Ms. Lawrence said recreation fees were down, court funds were down, and there was about $500,000 to $600,000 that was "gone" due to COVID. Sales tax was about $300,000 of that amount alone. She said the distribution from TASWA in 2020 was a budgeted revenue in the Solid Waste Fund.

Deputy Mayor Steele confirmed that the Solid Waste Fund was "propping up" the General Fund, and there was no way to predict the affect of COVID. Mr. Hefton said, exclusive of the transfers from the Group Health Fund and TASWA, and through the Solid Waste Fund and the General Fund, the projected revenues for this year versus what was budgeted, was about $1.5 million lower. He said on an ongoing basis, it would be balanced.

Ms. Lawrence showed charts of all fund expenditures, as well as General Fund expenditures. The major expense in each of these funds is personnel costs, with public safety personnel being the main expense in the General Fund.

Ms. Lawrence said the sales tax payment received was down about 16%, and there was a one-time audit of about $140,000, that didn't go in the City's favor. She said the four largest retailers were up an average of 20% and were "carrying" the City.

She said the Comptroller has notified the City about a huge repayment on a remodeled project at a plant south of town. The City's portion will be about $730,000. Because of the COVID situation, the Comptroller is not asking for repayment now, but will want that back. The City is projecting to pay half back in 2021 and the rest in 2022. Council Member Melton asked how someone would overpay sales tax. Ms. Lawrence said these big commercial contractors will do a remodel job and pay sales tax on everything. Then they go back at the end and sort everything out and file for a refund. This is the second really big repayment the City has had to make. She said it is legal for them to do.

Ms. Lawrence also explained the importance of transfers between funds and how it affected the amount of reserves. The target in reserve days is 60 to 90 days. Council Member Melton asked if it was dangerous to transfer from the Group Health Fund. Ms. Lawrence said rates are set by an actuary and have been historically high. The actuary doesn't lower it because of one good year. She said there was a major overhaul of the health funding this year and she felt it was now where it should be. Ms. Lawrence didn't think there would be another transfer from Group Health because of that.

Mr. Hefton added that the General Fund, Utility Fund, and the Solid Waste Fund were the three funds that transferred money into the Group Health Fund. Since the Group Health Fund is performing well, the reserves should go back to the funds from which it originally came. Some funds, "operating" funds, generate their own money, like the General Fund, but other funds exist solely to transfer money from one fund to another, like the Group Health Fund or IT Fund. Reserve funds are being kept at the $300,000 to $400,000 level and that is a good level in case claims increase.

Deputy Mayor Steele asked what the effect of low reserve levels will be on the City's bond rating. Mr. Hefton said having reserve levels that are declining and too low, would drop the bond rating. Council Member Melton worried that if that happens the employees will not have the same level of care or choices that they currently do with the health system. Mr. Hefton said the choice would be to spend more money on the health system or decrease benefits. She wanted to maintain the level of health care that the employees currently had. Ms. Lawrence said currently the Health Fund is in good shape.

Ms. Lawrence discussed unfunded requests in the General Fund, totaling about $2.2 million. Most of the items were related to public safety. To fund those requests, she said the City would need a tax rate of about $.553 per $100 valuation. She said they had been very conservative in budgeting sales tax for 2021 and did not budget for an increase. She felt there was a lot of uncertainty with sales tax because of COVID. Ms. Lawrence reviewed charts showing the new value and growth from property taxes. Final property tax numbers will be received in July 2020.

Ms. Lawrence discussed long-term debt and compared Sherman's debt to peer cities. As for revenue bond debt, Sherman has a lot more than the peer cities. However, this is because Sherman's utility system is not like most other cities. Sherman has a Water Treatment Plant, they have water wells, water distribution, and water collection. Many other cities purchase their water from a provider. However, on the tax rate, that pays for these services, Sherman is on the low end of the peer cities. She also showed the rate divided by debt rate and operating rate.

In the Utility Fund, Ms. Lawrence said they budgeted a 3% utility rate increase with no increase in volumes. She presented the water and sewer revenues since 2012. The Utility Fund has unfunded requests for FY 2021 of $1.2 million.

The General Improvement Fund listed projects, both funded and unfunded. Unfunded projects on this list amounted to about $6 million. This does keep them "on the City's radar" for the future.

Mr. Hefton said money was originally issued, about three years ago, for the Swan Ridge Extension Project, because there was going to be development in that area. He said he was inclined to reallocate those funds because they're not being used. Funding can be revisited when development moves forward in that area. Council Members did agree with the reallocation of the funding for other projects.

Ms. Lawrence briefly highlighted the Solid Waste Fund. One thing that was not expected last year was the suspension of the curbside recycling program. At that time, the program changed to an opt-in program, and 2,700 out of almost 13,000 opted in. The City was taking about 2,000 tons annually to the recycler, but that decreased to 54 tons annually. After China stopped taking the recycling, most of it was a "mixed stream" and was going to the landfill. The City now has the drop-off center for citizens that wish to recycle. She said that recycling will not pay for itself anymore and it will cost to recycle. She added that the savings from curbside recycling have helped the Solid Waste Fund.

