STATE OF TEXAS §

June 18, 2014

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 18, 2014.

MEMBERS PRESENT: Mayor Cary Wacker; Deputy Mayor Robert Softly.
Council Members Davis, Johnson, Plyler, Sofey, Watt.

MEMBERS ABSENT: None.

STAFF PRESENT: George Olson, City Manager; Robby Hefton, Assistant City Manager/CFO; Otis Henry, Police Chief; Jeff Jones, Fire Chief; Don Keene, Director of Community and Support Services; Mark Gibson, Director of Utilities; Scott Shadden, Director of Development Services; Clay Barnett, Director of Public Works and Engineering; Lisa Whitfield, Development Coordinator; Mary Lawrence, Controller; Kevin Winkler, Parks and Recreation Director; Tammy Davis, Support Services Manager; Jim Cross, Assistant Public Works Director; Shawn Hackworth, IT Manager; Pam Cloer, Assistant to the City Manager; and Linda Ashby, City Clerk.

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

2014-2015 BUDGET REVIEW

ADJOURNMENT

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Wacker called the meeting to order at 8:31 a.m., declared a quorum present, and opened the meeting.

OPENING COMMENTS

Mayor Wacker said last year at the Budget Retreat, the Council was in the "hopeful" mode, but feeling guarded that the economy was beginning to show some good signs. This year she felt they were in an "optimistic" mode and they are beginning to see the good things manifest themselves in the community. She felt Sherman was slowly emerging from six years of recession.

She felt there were several things that were beginning to translate to an economic impact to the community, such as the Keep Sherman Beautiful Commission, the Binkley Park Mountain Bike Trail, new festivals, rebranded events, new construction, downtown reinvestment, and the expansion of several local industries, including Texas Instruments, Tyson, GlobiTech, Fisher/Emerson, Direct Connect, and Panda Energy.

During the last few years, the direction was for the City to be "leaner" and more efficient in every way, to continue to deliver excellent service, but with the available resources. However, the staffing levels and the resources were sometimes significantly below the benchmark for cities the size of Sherman. Mayor Wacker said those need to be addressed to build a pipeline for Sherman's future success.

This year's budget should lay the groundwork for that by tackling the big projects now to ensure that Sherman will be successful going forward. They need to continue to look at strategic planning, including community input, that helps shape the goals to reflect what Sherman citizens want and need for a good quality of life. The City also needs to continue to be pro-active in job and industry recruitment, because that will be a long term solution to building the tax base. Sherman currently has a diverse tax base, but it needs to be strengthened so the resources are in place to support the services that are needed.

She added that this year the Council also needs to stabilize the budget to reverse the trend of drawing down the fund balances with transfers from one fund to another. This is a "quick-fix" and the Council now needs to look long term to ensure that there are positive fund balances going forward, as well as the resources to continue to address growth and build the needed projects.

George Olson, City Manager, said there has been eight months of preparation for this Budget Work Session. After several years of "flat-line" growth after the recession, the staff knew they had to deviate from the one year planning, balanced budget approach into more of a long-term planning mode to start addressing operational needs.

He asked the department heads to consider their needs, not their wants. Twenty to thirty critical needs were identified that needed to be considered. Several meetings were held to bring the top five or six critical needs to the City Council. These needs include the Water Treatment Plant expansion study and design; compensation and staffing; capital, capital maintenance, fleet, and funding; stormwater management and planning; and fire station expansion. Those needs will be addressed briefly again today.

At the April 2014 Budget Planning Meeting, the staff received the following direction from the Council: to acknowledge that the fund balance goal is completed, minimize service cuts, address employee pay as possible, to not use Utility Fund rates to offset the General Fund, to consider a moderate tax increase if needed, continue moving forward toward funding complete capital and infrastructure needs, and to discuss the staff identified critical needs.

Mr. Olson said the purpose of the meeting is to address the FY 2015 Budget, but some projects, such as expansion of the Water Treatment Plant is actually a two or three year process. The staff must begin that process today. Even though the Council must establish an annual budget, they must consider projects and needs that extend past that one year scenario. He added that this budget maintains the City's basic level of service and makes sure that the staff "continues to pay the light bill."

2014-2015 BUDGET REVIEW

Highlights and Budget Summary

Robby Hefton, Assistant City Manager/CFO, outlined the procedure for today's meeting and budget discussion. He said the number one project for this budget was the Water Treatment Plant expansion. A report will be provided later today outlining the project, as well as information on the Hotel/Motel Tax funds and program.

He reviewed how the fiscal year began and how it is expected to end. For FY 2013, the General Fund ended up about $1 million better than projected, so FY 2014 started $1 million to the good, due mainly to the sales tax effect of the Panda construction. The 2014 revenues are projected to be up about $1.2 million, primarily from sales tax and from franchise tax, due to the cold winter.

Expenses in the General Fund were close to projected, but down a little. The net effect is that at the end of 2014, the fund balances are expected to be at $8.7 million, which is about 104 days of reserves. The 2014 Budget uses much of those reserves to finish projects such as the Street Sales Tax Enhancement Plan.

For FY 2013, the Utility Fund ended up about $200,000 lower than projected. For 2014 the revenues look to be about $500,000 more than was budgeted, so ending reserves will be at about 76 days or $4.7 million at the end of the fiscal year.

Ending reserves for 2013 for the Solid Waste Fund were close to the projected amount. For 2014, because of Panda Energy and some other industrial customers, the commercial solid waste revenues have been greater than was projected. Those revenues, for 2014, look to be up about $300,000 and expenses are on par with the budgeted amount.

At the end of 2014, reserves for the Solid Waste Fund should be at about 103 days. The staff is proposing approximately $1.2 million in fleet purchases for the Solid Waste Fund. The fund balance will be down in the mid 60s by the end of 2015.

