STATE OF TEXAS §

June 19, 2013

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 City Council Chambers, City Hall, 220 West Mulberry, Sherman, Texas, on June 19, 2013.

MEMBERS PRESENT: Mayor Cary Wacker; Deputy Mayor Pam Howeth. Council Members Johnson, Plyler, Smith, Sofey, Softly.

MEMBERS ABSENT: None.

STAFF PRESENT: George Olson, City Manager; Robby Hefton, Assistant City Manager/CFO; Brandon Shelby, City Attorney; Otis Henry, Police Chief; Jeff Jones, Fire Chief; Don Keene, Director of Public Works; Mark Gibson, Director of Engineering and Utilities; Scott Shadden, Director of Development Services; Clay Barnett, City Engineer; Lisa Whitfield, Development Coordinator; Mary Lawrence, Controller; Kevin Winkler, Parks and Recreation Administrator; Tammy Davis, Support Services Director; Jim Cross, Maintenance Superintendent; Diana Adair, Tourism Manager; Craig Long, Budget Analyst; Pam Cloer, Assistant to the City Manager; and Linda Ashby, City Clerk.

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

2013-2014 BUDGET REVIEW

ADJOURNMENT

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Wacker called the meeting to order at 8:15 a.m., declared a quorum present, and opened the meeting. She thanked the staff saying she was proud of what the City's been able to do with little money. Sherman is at a real crossroads this year. She said the Council will have to make some tough decisions and some pro-active decisions that will drive Sherman forward as they wait on the economic recovery. Mayor Wacker said she was optimistic that the Council would come out with some good solutions.

OPENING COMMENTS

George Olson, City Manager, welcomed everyone and thanked the City Council for their time, their dedication, and their direction over the past few months. He said there will be decisions to make today and some won't be easy. He thanked the staff for their tireless efforts within the organization.

He said that throughout today's presentations, the theme will be sustainability, both from an operational and financial standpoint. He outlined specific topics that will be discussed adding that some are not about the upcoming budget, but are about continuous planning initiatives, including the Airport and the Storm Water Management Plan. He mentioned a fee plan that would bring Sherman more in line with its peer cities.

Mr. Olson said the economy has created some very challenging obstacles for everyone over the last few years. The City has had do delay many projects and address various needs, while still "living within their means." That has been done, while still maintaining an exceptional level of service. The City has accomplished this by wisely utilizing the excess reserves. However, that source is no longer available. Now the City must continue to look for new ways to sustain the mission and the service level for citizens. He encouraged Council Members to ask questions during the presentations.

2013-2014 BUDGET REVIEW

Operations History/Sustainability

Robby Hefton, Assistant City Manager/CFO, presented history of where the City of Sherman has been. In 2008/2009, the City issued debt for some major improvements with the streets, parks, and downtown area. This was the first time Certificates of Obligation had been issued since the 1970's.

At that time, Sherman was experiencing a sustained, moderate 3% to 4% growth in the tax base. When the debt was issued, the property tax rate was decreased from $0.40 to $0.32 per $100 valuation, and a portion of that tax was dedicated to increasing the sales tax in lieu of property tax. In 2012, the citizens again approved the street sales tax and the City is in year two of that designation.

Mr. Hefton said in 2008, the budget was $30.2 million. In 2013 the budget is $30 million. The budget has remained "flat" over those years, by curtailing capital spending and using an "entity wide" look at the operations.

There are three main "pockets" of operations, the Solid Waste Fund, the Utility Fund, and the General Fund. This "wide" view allows the City to share reserves and share resources among funds to help balance the budget. He added that this was the right thing to do at that time.

Mr. Hefton explained that prior to 2007/2008, the City had very stable sales and property tax growth. In 2008 there was a sales tax election to reduce the property tax rate to increase the rate for street sales tax. At the same time the City increased their bond rating from A to A+ to AA- to AA, which has been sustained since that time. However, about the same time, the recession started. Even though the City didn't experience a decrease in sales tax, it did "flatten out." Instead of a 3% to 4% growth, there was 0% growth.

That was the same time that debt service was issued, which is ongoing for the next 17 years. Cost of the debt service is about $900,000 annually and is paid through property taxes. The debt was issued to complete the thoroughfare plan and the Capital Improvement Program.

During the same time, there were many foreclosures of residential real estate, the unemployment rates increased, and MEMC and Folgers closed. This year, 2013, was the last year of the plan to recoup water and sewer revenue that was lost from the plant closings. About 14% of the City's revenue was lost through "shrinkage" and through some recycling projects initiated by the industries.

Mr. Hefton considered what sales tax and property tax would do over the next few years. There is evidence of growth, and the Panda Energy plant and some commercial growth will help the tax base, but the staff really doesn't know what the tax base will do. The staff must design a sustainable plan to make sure that the City is funding the current level of operations to which they have committed.