Ms. Lawrence addressed the transfer into the Solid Waste Fund from TASWA. In 2020, the City budgeted for the $1 million to come from TASWA and stay in that fund. In 2021, the $1 million from TASWA goes into the Solid Waste Fund, but that money, plus a little more, will be transferred out to the General Fund. That 11 days of reserves in the General Fund is dependent on the distribution from TASWA. That makes two funds that are heavily dependent on the distribution from TASWA.

She discussed the Employee Insurance Fund and the cost of the group health plan back to 2012. As for the Hotel/Motel Tax Fund, she said the big hotels are down about 50% in their sales tax revenue. Because of COVID, she felt it was hard to predict what would happen.

In the Utility Improvement Fund, Ms. Lawrence showed intergovernmental revenue from the Marilee SUD. The City would pay a portion of the cost for the water line to serve Marilee.

Mr. Hefton said out of the major projects, costing $18 million, $15.5 million are GTUA projects. Debt has been issued for some of the projects, but not for others. Mr. Hefton discussed which projects might be paid for, or in part with impact fees. He also discussed the need for a utility rate increase. Every 1% rate increase amounts to $250,000, so a 3% increase would be about $750,000 in revenue.

Deputy Mayor Steele questioned a couple of smaller rate increases versus one larger increase. He felt it probably needed to be increased by a larger amount but only one time, instead of two. Mr. Hefton said he would rather "smooth out the rate increases" with incremental increases each year, rather than a larger increase in one year. But he did say it could be done either way. Council Member Stevenson also favored one increase instead of smaller, annual increases. Mr. Hefton added that impact fees are designed to cover the growth, basically growth paying for growth.

Council Member Teamann said the Marilee project coming on board would more than pay for the $1.2 million in debt, and could offset the rate increase for citizens. Mr. Hefton said that could be done. Council Member Stevenson and Deputy Mayor Steele were also interested in using the Marilee money to offset the rate increase this year. Council Members discussed different scenarios that could be used between the rate increase and the Marilee money.

Mr. Hefton clarified that the Council wanted to use Marilee funds, bonded through GTUA for $1.2 million, and use that as a cushion to not do a 3% rate increase this year. After the rate study is completed and the recommended rate increase can be considered, the Council will decide on a new rate. He said the problem is if the Marilee project doesn't move forward, the Council will then have to consider a rate increase.

Mr. Hefton said the City will be doing a Utility Master Plan for water and sewer, and a rate study to determine what the rate increases need to be, and until that time, the Marilee project will be funded through GTUA for $1.2 million and that will be used as a cushion to avoid a rate increase at this time.

Council Direction
Mr. Hefton clarified the Council's direction on the specific budget items.

Compensation/Staffing
- Staff 2x one time at 1% each time (give option to put increase in HSA account)
- Market adjustments, not widespread
- Police Department adjustments (give PD the 1% one time)
- Staffing as presented

Facilities
- Police Facilities
  Limited renovation $2 million vs new headquarters $12 million +
  Impact on Central Fire operations and Fire CIP
- Fire Facilities – Training/EMS, Central/Station #2 consolidation

CIP/Capital Expenses
- Limited capital spending
- Development-driven debt issuances

- Continued focus on finalizing infrastructure development
  Thoroughfares – Various thoroughfare engineering and ROW
  Utility infrastructure – especially water/sewer in Planned Development areas
  Wrapping up TxDOT participation

Planning Focus
- Utilities Master Plan (including rate study)
- Police Department Headquarters – site purchase, design to be completed
- Fire Department – Station #6 site selection and purchase

Rates
- General Fund – No change in tax rate
- Utility Fund – 3% rate adjustment (use Marilee funds to supplement; no rate increase)
- Solid Waste Fund – No change in solid waste rates
- Impact Fees – Adopt Impact Fee ordinance
- Fire Inspection – Rate increases (ordinance requiring review of fees on regular basis)

Other items include:
- Reshuffle the Marilee funds to offset the 3% rate increase
- Animal Shelter Adoption Trailer replacement – budgeted for next fiscal year - $40,000
  Air conditioner may not last until next year; may need to replace this year (Council Member Melton)
- In tough budget years, do incentives only through rebates and not guaranteed payments on bonds; no impact on current taxpayers or ratepayers for a new project (Council Member Teamann)
- Leave TIRZ open as long as there is possibility of a project (Council Member Stevenson)
- Review downtown infrastructure to use TIRZ money for replacement of water/sewer lines (Council Member Howeth)

Mr. Hefton presented the budget calendar and dates for review and public hearings. Council Member Melton asked if another review of the draft budget could be done the last week of July. An extra agenda item will be placed on the July 20, 2020 Council Meeting for another review of the draft budget.

ADJOURNMENT
There being no further business to come before the City Council today, motion was duly made and approved to adjourn the Called Meeting at 4:39 p.m. Documentation for the Budget Work Session is held in the General File "Budget Work Session FY 2020-2021" in the City Clerk's Office.

MAYOR

ATTEST

CITY CLERK