At the end of 2014, the Capital Improvement Program balances will be at about $400,000 for the General Improvement Fund and about $1.4 million in the Utility Improvement Fund. These funds are used for future projects.

Mr. Hefton said last year the Council gave the staff some Operational Highlights for the 2014 fiscal year. The staff proposed to adjust various fees for buildings, cemetery, traffic, animal control, and parks and recreation. Those were implemented and they are performing about as projected. It is estimated that those fees generated an additional $200,000 for 2014. There was also a 2% across-the-board, salary adjustment for all employees. Some critical CIP's were funded in the General Improvement and Utility Improvement Funds.

They have used the remaining excess fund balances to adjust the reserves to target levels. That continues, but 2014 is close to the end of that process and 2015 is the end of the process. The focus in 2014, which continues in 2015, is a continued focus on "paying the light bill." The staff is looking to keep whatever services are provided today going, but without expanding or enhancing those services.

The General Improvement Fund and Utility Improvement Fund balances have been drawn down beginning in 2009 as planned. The General Fund, Utility Fund, and Solid Waste Fund balances add up to about $12 million or $13 million.

Mr. Hefton said there are some areas identified last year where the City is falling behind and he addressed some progress that had been made. The City is still falling behind in alley and right-of-way maintenance and in the expansion and enhancement of services. Other items have been addressed in either FY 2014 or FY 2015.

Several months ago a plan to enhance the recruitment of entry level police officers was introduced to the City Council. About 140 applicants signed up for the last entry level exam and 93 actually tested, giving the City a good pool of candidates.

The City Engineer position is in the budget for FY 2015. There are also issues in the utility area with succession planning. Not all of the areas have been addressed, however steps are being taken.

For the FY 2015 Budget, there are several projects that will take multiple years to complete, such as the Water Treatment Plant and the fire station, and the process has focused on a five year time horizon. This year the budget process has taken an entire year to formulate. With the additional preparation and meetings that have been held, the Budget Work Session time frame can be reduced. He praised the input that was received both from the staff and from the City Council during the process. The Draft Budget will be presented in July, and August and September will be the Draft Budget and the Public Hearings.

Through the process, Mr. Hefton reiterated the Council direction that was received. The Council directed the staff to continue the six year plan to drawn down the fund balances; to minimize any service cuts, especially in the General Fund; to address employee pay; to not use Utility Fund rates to offset the General Fund needs, except for the remaining fund balance drawdown; to consider a moderate tax rate increase, if needed; and to continue moving forward towards funding fleet and capital. All of these are addressed in the proposed budget.

Mr. Hefton said they will also present their proposals on the staff-identified critical needs. The five critical needs as presented in the noon work sessions are the Water Treatment Plant expansion study and design; compensation and staffing; capital, capital maintenance, fleet, and funding; stormwater management and planning; and fire stations.

The Water Treatment Plant expansion study and design was the number one priority. The City has 10 to 12 million gallons a day of groundwater that can be used and about 10 mgd of lake water from the Water Treatment Plant, or 20 mgd if everything is running. There is a risk when the Water Treatment Plant's line is down for maintenance or repairs from North Texas Municipal Water District.

The risk is that today there is not enough capacity to meet the needs of the community. This doesn't include the possible need for 4 mgd to 5 mgd of treated water for Panda Energy. With this demand and the increased demand from regular water users, as well as a possible line down, the City must plan for additional capacity. Since the expansion project would be a three year process, the staff feels that the project should begin now.

The second priority is compensation and staffing, but that isn't mainly about money. Money is an issue in that the City needs to keep within the market on all positions. A peer study was completed with every position in the City, comparing them to peer cities such as Waxahachie, Cleburne, and others that are the size of Sherman. Mr. Hefton said overall, Sherman is in pretty good shape with compensation. There are some positions that need to be "tweaked" a little.

In the 2015 Budget, the staff is proposing some adjustments for entry-level police officers, as well as a 1% increase for all employees. They are also proposing a one-time $500 payment to each employee, which ends up being about 1% as well, but would not be ongoing. This was possible due to the "one-time money" from Panda Energy. The proposed budget also includes funding the City Engineer position, adjustments for the police entry-level officers, and some other targeted positions, especially in the public safety area.

The third priority is the capital, capital maintenance, fleet, and those funding issues. A dedicated funding source is needed for the ongoing fleet replacement needs and for capital funding for the maintenance of City infrastructure. During the recession, capital spending was deferred so now there are major issues that must be addressed. In the 2015 Budget a focus was placed on the continued purchase and replacement of some critical fleet, especially in the General Fund and Solid Waste Fund.

The biggest issue, from a monetary impact, is completing the street program. Mr. Hefton presented the original list of street repairs that was submitted to voters during the Election for the second round of the Street Sales Tax program. The City specifically committed to the voters that the additional sales tax money would go toward maintenance and repair of those streets. The money that they propose to move in 2015 completes the street repairs that were promised during that Election. The City would be "doing what we said we would do."

The Street Sales Tax will be taken back to the voters in November 2015 to consider for a third time.

Mr. Hefton said the other two critical items will need discussion by the City Council. Stormwater Management and Planning is a critical issue and the Stormwater Management Plan listed 20 or 30 areas of improvements to help mitigate the damage from flooding in Sherman. Items included $50 million in projects including regional detention and the purchase of properties in the floodways.

The City currently doesn't have money for these projects but could potentially generate revenue for them through a stormwater fee. He said there might also be some projects that could be accomplished from a policy standpoint that might be considered, such as revising ordinances and putting some in place that currently don't exist. Mr. Hefton said there is some money in the budget that could be used for some of these items, based on City Council direction.