Over the last few years, Mr. Hefton said the City has added 150 acres of park land at Pecan Grove Park, and have not proportionally increased the staffing for the parks. The City has established a level of service in all their departments that is the prudent minimal level of service. In developing this budget, the staff has focused on how to sustain that level of service, if there is no growth in sales and property taxes. The City has been using reserves in the General Fund, Utility Fund, Hotel/Motel Tax Fund, and the CIP Funds for the last five years, spending them down intentionally. The ability to do this is gone after 2014.

Mr. Hefton said the revenue and rate discussion is not a new discussion and has been talked about for several years. The City needs to not only cover the revenues and expenses, but also needs to set aside money from the General Fund and the Utility Fund to pay for capital projects. Many CIP projects were put off because there was no money to fund them. The focus for 2014 is to fund only the critical projects were something is failing. But with the General Fund, the Solid Waste Fund, and the Utility Fund, the City needs to be setting aside money to at least partially fund these CIP projects. He added that the goal is to maintain a 70 day fund balance in these funds.

Mr. Hefton said the reserves have been “spent down” so now the focus is on something different. Once everything has been done to manage costs, to increase fees, and to change operations where it is acceptable, then there will be some decisions to make about increasing property taxes or implementing service cuts. The excessive reserves were the City’s biggest tool, but that is now gone.

He outlined the items completed in the operations sustainability plan such as completing the four year CIP program, completing the three year utility revenue replacement plan, completing the fund balance reduction plan, making efficiency cuts and re-establishing a focus on essential services, increasing miscellaneous fees, deferring capital spending and employee raises, and keeping the annual budget flat for several years. He added that the focus on this budget will be on taking steps toward sustaining the future.

Mr. Hefton said for 2014, the staff is proposing to adjust various fees, which will increase the General Fund by about $200,000; provide employees with a 2% across-the-board wage adjustment; fund only critical CIP projects; and use the remaining excess fund balances to adjust reserves to target levels.

Mr. Hefton highlighted several issues with this year’s budget. He said fund balances will be at 76 days in the General Fund, 71 days in the Utility Fund, and 63 days in the Solid Waste Fund. The targeted range for fund balance is 60 to 90 days. Sales tax revenues and water/sewer consumption is flat. Property taxes are expected to increase slightly. In 2013, the City tried to catch up with fleet and equipment purchases and will continue to do so in 2014. This budget proposes about $1.5 million for these purchases.

The proposed budget also includes increased funding levels for group health in the major funds. Currently it is funded through rates instead of using fund balance. The staff is focused on sustaining the basic levels of service. There are things that the City probably should be doing but can’t because of funding.

The challenge will be beyond 2014. Mr. Hefton said the General Fund is a $30 million budget and if things increase at a moderate 2% cost every year, that amounts to $600,000 in revenues that must be made up. Historically that has been made up from a growth in property and sales tax. A 3% increase in the tax base and in sales tax would almost exactly cover the $600,000 increase from inflation. But the City has not had that increase over the last few years.

The Utility Fund debt has also decreased the last few years which helped provide some relief for additional fund balances. However the debt will increase over the next few years due to some large water and sewer projects, and additional Utility Fund balances will be unavailable to help "prop up" other funds.

Mr. Hefton also mentioned some positive things that will be coming up, including the effect of the Panda Energy project. Even after their abatement, it is expected that Panda will add $300,000 to $400,000 to the property tax revenues in the 2016 budget year. They should be using about $800,000 in water once they are up and running. Their projected opening date is the fourth quarter of 2014, so the City should start seeing revenue in the 2015 budget year. He added that the City has low and moderate property tax and utility rates, so there is room to make some adjustments and still remain competitive.

Mr. Hefton presented a list of areas where the City is falling behind. One budget request this year was to add a concrete street maintenance crew. The request is not in the proposed budget, but in the near future, he felt it might need to be addressed. Many of the levels where the City is falling behind are really just maintaining the current level of operations.

He also explained the tax rate history adding that in 2009 the City's tax rate was decreased from $0.40 per $100 valuation to $0.32. The effective tax rate is the rate that would need to be adopted to raise the same amount of revenue. The State allows the City to adopt the effective tax rate each year without requiring a vote of the citizens.

The strategy moving forward is to continue to use the sales and property tax base growth to fund growth in the future. A 2.5% increase is equal to $450,000 annually. The General Fund should be funded through taxes. In the absence of that, other changes must be made. These changes include reducing the quality of life services and focusing on essentials, continuing to increase water and sewer rates to transfer to the General Fund, using positive budget variances to minimize the need for service cuts or tax increases, or a tax rate increase.

Hotel/Motel Fund & Tourism
Mr. Hefton briefed the City Council on the Hotel/Motel Tax Fund and specifically on the mission, values, and goals and objectives of Sherman's tourism program. It's not just about the use of Kidd-Key Auditorium. He said every year, sports tournaments are held in Sherman that completely fill the local hotels. There are many tournaments held at Old Settler's Park that bring visitors into the community. He addressed Hot Summer Nights and Arts Festival, saying that even if the City is not managing these events, the City's resources, such as staff, facilities, tables, and chairs are used during the event.