The other issue that needs direction is the proposed fire station in the north part of Sherman. The demographics of the call load are shifting to where people congregate, which is in the Town Center area. There are also some assisted living and long-term care facilities in that same area that increase the demand for these emergency services. About 40,000 people live in Sherman, but 200,000 shop, eat, and visit here. Public safety services must serve all these people.

He also presented a list of the top five priorities as well as other priorities that must be considered for the future. These are critical issues, but were not scheduled for 2015. They will continue to be discussed by the staff and with the City Council.

Mr. Hefton said the top priorities for the 2015 General Fund are police and fire, specifically entry level pay, fleet and supplies; and completion of the four year street improvement program from sales tax, specifically increased materials budget and major equipment purchases.

For the Utility Fund, the funding priority is expansion of the Water Treatment Plant. No rate increases are proposed for 2015 for the water and sewer system, but the City will see a partial year of debt service for the $18 million to $20 million dollar expansion project. This could amount to about $1.3 million to $1.5 million per year in debt service, depending on the length of time the bonds are financed. The impact for 2015 will be about $500,000. The budget also includes the purchase of some collection/distribution equipment.

For the Solid Waste Fund, the funding priorities are $1.2 million in fleet purchases. Mr. Hefton said he feels better with reserves in the 75 day range, but the plan is to draw this fund down to the mid 60's. The reserves are projected to build back up into the 70's in 2016, 2017, and 2018.

The 2015 overall budget includes a 1% inflation adjustment for all employees, as well as a one-time payment for all employees.

For the 2015 Budget the financial highlights include fund balances of 78 days in the General Fund, 71 days in the Utility Fund, and 65 days in the Solid Waste Fund. In the General Fund,

sales tax revenues are down in 2015 versus 2014, as expected. The impact of Panda Energy on sales tax is in the $800,000 to $900,000 range, which can directly be attributed to Panda and their subcontractors. There was probably another impact that can't actually be quantified from the 500 to 900 employees that were living, working, and shopping in Sherman for 15 to 18 months. This did have a good impact on the City's Hotel/Motel Tax revenue.

The staff is projecting a 2% to 2.5% growth in sales tax for 2015. Property tax revenues are expected to be up about $1 million. This is due to three things. As of January 1, 2014, Panda Energy was about two-thirds complete, so they elected to begin their tax abatement. Therefore, whatever their estimated value was at that point, 64% of it was abated for the first year, in accordance with the contract.

Even after the abatement, the impact on property taxes for 2015 from Panda Energy is $200,000 to $250,000 to the good. The effect of a property tax rate adjustment is also included and equates to about $500,000 to $550,000. Some additional property tax growth is also included in the projection. The net effect is projected at an approximate $1 million "positive swing" in property tax revenue.

In the General Fund, the staff is proposing to transfer out about $1.9 million mostly to complete the street improvement program. This money is fund balance from the one-time Panda Energy effect. Some of the money will be earmarked for other projects that will be discussed later in the meeting.

In the Utility Fund, water revenues are up about $600,000. The Panda water agreement includes a "take or pay" clause and the company has already "triggered" the clause. Even today, the City is receiving some marginal revenue from this contract. They plan to start selling power to the grid in August 2014. There will be some impact to the budget in the latter part of FY 2014. The impact of having Panda on-board for an entire year is reflected in water revenues, which should be up about $600,000.

If the City moves forward with the expansion of the Water Treatment Plant, debt will probably be issued in the first quarter of 2015. Even if there is no debt payment to make in FY 2015, the City will need to be accumulating enough money to set aside, through the Greater Texoma Utility Authority, to make the first debt payment. That impact on 2015 will be about $500,000. Sewer revenues are expected to be flat. The additional water for Panda Energy will not cause any increase in sewer revenue because it is used up in their process of generating electricity and does not enter the metered system.

The Solid Waste Fund is expected to be flat or up slightly. The major issue is the $1.2 million in fleet purchases. There is a slight increase in the group health funding for all the major funds and for the employee pay adjustment. The proposed funding is for the basic services that the City already has, not for enhancements or growth.

Cemetery Development

Don Keene, Director of Community and Support Services, briefed the City Council on the current situation at West Hill Cemetery, its capacity, and the City's ability to provide services in the future. There is a limited amount of space at the Cemetery, however there are some options for the future.

West Hill Cemetery began in 1857, or 157 years ago. There have been 24,000 burials to date, and the City averages 140 to 145 burials annually. There are currently 155 burial plots available

for sale. Many of the burials that will be provided this coming year are for citizens that already own their plots, however there will be a point very quickly where no additional plots are available.

Mr. Keene said there is limited additional space available at the Cemetery in three areas. He explained there are three phases possible and the staff is recommending that Phase 1 be completed first.

The property for Phase 1 has already been surveyed and platted. The staff is proposing to spend $83,500 in the FY 2015 Budget to construct the access roads through the Phase 1 area. Of that amount, $73,500 for the contracted base preparation would be funded by the Cemetery Perpetual Care Fund and $10,000 for the seal coat would be funded from the City's Street Maintenance budget. This would provide 3,146 new burial plots or approximately 20 years of capacity.

Council Member Watt asked about the flood zones through the Phase 1 property. Mr. Keene showed a drawing with the 100 year flood, the 500 year flood, and the floodway. According to the research, there would be no issue with burying in the floodplain or the floodway. There might be some restrictions on the types of markers used in this area. The City would not want large, above ground markers that would be washed away if trees were washed out in the area.

Kevin Winkler, Parks and Recreation Director, explained where the water washed through the area during the 2007 flood. He added that the flood did previously cover graves but there were no significant issues from the floodwater. Mr. Keene did not feel that erosion would be a problem in this area.