At the start of the budget process, the City's goal was to cut about $100,000 from the Hotel/Motel Tax operating budget. Reserves have been spent down and helped fund things such as the new website. Some initial cuts have already been made such as a reduction in advertising from $45,000 to $15,000 and a reduction in the Central Business District grant program from $25,000 to $15,000.

He said the Sherman Council for the Arts and Humanities has rescinded their request for $36,000 in funding and have a separate funding source for the next few years. The transfer from the Hotel/Motel Tax Fund to the General Fund was also cut. Mr. Hefton said the staff tried to cut everything else down to acceptable levels before funding was reduced for SCAH or the Sherman Museum. With these cuts, that left $60,000 going to the Sherman Museum this year instead of $82,500.

Mr. Hefton said the Hotel/Motel Tax fund balance is down to $20,000, but this isn't a fund that requires a large fund balance. An additional cushion for the fund balance should be realized in 2014 in case the revenues don't increase as expected.

Council Member Smith asked why the staff felt that Hotel/Motel taxes would increase by $25,000 this year. Mr. Hefton said the staff has had success in collecting a portion of the past due taxes owed by some of the local hotels. Also, some of the hotels have changed management. Hopefully things will be better than in the past as far as the collection of this revenue. Mayor Wacker said another hotel reopened this past year after being closed for about two years. Mr. Hefton said the proposed convention center for Denison may be some competition for Sherman's hotels, but did not feel that would happen in 2014.

Mr. Hefton said if additional tax money was received, the staff could present that to the City Council mid-year and they could decide to distribute the additional money within the budget. He said another option would be to "shuffle" some of the money around now to give more to the Sherman Museum. He said the tourism grant line item was increased by $10,000 with the thought that the Museum, as well as the other entities requesting grants would have additional funding for their submissions. Mr. Hefton said it would be a great opportunity for the Museum to request additional funding for a specific project, such as Dino Days, through grant money.

Council Member Smith asked if, in the past, the grant money has been used in its entirety. Mr. Hefton said usually it has been. He added that the City could give out more in grants than people have requested, because requests are generally adjusted. He said there are more requests than there is money.

Council Member Plyler said the proposed budget cut for the Museum was a significant cut. Mayor Wacker asked if additional community groups could be found to sponsor Hot Summer Nights and Lights on the Lake so more money could be "shifted" to the Museum so the first year would not have such a drastic cut. Council Member Johnson said he wanted to revisit the budget after six months because some of these events occur later in the year anyway. Maybe at that point, there will be more money.

Mr. Olson said the City has approached the Chamber of Commerce to see if they would like to take over the Hot Summer Nights program, but they aren't quite ready to do that. The events are booked earlier and contracts are signed, and if the sponsorships don't happen, the City would still need to fund the event. They have "cut back" on the costs for Lights on the Lake. Mr. Hefton said a decision could be made up front to cut the number of nights that Hot Summer Nights is held in order to cut the budget for the event.

Council Member Smith confirmed that the $82,500 going to the Sherman Museum makes up about 50% of their budget. Mr. Hefton said besides the money from the City, the Museum also receives $5,000 from SCAH. He said the $20,000 cut is about 12% of their budget.

Council Member Johnson asked about suspending the downtown grant program for a year. Mr. Hefton said the grant program is designed to encourage reinvestment in the downtown area. It has been a popular program with good participation. Council Member Smith asked how much money has been invested in downtown in other ways. Mr. Hefton said the City just completed a $600,000 project to draw investment to downtown. Council Member Smith asked why the City would spend $600,000 downtown and then stop the incentive program. It's already being cut.

Council Member Plyler asked about moving the tourism grant money to the Museum so they don't have such a significant cut, and then re-evaluate in six months. The grant line item was increased by $10,000. Mr. Olson said there is some criteria that goes with the grant line item to justify that they will bring a certain number of people into the hotels.

Mayor Wacker felt it was important to have a community patriotic event and this project has a major sponsor to underwrite the fireworks. Council Member Sofey agreed that the Lights on the Lake allows the citizens to benefit from the Hotel/Motel tax dollars.

Council Member Johnson asked about the 44% cut to regional advertising, saying it was significant. Mayor Wacker said maybe the City could be "cleaver" with social media, but she did express her concern about the cut. Council Member Sofey said he wasn't sure how much of a direct impact a lack of advertising would have for one year as opposed to cutting the events themselves. Mr. Hefton said the City and the Sherman Economic Development Corporation have a $10,000 commitment with the Texoma Council of Governments for branding.

Council Member Johnson asked about funding for the Arts Festival. Mr. Hefton said the City has been in discussions with the Chamber to help provide some relief for the Arts Festival, but at this point they don't know if that will happen or what the impact will be.

Mayor Wacker felt the pressure with the Hotel/Motel Tax Fund will continue until there is a good year. Everything will have to make an adjustment, including the Museum. She felt cuts should be made to everything but agreed that the Museum funding could be increased to help with the transition. She said they are pretty pro-active with fundraising and have adopted a different model with admission costs. But she did not feel the City could continue to fund the Museum at the same level as in the past.

Council Members discussed possible changes that might be made to Hot Summer Nights to reduce the costs.

Mr. Olson asked what level of funding increase Council Members wanted for the Museum. Council Members wanted to increase Museum funding to $70,000 by taking the additional $10,000 from tourism grants. Council Member Plyler suggested reviewing the funding for tourism grants with a mid-year update and adjustments as needed. The staff will also work to get additional sponsorships for Hot Summer Nights.

City Council Members took a break from 9:27 a.m. to 9:47 a.m.

Airport

Don Keene, Director of Public Works, presented an overview of the Sherman Municipal Airport. While there are no decisions that are currently needed, he said there are some major items on the horizon.

The Airport is a general aviation community service airport with one asphalt runway and four existing structures. There is a terminal building, two T-hangars, and one Quonset hangar. There is currently a waiting list for the T-hangar space. Eight of the 18 T-hangars are rented by Sherman residents. J&S Aviation is housed in the Quonset hangar and the owner, John Hooker, serves as the on-site airport attendant.

Over the last five years, there has been an average of approximately 20 to 30 landings and take-offs per day, which means 10 to 15 aircraft per day visit the Airport. A courtesy car is used once every three to four days. The majority of these aircraft are landing, purchasing fuel, and taking off again.

Over the last five years, Mr. Keene said the Airport is "marginally" covering its costs. There are some major maintenance items coming up in the next year or two. There has been no major maintenance to the runway, taxiway, or buildings in over five years.

Revenue for the Airport is almost $500,000 annually with most coming from fuel sales. The 18 hangars are full and average about $205 per month per hangar in gross revenue. Over the last five years, it has averaged 100,000 gallons of aircraft fuel sold per year. Mr. Keene said the City is trying to stay in the $0.25 to $0.30 price per gallon margin, which is cheaper than other area airports.

Many pilots from the area will fly to Sherman to purchase fuel and then fly home and actually save money. If the City increases the price per gallon, they might gain some on a per gallon basis but loose volume-wise. He added that Sherman is usually $0.25 to $0.40 per gallon cheaper than other airports. He said the City might increase the price by $0.05 per gallon this year, which would amount to about $5,000 a year. Council Member Johnson asked for a breakdown on low-lead fuel as compared to other cities. Mr. Keene said the major expenditure for the Airport is the fuel purchase.

Mr. Keene outlined several larger maintenance projects that will be upcoming in the future. The Airport terminal needs some repairs including a roof replacement and exterior and interior repairs. South hangar repairs include an office roof repair and exterior and interior repairs. There is currently $42,000 in the CIP for 2015 for these repairs.

The City contracted with an engineering firm to provide an analysis of the Airport to determine the needed runway and taxiway rehabilitation projects. They determined that, beginning in 2015, over a five year period, the City will need to spend approximately $1 million for runway, taxiway, and apron repairs. Council Member Smith verified that would be the total cost, not just the City's portion.

Mr. Keene presented a potential CIP plan for Airport maintenance projects. The total cost estimate for the five year plan is $988,000 with the Texas Department of Transportation aviation grants paying 90% or $889,200 and the City paying 10% or $98,800.

In FY 2017 the plan includes the construction of two six-unit T-hangars which would allow the City to generate additional revenue for the future. This would be an option to the plan and would cost an additional $650,000 for the total project. TxDOT's portion would be $585,000 and the City portion would be $65,000.

Council Member Johnson asked if the City's portion would be due as the projects progressed or up front of the entire plan. Mr. Keene verified that the City would pay as each project was done and the grants would be separate grants paid each year.

Council Member Plyler asked about the amount of revenue that would be generated from the new T-hangars. Mr. Keene said they would generate about $31,000 in revenue per year for each hangar. He added that the staff feels the hangar rates should be increased by about $10 per month anyway. Council Member Plyler suggested that the City could help pay for their part of the projects with the revenue from the new hangars and the monthly rental increase.

Mr. Hefton reminded Council Members that every time a grant was accepted from TxDOT, that "reset the clock" on the twenty year period that the Airport must remain operational. Mr. Olson added that there was no guarantee that the City would receive the TxDOT grant money or that it would continue to be available. Mr. Keene said the TxDOT Aviation Department and the engineer are very optimistic about the possibilities of receiving the grants, but until TxDOT goes through their budget process and approves the grants, there is no guarantee. Mr. Olson said if the money is not available from TxDOT, at what point does the City have to do something with these projects at the Airport. Mr. Keene said airport safety is always first. The runway and taxiway must be safe before the terminal is repaired. The engineer feels that FY 2015 is when the City would definitely need to be doing something to the runway and taxiway.

Council Member Johnson asked about the possibility of a ground lease with a third party to come in and build the additional hangars. Council Member Smith said the City has tried that for years but no private sector person will do it because they will lose money. Council Member Johnson felt the City could still see what options might be available in the private sector. Council Member Sofey said if a commitment is made for a ground lease, the City would still need to commit with TxDOT and keep the Airport operational. Mr. Olson said in the past, it was determined that the return on a ground lease investment was 40 years or more.