Other options include Phase 2, which would add approximately 2.3 acres or 2,500 plots for approximately 15 years of additional space; and Phase 3, which would add approximately 1.3 acres or 1,500 plots for approximately 10 years of additional space.

Mr. Keene added that the proposed area for Phase 2 does have some drainage and seepage issues that might add a challenge to building that portion out. This location is near Woods Street. Phase 3 is south of Lamar Street, where some playground equipment is currently located.

In summary, Mr. Keene said the City currently has 155 plots available or approximately one year of additional capacity. Phase 1 would extend the cemetery life 20 years, Phase 2 would extend it an additional 15 years, and Phase 3 would extend it 10 years, for a total of 46 more years of capacity and a total of 7,301 plots.

Mr. Hefton added that this project would not be paid for with tax dollars, but paid through the trust that left money to the City years ago. A small piece of the project would be handled with labor from the Street Department. The majority of the cost to develop the additional part of the Cemetery would be paid privately through the Perpetual Care Trust Fund that's held for the benefit of the City.

Water Treatment Plant Expansion

Mr. Hefton introduced Brian Fuerst, CH2M Hill Engineer, adding that he was involved in the original construction of the City's Water Treatment Plant which was completed in the late 1980's early 1990's. He has intimate knowledge of the Water Treatment Plant as it exists today and is the expert that the City calls when there are design or operational issues that can't be handled internally. Mr. Fuerst will provide an overview of the proposed expansion project.

He explained that the expansion project is driven by the fact that future growth can be limited by the amount of water treatment capacity that the plant currently has. The City currently has a

buffer of about 3 mgd to 4 mgd, between the current peak day and the capacity of the groundwater and the surface water treatment systems combined, assuming that all the groundwater systems are on-line. That buffer is expected to expire by about 2020. Then the maximum day will equal the current capacity. The expansion process is about a three year process from start to completion.

Mr. Fuerst added that if an industry came in and demanded 2 million gallons of water, the City would be "hard-pressed" to handle it. There should be a buffer between the maximum amount and the capacity to handle unexpected opportunities.

In addition, the Texas Water Development Board Region C Plan calls for the Sherman Water Treatment Plant to be a regional provider of water. There are many small utilities in the area that have water rights in Lake Texoma through the Greater Texoma Utility Authority and the plan is for those water rights to be treated by the City of Sherman because it's not economical for each individual City to provide their own Water Treatment Plant.

Another driver is increased water quality. Currently the Sherman Water Treatment Plant meets all regulations and should meet those regulations in the future. However the general trend in the industry is for tighter regulations and the City might see regulations, especially on the emergent contaminants that they are finding in the environment.

The final driver to the project is that the Electro Dialysis Reversal (EDR) process is approaching the end of its life. The EDR is used for demineralization, or removal of the minerals from the Lake Texoma water. The membranes originally had a life of about 13 years, and have already been replaced once since the plant went on-line. They are due to be replaced again in 2019. This is obviously the time to change processes. During the last five years of the membrane's life, the maintenance cost increases dramatically and individual membranes must be replaced.

The first step in the project components is the pilot testing of the Microfiltration/Ultrafiltration (MF/UF) and the Reverse Osmosis (RO) processes. The Texas Commission on Environmental Quality still considers the MF/UF an innovative treatment process, even though it is an older system, however they do require pilot testing. The pilot test should also be held to determine how much water can be pushed through a given area of the membrane.

If there are too many membranes, there is an additional cost. If there are too few membranes, the increased pressure builds up and it is more difficult to clean the material off the membranes. Membranes can even be damaged if too much water is pushed through them. The pilot study will help determine how much water can be pushed through the membranes and how many membranes will be needed.

Mr. Fuerst said the second step is the procurement of MF/UF Membranes. The membranes must be pre-purchased prior to the design stage because there are enough differences that the design needs to accommodate for these differences. The third step is a Brine Discharge Permit Application.

Brine disposal is one of the biggest issues in treating brackish water. A portion of the brine must be disposed of and the City currently disposes of that in the sewer. It is transported to the Wastewater Treatment Plant, diluted with the rest of the City's sewage, and then discharged. With expansion of the plant, the amount of brine for disposal will increase. The current line that moves brine from the Water Treatment Plant to the Wastewater Treatment Plant is at capacity. He added that the best way to dispose of this brine would be to take it to the Red River and dilute it with the other water in the river, but that will require a discharge permit.

An interim solution to get rid of the brine would be to build part of the pipeline necessary to move it to the Red River and dump it into another sewer line in the northern part of the City that has additional capacity. Eventually the line would be continued to the Red River.

Council Member Watt asked if that will cause any public outcry. Mr. Fuerst said that is always a possibility, however the North Texas Municipal Water district recently received a discharge permit for the Red River.

The next step would be the actual expansion of the Water Treatment Plant by 10 mgd, for a total of 20 mgd. Then the new Brine Disposal Pipeline would need to be built. He proposed initially building about three miles of the pipeline, and then it would take another 11 miles to get it to the Red River.

Mr. Fuerst presented a site layout of the existing Water Treatment Plant, saying it currently used a conventional process of flocculation sedimentation to remove suspended particles, and then filtration through granular media filters to further remove pathogens and smaller particles. In Sherman's process, a portion of this is then sent through the EDR building, housing the demineralization process. This does a good job of removing minerals, however the EDR process is proprietary and there is only one manufacturer of the membranes. The other issue with EDR is that it only removes minerals and not other contaminants. The water doesn't pass through the EDR membrane, the minerals pass through the membrane.

In Reverse Osmosis, the water passes through the membrane, and the rest passes through. Since the water passes through the RO membrane, it removes pathogens, inorganic contaminants, and trace organics. EDR membranes remove only minerals.