Council Member Plyler said the landings and takeoffs were increasing and he asked if it was anticipated that the trend would continue. Mr. Keene said he expected it to “flatten out.” Council Member Smith added that most landings and takeoffs are simply to refuel. Mayor Wacker added that besides the fuel, pilots must have a certain number of landings and takeoffs per month to maintain their license and this is a good Airport for that. This airspace is not as congested as in the Dallas area.

Mr. Keene said the City must optimize the fuel and hangar rental rates to recover costs. The staff is recommending a $0.05 per gallon increase in fuel and a $10 per month increase in hangar rentals.

Mr. Keene said a year ago, the City Council requested that the staff review options for alternative use of the Airport property. One option is for a Sherman Recreational Complex which would be a multipurpose complex to support the City’s recreational needs for generations. This complex is supported by the Comprehensive Master Plan. Features of the complex would include lighted, multi-purpose game fields, practice areas, an indoor recreation center, walking trails, green space, a skate park, restrooms, maintenance facilities, and connectivity to both Hawn and Rosedale Parks. He presented an artist conceptualization of the complex.

Mayor Wacker said the Council can’t arbitrarily close the Airport. The citizens must vote to close the Airport.

Miscellaneous Fees

Mr. Hefton said at the Budget Planning Meeting, the Council asked the staff to review various types of fees and revenue sources. Fees reviewed include building and inspection fees and licensing, traffic and court fees, parks and recreation fees, and cemetery fees. Some fees were reviewed over the past two years and adjustments were made at that time. Water and sewer fees and tax rates will be discussed later in the presentation. Mr. Hefton said Sherman’s fees were reviewed against six peer cities including Denison and Gainesville,

The staff found that contractor registration fees were fairly well in line, but building fees were very low. He showed Sherman’s fees as compared to the average fee from the peer cities. They focused on both the per square foot fee as well as the minimum fee. The new construction building fees are also low.

Mr. Hefton said Sherman’s minimum building fee, electrical, HVAC, and plumbing fees are all lower than the average peer cities’ fee, some up to 50% lower. New residential construction and new commercial construction are per square foot fees and are one-third to one-sixth of what the peer cities charge, respectively. He proposed that adjustments be made to all those areas to bring them more in line with the peer cities. He also proposed to increase the minimum fee on remodels from $28 to $50. With these changes the annual increase is expected to be from $40,000 to $50,000.

Council Member Smith felt this was still low. Council Member Sofey felt it was a good one-year jump, but still below the peer group. He did not feel that building would decrease because the rates increased. Mr. Hefton did not feel that the City was out of line with the rate increase. Council Members supported the rate increase.

Mr. Hefton presented a review of the Parks and Recreation fees. Fees for The Splash were adjusted in 2010 for both pool admission and rentals and no adjustments are proposed at this time. City sponsored leagues pay for expenses through their registration fees. Sherman Youth Soccer and Sherman Youth Baseball do not currently pay for field use. The staff will review payment from these leagues for a field use fee on a per head basis. Austin College and the Sherman Independent School District do reimburse expenses or barter facility usage on a contract basis, but they are not paying the City's cost for field or facility usage. Many supplies and man-hours are spent annually for field maintenance and they are not reimbursed by the entities.

Mr. Hefton proposed that the City charge field use fees for children's baseball, softball, and soccer, and for adult softball, soccer, basketball, and volleyball. He presented proposals for a field use fee of $5, $8, and $10 for both children and adults. He said the field use fees wouldn't amount to a lot of money, but it is more a concept to charge for field usage. The City spends much more money in personnel, equipment, and materials to maintain the fields. He asked the City Council for their input on the proposed field usage fees.

Council Member Smith said they charge $80 per child now for baseball, softball, and soccer and he felt the new fee would be passed along to the parents through the registration fee. He felt an additional $10 could "stretch" some of the parents, even though he agreed with the field usage fee. Council Member Sofey said other cities charge a field use fee and so should Sherman. Mr. Olson confirmed that Sherman Youth does have scholarships available.

Council Members discussed what the field usage charge should be. They decided to charge an $8 field use fee for youth and a $10 field use fee for adults.

Mr. Hefton said the staff also reviewed cemetery fees and compared them with the peer cities. The staff proposed an increase in several fees that should provide an annual revenue increase of approximately $35,000. Council Members were in agreement with the proposed changes.

He provided a list of the top ten traffic and court fines and a proposed increase for each. The City currently receives between $900,000 and $1 million in court and traffic fines. The proposed fines are below average fines in the peer cities. The annual effect on the proposed increase is estimated at $103,357.

Council Members felt there would probably be complaints on the cost of the parking tickets which would increase from $21 to $41. Mayor Wacker asked if deferred adjudication was available. Brandon Shelby, City Attorney, said deferred adjudication is offered on almost every ticket, but it is not "advertised." There is a $40 administrative fee for deferred adjudication and they are required to pay the court fine. Mayor Wacker asked if that fee should be reviewed. Mr. Hefton confirmed that the Council wanted to set the parking ticket fee at $40.