Mr. Fuerst presented a flow schematic of the plant for both the existing plant and the proposed expansion, and explained in further detail how the processes worked. The current process has a 10 mgd capacity and the new process would have a 20 mgd capacity. The plant would also be sized for a future expansion of 5 mgd that could be accomplished by adding additional membranes.

He also discussed the pretreatment options, adding that the membranes or MF/UF was a better option. They have better particle removal, an improved RO performance, a higher level of pathogen removal, make expansion easier, have a smaller footprint, and are competitive in cost. Mr. Fuerst distributed the fibers that are contained in the modules.

There were two demineralization options, the EDR and the RO. The Reverse Osmosis was selected because there are multiple suppliers of the product, there is reduced disinfection by product formation, there is good removal of emerging contaminants and pathogens, and there is similar recovery for the amount of water that is produced versus the amount of water that is wasted.

Mr. Fuerst showed a map of the proposed Brine Pipeline and how the initial phase would be constructed to get the brine to the Wastewater Treatment Plant. Mayor Wacker confirmed that the State of Oklahoma would also have input on the discharge into Red River. Mr. Fuerst also presented an implementation schedule for the expansion project.

Council Member Watt asked about the benefit of brine disposal into the Red River versus at the Wastewater Treatment Plant. Mr. Fuerst said it would "free up" some of the volume in the Wastewater Treatment Plant because if you treat 2 mgd of brine, that is 2 mgd of sewer that can't

be treated through the plant. The other issue is the pipeline capacity. The pipeline would be in areas that will be developing. As those areas develop, the City will want the pipeline capacity for sewage instead of brine.

He added that the design would start around January 2015 and would be complete by the end of October 2015. Construction would probably begin in January 2016 with the plant going on-line in the Summer of 2017.

Mr. Hefton said the RO process filters and filters and filters lake water into clean water that some cities are actually bottling to sell. This process has other capabilities for Sherman in the future. Initial plans are for additional clean water capacity. It also has some potential for treating the effluent stream in the future. By adding the ultraviolet treatment to the water, it is also a potential treatment source for the discharge from the Wastewater Treatment Plant, especially when it is diluted with other raw water sources.

With Sherman's footprint of water being 10 mgd of groundwater and 35 mgd of surface water, even though it can't currently be treated at the Water Treatment Plant, that 45 mgd could be expanded by the treated effluent water for even more potable water. Currently about 5 mgd to 6 mgd is discharged from the Wastewater Treatment Plant, which is about half of the amount brought in. In the future, the process has the potential to increase Sherman's potable water. That means there are even more opportunities with the Water Treatment Plant expansion.

Mr. Hefton said there are also TCEQ studies about the amount of brackish groundwater that is available underneath the current water table. This could amount to hundreds of years of water source that would potentially be available for the City's use with the new treatment process. RO is a robust system that can treat not only Lake Texoma water and effluent water, but even the really brackish water deep in the ground. Council Member Davis said El Paso, Texas is currently using brackish water. Mayor Wacker said many cities are looking at using this water and even using gray water for golf courses and industrial uses. Mr. Hefton said these future possibilities would be available to the City of Sherman.

Mr. Hefton said the staff is proposing a 10 mgd expansion, with a Microfiltration and Reverse Osmosis System. Because the system is flexible, additional expansion can be 1 mgd or 3 mgd on the same footprint. He reiterated that the construction process is a three year implementation period and if the process begins in August 2014, completion would be about July 2017.

Cost would be about $19 million to $20 million, with most debt being issued through GTUA during the first quarter of 2015. The proposed debt is included in the Utility Fund Debt Service of the FY 2015 Budget.

City Council Members took a break from 10:24 a.m. to 10:40 a.m.

Hotel/Motel Tax

Mr. Hefton said the City's Tourism Program is a "subset" of the Hotel/Motel Tax Fund, which receives its revenue from Hotel/Motel Taxes. The money is spent on things such as the operation of Kidd-Key Auditorium and the Municipal Ballroom and for debt payment on work that was completed in 2000 for renovation of the Auditorium and Ballroom. The Downtown Grant is also funded through Hotel/Motel Taxes. Tourism is the largest "piece" of the Hotel/Motel Tax Fund.

Mr. Hefton said part of the discussion would be on the Sherman Chamber of Commerce's role in managing the City's Tourism Program. Mayor Wacker said the conversation has evolved over a

year's time because the City has been looking for community partners to help leverage what they can do, especially in tourism. This year the Chamber has taken over the Hot Summer Nights event and will also be taking over the Fall Arts Festival. The Chamber has capacity that the City doesn't have, through the volunteer base of their membership. They also have the ability to raise money for sponsorships. The goal is to maximize the amount of money available through the Hotel/Motel Tax to promote Sherman, to build up events, and to attract visitors to the community.

Mr. Hefton said the discussion today is to talk about the Tourism Program as it stands in-house and how it might look if the Chamber were to take it over. Also to look at the financial impact of that decision and to hear comments on the Chamber's vision of tourism.

Mr. Hefton presented the mission statement, core values, and the goals and objectives of the Tourism Program. Whether the Tourism Program is managed in-house or through the Chamber, the mission, core values, and the goals and objectives don't change. A few of the steps might change but the basic Tourism Program would be the same. Even under a Chamber scenario, the City would retain maintenance, operation, and oversight of the facilities, such as the Auditorium and the Ballroom.

He presented a Preliminary Work Plan that was received from the Chamber outlining their plans to promote and manage events such as the Parade/Snowflake Festival, Hot Summer Nights, Lights on the Lake, and Autumn and Arts Fest; to continue involvement with the Regional Tourism Initiative through the Lake Texoma Association; to use social and online media to enhance tourism; to create a Convention and Visitors Bureau and related Board; to use current space for a visitor center; and to make quarterly reports to the City Council updating them on activities. Mr. Hefton added that the Lights on the Lake event involves many City personnel and he did not see that changing. The City will always be a part of that event as well as Hot Summer Nights and the Arts Festival, since they are held at the City's facilities.

Mr. Hefton addressed a correction on Page 52 of the Budget Work Session Notebook. The ending fund balance with the program as it is now would be $396,591 at the end of FY 2015. Expenditures would be $568,493. Revenues for FY 2013-2014 were up due to the construction at Panda Energy and the workers that were staying at local hotels. That revenue has already decreased. He presented a look at the revenues and expenditures if the program remains in-house versus through the Chamber of Commerce.

Mr. Hefton said the proposed contract with the Chamber of Commerce would be $240,000. With this, the City's administrative cost would be reduced and revenue from the program/sponsor fee line item would be reduced because that money would go to the Chamber to manage the events. Currently proposed budgets for the Sherman Museum and the Arts Council are zero. If the Chamber is running the Tourism Program, they will be responsible for determining who gets the grants and how much they are awarded. The City would still maintain the Downtown Building Incentive in-house and would administer that program. If the City Council would like to increase the amount for that incentive, Mr. Hefton said there is money to do so.

Mr. Hefton presented a budget comparison for the Tourism Program if administered by the Chamber versus administered by the City. There is an $8,410 increase in the budget if the City administers the program.

The Tourism Program is included in the Hotel/Motel Tax Fund, but Mr. Hefton reminded the Council that there are other items included in that fund and the City would still have Auditorium and Ballroom debt. The last bond matures in 2030. The City would be contracting with the Chamber and CVB for tourism management of the entire program, where they can leverage their

advertising dollars and staffing. The contract would be approved annually and the Council would review their work plan each year. The City would retain control of the facilities, such as the Auditorium, Ballroom, and Amphitheater, but the marketing would be handled by the Convention and Visitors Bureau.

Council Member Watt asked if any City staff would lose their job. Mr. Hefton said one full-time position would be eliminated with the change. There would be no need to maintain the position of Tourism Director.

He introduced Eddie Brown, Sherman Chamber of Commerce President. Mr. Brown introduced Lauren Roth, Chamber Events Coordinator, and Jason Taylor, Sherman Chamber Board Chairman. He said the Chamber is already involved to some extent, with the Tourism Program. They are working with local groups and organizations to help promote the community and the local facilities.

Mr. Brown said their plan is to maintain the current calendar of events and to work with others to grow the existing events and to plan for new activities. They plan to set goals and standards to make the Sherman area a destination. They also plan to manage, collect, and share data to grown tourism with the City of Sherman, Sherman Economic Development Corporation, and others, and create economic impact reports from these activities to show the demographics of the visitors.

He added that the Chamber is currently involved in a regional tourism project called the Lake Texoma Branding Project, which has been going on for several years. They are working with other entities to increase tourism to the entire area, especially connected with Lake Texoma.

The Chamber will also use existing and updated online marketing through the websites, Facebook, the mobile sites, and through printed materials. They also plan to create a Convention and Visitors Bureau and a Board of Directors that will provide additional opinions and feedback. The Chamber will also provide space for a Visitor's Center and will furnish it with printed and visual materials to market Sherman to visitors. They will also respond to requests for information.

Mr. Brown said the Chamber of Commerce and the Tourism Director will provide the City with quarterly updates on visitor's requests and data, event activity and expenses, and other reports related to the Visitor's Center and the CVB.

Mayor Wacker felt the program would bring a lot of resources into the plan that would help, such as the use of social media and the volunteer base. The City doesn't have the staff for this type of use, however the Chamber already has staff in place to handle these areas. She felt there were many "positives" to the proposal.

Council Member Sofey said he felt it made financial sense and the Chamber has done a good job in the past. Council Member Davis verified that the contract would be for one year and would be renewable annually. Mayor Wacker said unless there is a problem, she would like to see the relationship move forward and have time to build into something significant.

Council Member Sofey asked how many letters were mailed on substandard structures that were located in the Central Business District. Scott Shadden, Director of Development Services, confirmed that there were approximately seven sent in that District. The budget for the Downtown Building Incentive was decreased last year and Council Member Sofey said he would like to see it increased this year. He felt it was an economic development issue as well, and he

asked if SEDCO might be able to "partner" with the City to fund this line item. He asked about the possibility of making two grants available.
Mr. Hefton confirmed that Council Member Sofey was asking about the possibility of increasing the budget amount for the Downtown Building Incentive line item and maybe making more than one grant available.

Mr. Hefton said the amount was previously set at $25,000. To qualify for that amount, an applicant would need to spend $100,000 to receive the grant, which is matched four-to-one. Council Member Sofey said he would like to see the budget increased to $25,000, but if two grants were given, it might need to be increased even more. Mayor Wacker said the grant could be capped at a lower amount, so more than one grant could be awarded from the pool. She added that SEDCO might be limited by statue as to what they could do, but they could explore the possibilities.

Mr. Hefton said there is money available in the reserves, but he asked for Council direction and a consensus. He also asked for suggestions on what the budget amount should be. Mr. Olson said in the past, most of the uses for the grants have been through rehabilitation or remodeling. Mayor Wacker said any project must meet the two-part test of the Hotel/Motel Tax Statue. It must be for historic preservation and it must promote people coming to the community by restoring some historic aspect. Council Member Sofey added that the building must also be maintained for five years.