Mr. Hefton said the staff looked at Animal Control fees and Sherman is lower than the peer cities. Even though the adoption fees are lower than the peer cities, the staff decided not to propose changes to those fees. Sherman has had a great success with the adoption program over the last six months.

They are proposing to increase first time reclamation fees from $15 and $30 for spayed and unsprayed, respectively to $25 and $40, and increase the impound fee from $45 per day to $50 per day. The annual revenue generated is estimated at $9,000. Council Members were in agreement with the proposed changes.

Mr. Hefton said the proposed changes in the various fees and fines would increase annual revenue by almost $200,000, subject to the changes made. This money will be included in the General Fund.

Council Member Smith verified that this increase will already be included in the budget that the Council reviews later today.

City Council Members took a break from 10:49 a.m. to 10:59 a.m.

Storm Water Management Plan
Clay Barnett, City Engineer, said Sherman has had 14 floods recorded by the National Climatic Data Center since 1993, with the most significant event happening on June 18, 2007. During that event there was 7.6 inches of rainfall in seven hours. U.S. Highway 75 was closed for several hours and 89 single family homes, 270 apartment units, and 40 commercial properties flooded.

In 2009 the Comprehensive Master Plan listed a storm drainage study and planning as the number three priority. Total cost of the study was $333,000 with a portion being paid by a grant. The City's portion was $154,000. The study process began in September 2011 and included four public meetings for input.

The scope of the study included all of the Post Oak Creek Drainage Basin that is located in Sherman, which is approximately 33 square miles. This area includes 50.5 miles of stream and 68 bridges and culverts. The study identified 13 areas of structural flooding which includes 153 structures. Forty four bridges and culverts were found to be insufficient to pass a 1% flood incident.

In order to prevent additional flooding in Sherman, four mitigation projects were identified. These include floodplain land acquisition, storage, channel improvements, and bridge and culvert improvements. He outlined specific efforts that were included under each mitigation project, with the cost and possible grant eligibility.

Floodplain land acquisition includes the buyout of repetitive loss properties, converting land to a natural green belt, and eight proposed property acquisition projects at a total estimated cost of $9,305,700, with grant eligibility of $5,785,829. Council Member Sofey verified that all the properties were in the floodplain.

The retention storage projects reduce peak flow rates and downstream velocities. Currently the detention ponds are Dean Gilbert Lake and Pickens Lake in Herman Baker Park. Additional projects identified in the study are the Archer Detention Pond, Dam 9A, modifications to the Town Center Detention Pond, and five others. Projected cost of the projects is $13,855,000 with grant eligibility of $5,438,250.

Three channel improvements were identified to increase capacity and improve channel stability on Post Oak Creek. These projects include Center Street, Lamar Street, and Pecan Street, with a projected cost of $18,337,000.

One problem during the 2007 flood was the inability to get emergency services to the west side of Sherman due to the flooding of Post Oak Creek. One of the objectives identified fairly early was to provide bridge and culvert improvements to provide access for these emergency services. Nine bridge and culvert projects were identified at a projected cost of $13,947,000.

Mr. Barnett said the projected cost of all projects is $55,444,700 with a total grant eligibility of $11,224,079.

The study also identified non-structural flood prevention measures such as updating the Land Use Plan, updating the Storm Drainage Design Manual, updating the Floodplain Ordinance, implementing a Creek Maintenance Program, updating the Floodplain Mapping, and participation in a Community Rating System. Currently the Land Use Plan does not accurately identify property in the floodplain.

Basically all creeks in Sherman are privately owned and the City does not have the ability to enter and service them. A Creek Maintenance Program is important to remove debris prior to an event so it does not clog the culverts downstream. This increases the capacity for water flow and helps with bank stabilization.

He said there are two ways to implement this program. Either the City can obtain rights-of-way or easements on the property and then maintain the creeks or they can implement a private maintenance program where citizens apply for grant money for their creek cleaning maintenance.

Mr. Barnett presented a Federal Emergency Management Agency Map designating both the floodplain and the floodway. No building is allowed in the floodway. Mr. Barnett explained that if more accurate flood maps were available, some of the areas could be developed. Council Member Smith asked about the cost of a flood zone study. Mr. Barnett estimated it would cost probably $80,000 to complete a new flood zone study. Council Member Smith said if the new maps would allow additional development, then that money would eventually come back to the City.

The Community Rating System is a FEMA program to encourage cities to take certain measures to prevent flood damage, which will result in lower insurance premiums for citizens. The City already does many if the items that would be required in the Rating System.

Mr. Barnett outlined several funding alternatives for the projects such as bonds, impact fees, a Storm Water Utility Fund, and State and Federal assistance. There are also several competitive grants for which the City could apply.

One way to establish a dedicated source of funding for the program is through a Storm Water Utility Fee. This fee, which is generally added to the water bill, would allow a City to leverage regular income for issuing debt if large projects require multi-years. It is a fair way to determine how much citizens pay for the program, and it doesn’t depend on the private sector, such as with impact fees that may negatively affect development. Cost of the Storm Water Utility Fee Study, which is mandated by the State, is estimated at $200,000. Mr. Barnett outlined the implementation process for the Storm Water Utility Fee.