Financial Presentation
Mr. Hefton presented information about the major funds, saying for the last few years, the staff has taken a longer term look at the financials. In the past, the presentation was only for the upcoming one year budget. Legally a City can only adopt one budget at a time. FY 2015 is the only budget on which the staff gets direction. However, the staff feels it is important to look long-term at the impact that today's decisions will have.

For the General Fund, and each of the other funds, the staff is projecting a deficit fund balance. However, most of the $33 million is money that is transferred out to complete the Street Improvement Project. This money is coming out of fund balance. He said if everything that is not recurring is "distilled out," the amount would be at $1 million.

For the Utility Fund, when the transfers that will be reduced in the future, are "distilled out" and the expense of the new Water Treatment Plant are added in, the Utility Fund will be balanced ongoing.

For the Solid Waste Fund, there is an unusually high amount of capital purchases this year, so when the non-recurring is backed out, this fund is also "on track." The capital fleet that will be purchased includes a side-load truck, two transfer trailers, a front-load commercial truck, and a rear-load truck, for a total of $1.2 million.

Mr. Hefton discussed the lifespan and the heavy use of various pieces of capital fleet that the City uses. He listed various "cuts" that were made to the departmental budget requests for the FY 2015 Budget, both in fleet and in new or major programs. Excluding the police and fire vehicles, the average age of fleet that is funded to be replaced this fiscal year is 18 years. He praised the City's Fleet Department for their maintenance efforts to keep the equipment running.

Mr. Hefton outlined the proposed budget for each major fund for FY 2015. The proposed budget for the General Fund includes the items discussed. The fund balance at the end of FY 2015 is projected to be at 78 days. The $1.9 million transfer out is to the General CIP Fund, and will be

used to complete the Street Improvement Program. The personnel line item will increase approximately $500,000 from the FY 2014 Budget, and is the effect of the 1% pay adjustment, the one-time across-the-board employee payment, and "ratcheting up" the group health fund. Expenses are lower than projected because there are open positions, many in the Police Department. Property tax revenue is almost $1 million over the FY 2014 projected amount. This is due to the Panda effect and the rate increase of 2.4 cents and some growth in the property tax base. Values are not expected to increase this year.

Sales taxes are projected to decrease from FY 2014 due to the Panda effect. A modest 1.5% to 2% increase has been included over the FY 2013 amount. The net effect is about 78 days for the General Fund at the end of FY 2015.

Mr. Hefton addressed the tax rate and compared it with Sherman's peer cities. Sherman's tax rate is 34.8%, while the average of peer cities is about 60.1%.

He presented a 5-year projected look at the General Fund Budget. Mr. Hefton said the fund balance should be in the 70 to 80 day range. He emphasized that these are only projections based on the best data the City has at the present time.

In the Utility Fund, the water revenues are projected to increase about $600,000, mostly from growth from Panda Energy. The staff also included 1% to 1.5% of growth in the water usage. There are no utility rate increases proposed for FY 2015. Since most of the water revenue increase relates to Panda Energy, there is no corresponding increase in the sewer charges. Because sewer revenues are based on a household's water usage, there is no separate sewer metering. Normally when water revenues increase, so do sewer revenues. However, since Panda Energy is using raw water that is not being sent to the sewer system, that is not the case this year.

Mr. Hefton addressed the "reprieve" from debt services that the City experienced for several years and that allowed them to transfer money to other funds. Historically the debt service is about $6 million. This year the debt service does increase to $5.1 million, or a projected increase of about $500,000 annually, for the expansion of the Water Treatment Plant. In FY 2016 the debt service will increase to approximately $6 million.

Mr. Hefton said FY 2013 is hard to compare on the 5-year projection of the Utility Fund because the Water Treatment Plant was shut-down for a month. The electricity usage and chemical usage were down during this timeframe. The line item for contractual services has decreased considerably because the sludge basins at the Wastewater Treatment Plant have now been cleaned out.

Council Member Johnson asked what the SEDCO revenue was on the line item for the Utility Fund. Mr. Hefton said SEDCO is reimbursing the City for the pro-rata cost of the water and sewer line up U.S. Hwy 75 and is paying for other projects such as the water and sewer lines to S.H. 289. The debt was issued through GTUA, and SEDCO reimburses the City for the debt related to those projects.

On the Solid Waste Fund, Mr. Hefton said there are not many stories, however there has been some appreciated growth in some of the industries. For example, Certainteed has been expanding and using more of the solid waste services. The revenues in 2015 are expected to be lower than 2014, due to Panda Energy, but they are still higher than in 2013.

On expenses, if you subtract the $600,000 that is normally not spent on fleet, the remaining expenses are in the $5.6 million range, which is what a normal year looks like, according to Mr. Hefton. At the end of 2015, the ending fund balance is expected to be at 65 days. He did not feel that was a long-term trend and the fund balance should go back into the 70 plus day range. He said that the transfers out include fleet and the $1.9 million transferred out will return to the $1.2 million to $1.3 million, normally transferred out.

Mr. Hefton said in the General Improvement Fund it appears that the City will be spending $3.4 million, but $1.9 million of that is the one-time transfer from the General Fund and the $1.3 million is money that the City already has in a trust account. When the work is done on the east side of U.S. Hwy 75, UCR will be paying for the work. The Texas Department of Transportation will pay for their portion of the project and then UCR, the company that owns the property where Academy Sports and Kohl's are located, will pay the difference of $1.3 million.

The GIS system will be paid with money from SEDCO and $1.5 million will be transferred in from the General Fund. The line item for "Municipal Building Repair" is money that has been carried over from previous years.

Therefore the only new projects in 2015 for the General Improvement Fund are the Hunt Street Erosion Project and some Fire Station Roof Repairs. That leaves the City Council about $400,000 for other projects that have been discussed the last few months, such as storm water or the fire station land.