Mayor Wacker asked why the study is so expensive. Mr. Barnett said the cost depends on how many water services a City has. Mayor Wacker verified that the study is a very labor intensive project and would require analysis of each parcel of land. The cost is based on a "ground zero process" and the City does already have GIS maps available.

Council Member Sofey asked what the expected monthly fee would be for Sherman residents. Mr. Olson said it would probably be between $0.50 and $1.50 per month. Mr. Barnett said Richardson's fee is $5.00 per month. The money would be set up in a specific fund for these types of projects but it would function as a fund and could pay for some items that are now paid from the General Fund. Mayor Wacker added that the fee is usually a dedicated fee.

Mr. Barnett said the City how has a roadmap of where to go and there are no action steps for FY 2014. Decisions on the process will be made in conjunction with long term strategic planning in FY 2014-2015.

Council Member Plyler asked about property acquisition and whether that would require the City to maintain land whether it is green space or not. Mr. Barnett said there were some properties that would need to be maintained. He outlined a priority list of projects (property acquisitions, detention ponds, bridges/culverts) within the study. Mayor Wacker said the list would be implemented over a long period of time and Mr. Barnett said the priorities can be re-prioritized. Council Member Plyler verified that the estimated cost includes all costs, including engineering and design work.

City Council Members took a lunch break from 11:33 a.m. to 11:53 a.m.

Financial Presentation – Operations

Mr. Hefton said the Council and staff have done a good job of managing things appropriately from a financial standpoint. If a City accumulates too many excess reserves, maybe their rates are too high. If a City doesn't have enough reserves maybe their rates aren't high enough. He said the biggest tool of using fund balances will be gone in 2014. Once you've done everything you can to minimize inefficiencies, to raise fees, and to adjust services, you must look at tax rates.

He discussed the effective tax rate and the rollback tax rate. The rollback tax rate is the rate where a City must go to the voters to get approval of the tax rate. Generally that is about $0.03 for the City of Sherman. Currently the City's tax rate is $0.32 per $100 property valuation. He presented a Texas Municipal League Tax Rate Survey with other cities that are approximately Sherman's population. In the survey, Copperas Cove with a population of 32,522 has a tax rate of $0.764 as compared to Sherman with a population of 38,690 and a tax rate of $0.32. Twenty three other cities fell in between these two cities. Denison's tax rate is $0.65 per $100 valuation.

Mr. Hefton said the average revenue generated from this peer group for property taxes is $13.8 million. Sherman generates about $7 million. The State gives a City about 8% margin before they must go to the voters for a property tax increase. If a City's tax rate is $0.70, they can adjust almost 8% before they need to go to the voters. If a City's rate is $0.30, then they only have 2.5% before they must go to the voters. As the property tax rate increases, a City's ability to use that tax to adjust the budget increases, which is what the State intended cities to do. Mr. Hefton said a $0.015 property tax increase would generate $322,000 annually.

The General Fund, ongoing, is unbalanced by $1.8 million. Council Member Smith verified that amount does include a property tax increase of $0.015. Mr. Hefton added that it also includes that for the next two or three years, the Utility Fund will have excess reserves that can be transferred into the General Fund, leaving a deficit of $400,000 or $500,000. When debt in the

Utility Fund continues to increase, then the ability to transfer funds from the Utility Fund to the General Fund decreases. Currently in 2014, there is about $2 million being transferred into the General Fund from the Utility Fund that will not be ongoing. Fund balances are where they need to be for both the General Fund and the Utility Fund.

General Fund

Mr. Hefton said the General Fund has 70 to 75 days of fund balance for 2014. That includes planned transfers in from the Utility Fund and a $0.015 increase in the property tax rate, which is about $300,000. It also includes a projected modest growth in the property tax base. The proposed budget includes about $200,000 additional revenue from increased fees that were discussed earlier. He added that the staff is projecting that sales tax will be flat. The June sales tax numbers showed an increase of 10%, but there is no trend for continued increase. Earlier this year there was a 10% decrease in the sales tax. Sales tax is the largest revenue source in the General Fund.

Expenditures in the proposed budget for the General Fund show an increase in expenditures of about $400,000. This includes a 2% across the board pay increase for employees, which in the General Fund is about $300,000. The other increase is funding for the health fund which is coming from the operating fund and not from fund balance as has been done in previous years. The City is still "catching up" so there is also a $1.2 million transfer to the Fleet Fund.

Council Member Smith verified that if the property tax increase is not approved the fund balance would drop to about 71 days for 2014. Mr. Hefton said the City won't have reserves to move any more so they will need either additional revenues or will need reductions in service to sustain what they have now. He reiterated that he isn't talking about growth, just sustaining. Council Member Smith felt it was important for people to know that it's not only 2014, it's 2015, and beyond.

Mr. Hefton said it is a measured step because you don't know what 2015 will be. If there is growth in the sales tax and property tax that will be great. Council Member Smith said in the past five years, Sherman's tax rate has only decreased. Council Member Sofey verified that approximately three cents is the maximum property tax increase that can be approved without a vote. Mr. Hefton said every one cent tax rate increase is about $10 per year for the average resident. He added that senior citizens are "frozen" and they are at a fixed dollar amount.

Mr. Hefton said when the tax rate was reduced, historically Sherman was seeing a 3% to 4% growth annually. But that growth didn't continue. The original plan was to be back at "square one" by the time the four year period was over. The economy "fell off the table" and now something else must be done.

Mayor Wacker said Sherman is at a "tipping point" where they would consider cutting services. Mr. Hefton said after 2014, the City will be down to zero in the CIP fund.

Council Member Johnson said the small increase this year is being pro-active and would help avoid a big increase in 2015 or 2016. Mr. Hefton said this is step one of sustainability beyond 2014. The City can only set a budget for one year at a time. There are no excess reserves for the future. The City must look at fees, which they have done; taxes, which they are doing now; or cut services.

Council Member Smith said the City is already down to the "bare bones" in cutting services, and has been "living within their means" for the last five years. Mr. Olson added that a tax increase is to sustain, not to add more. Mayor Wacker said a modest tax increase will keep services for citizens and it is still the lowest tax rate of Sherman's peer cities.

Utility Fund

Mr. Hefton said several years ago the City started a revenue replacement plan to replace the revenues that were lost when several major industries closed. Over the last three years the plan was to replace that revenue with increases of 6%, 4% and 4%. This year was the last year of the plan. The proposed increase for this upcoming fiscal year is 1%, which is still lower than the cost of living. The 1% increase in water and sewer rates amounts to about $160,000 or $170,000 annually.

After the transfers out, the fund balance has intentionally been reduced to about 70 days. He outlined various expenses for the upcoming year. The debt service went down a little over $1 million from 2012 to 2013. As additional projects are scheduled for the Water Treatment Plant and the Wastewater Treatment Plant, the debt service will increase.

Solid Waste Fund

Mr. Hefton said a 1% rate increase is also proposed for the Solid Waste Fund. On the expense side, Texoma Area Solid Waste Authority's disposal fees are "flat" for 2014. He said they actually built in a $2 to $3 increase per ton for disposal fees. Therefore that number should be reduced which will increase the fund balance days.

Mr. Hefton said the capital expenses line item is for fleet purchases, which are very expensive in this fund. Cost is generally $250,000 to $300,000 per vehicle and the City normally replaces at least one annually. This year the proposal is for two vehicles.

General Improvement Fund

Mr. Hefton said there are more projects in the General Improvement Fund than the City has money to fund, so they are doing the absolute minimum needed. The Municipal Building repair is phase two of a project started this year. Cost of the project is $190,000 and is maintenance that is long overdue.

The Fallon Drive bridge repair is critical and was identified by TxDOT. Another project is for erosion control on Hunt Street. After these projects, that leaves a fund balance of $45,986. The $200,000 schedule for the GIS system is a pass through and is being paid for by SEDCO.

Utility Improvement Fund

Mr. Hefton said the ending fund balance for the Utility Improvement Fund is $380,937. There are some issues with the Gallagher Elevated Water Tank that need immediate attention. It needs paint inside and outside and there are some holes in the tank. Cost of the project will be $1,125,000 and it is critical.

There is also a State driven mandate and the Cherry Park Pump Station needs to be in compliance. Mr. Hefton said unless they are critical, the staff has pushed projects to 2015 and beyond.

Hotel/Motel Tax Fund

Mr. Hefton said the staff has already received direction pertaining to the Hotel/Motel Tax Fund.

Insurance Fund
Mr. Hefton said the City is funding the Insurance Fund at a much higher level for employee contributions. He said the City should be at a $4.2 million to $4.5 million level. There is a little cushion in this fund. There is ample fund balance in this fund.

Council Direction
Mr. Hefton clarified the Council direction on the following items:

- **Hotel/Motel Tax Fund –** increase the Museum amount by $10,000, to $70,000, moving it from tourism grants; come back mid-year with a report about how revenues and expenses are trending; make adjustments as needed

- **Miscellaneous Fees –** increase fees for cemetery, building permits and licenses, traffic and court fines and fees, and animal control fees as presented; increase parks and recreation fees as presented except add field use fee of $8 for children and $10 for adults

- **2% COLA –** give employees a 2% cost-of-living increase

- **Solid Waste Rates –** increase solid waste rates by 1%

- **Property Tax Rates –** increase property tax rates by $0.015

- **Utility Rates –** increase utility rates by 1%

Council Member Smith said he would like to know the cost on the Floodplain Rezoning Map. He felt that the money paid for the maps would be returned by development.

Mayor Wacker said the staff continues to look at ways to creatively do things or to partner with the private sector to keep the progress going. The City can't get to a number of projects on the CIP list because there just isn't enough money. She felt recovery is coming to Sherman and said some of the major industries have announced expansions and reinvestments and that is a very good sign.

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 12:55 p.m. Documentation for the Budget Work Session is held in the General File "Budget Work Session FY 2013-2014" in the City Clerk's Office.

MAYOR

ATTEST

CITY CLERK