In the Utility Improvement Fund, the $1.25 million expense is money that will not be spent in 2014 and will be moved to 2015. There are only two new projects, including the Ricketts Street Water Line and the Wastewater Treatment Plant Basin Cleaning. With money transferred in from the Utility Fund, the City will have about $76,000 in fund balance that could be used for street over-sizing. There is probably not enough money to fund a large project.

Council Member Davis asked about the Gallagher Tank Painting and Repair project. Mr. Hefton said the money was budgeted in 2014 but the work won't be done until 2015. The project will be advertised in the late summer or early fall, so it is being carried forward. He verified that the project will include painting inside and outside the tower, as well as some repairs.

Financial Presentation/Long Term Issues

Mr. Hefton addressed items that were crucial for the City going forward. The Street Sales Tax Election will come in November 2015. The issue will be presented to the voters and if it passes, there will be a period of time that elapses before it is actually collected. The first month the City would receive money from that sales tax would be in June 2016.

Another discussion point will be what the City plans to do long-term in the General Fund and with the capital funding source. After this year there will not be much money in the General or Utility CIP Funds for projects. At that point, what will be the City's source of capital funding.

There will be debt service payments for the Water Treatment Plant. Half a million dollars will come in 2015, but the staff doesn't know what the number will be in the future. There might be Water Development Board funds that can be used to get discounted borrowing rates. Those aren't grants that would pay the City to do the project, but their money is used as leverage to subsidize the rates. Debt would be issued through them at a lower rate to the City.

Mr. Hefton said the Municipal Airport would continue to be an issue that the Council will need to discuss. Other discussions in the future will be to work down the critical needs list. These are items that didn't make it to this budget because there was not enough funding.

City Council Members took a lunch break from 11:48 a.m. to 12:16 p.m.

Council Direction – CIP's and Other

Mr. Hefton asked the Council to think about the top critical issues, which are the Water Treatment Plant expansion, the CIP funding, and the things that have been outlined for employees. These items have been included in the proposed budget and the numbers reflect their funding. What is not included is anything on storm water management or on the fire station issues.

He added that there has been feedback on some changes such as "bumping up" the grants that are funded through the Hotel/Motel Tax. He asked the Council if they were in agreement with what has been presented and then for discussion on other items that are currently not included but should be.

Council Member Johnson asked about the $1.9 million that is being transferred into the General Improvement Fund. Mr. Hefton said the $1.9 million is being transferred into the General Improvement Fund from the General Fund, with $1.5 million being used for the Street Improvement Program. Without the $1.9 million transfer in, the Council would not have any money to do anything with fund balance and could not complete the street program. He added that the $1.5 million to complete the Street Improvement Program is just doing what the City said they would do, not anything extra. From a staff standpoint, Mr. Hefton said that does need to be completed.

Mayor Wacker agreed that it was really important for the City to show that they followed through and invested citizen's tax dollars as they said they would. The next Election would authorize the sales tax for streets for eight years, if approved by the voters. Mr. Hefton said that program is for existing streets only. The money can't be used for new streets or to extend existing streets. It can be used for curb and gutter, sidewalks, drainage, and the street itself, anything within the right-of-way.

Council Member Watt asked for clarification on the storm water issue. Mr. Hefton said there is no dedicated source of funding for storm water projects. The storm water projects will be things such as regional detention, which will be expensive. Today, there are State and Federal dollars to help offset that cost. There is a list of projects for which there is no funding.

One way to get funding is through a storm water fee, however before a City implements a storm water fee, the State requires that a storm water fee study be completed. Cost of the storm water fee study is estimated at $200,000. The study will generate a list of projects with costs. Bonds would need to be issued to pay the debt for the projects.

A storm water fee could be a flat amount on water bills, a development fee based on impervious cover, or a combination of these fees. But essentially, the storm water fee would be necessary for the City to do any storm water projects. There will probably be some funding available to do smaller projects, such as the Hunt Street Erosion project, but that won't make a large "dent" in the $50 million list of top priority projects.

Mr. Hefton said the Council could discuss whether or not they want to fund the storm water fee study, but if they do the study, the implication is that they are going to have a storm water fee in the near future. Does the City Council want to use a portion of the $400,000 to complete a storm water fee study in FY 2015?

Council Member Watt asked if the City was structured managerially to even begin looking at the storm water fee. Even with the study, if the City isn't set up to collect and manage the fee, then it shouldn't be done yet. Mr. Hefton said it's more about what the storm water fee requires than the study itself, because the $50 million in projects won't get done by itself. It will take staff time to manage the process. In addition to the storm water fee study, he said it would probably take additional staff too, and there would be operational costs to manage the program and to maintain the assets. Mr. Hefton said these costs or revenues have not been included in the five-year plan.

Mayor Wacker said if the City moves ahead with the fee study, they would learn how the structure would need to be set up, and they could start building up a revenue stream. In future years, as the revenue is built up, you would start to identify the projects, and staff the program to move forward. She felt the fee would help support additional staff to implement the program.

Council Member Watt said it didn't seem like this would be in this year's budget. He felt it should be removed as a top priority with the hope of moving forward next year. Mayor Wacker said it was identified in the Comprehensive Master Plan and from the Plan, the City completed the Flood Management Study, and will incrementally be addressing the projects as needed. She said there is no way to address the larger projects at this time. Funding would hopefully be a combination of Federal funds, revenues through a storm water fee, and from private development. There is no way to get money for the big projects unless there is a dedicated revenue stream. The question today is should it be this year or next year?

Council Member Sofey asked if there were any other projects that the City might be able to complete. Clay Barnett, Director of Public Works and Engineering, said there are several non-structural items that have a smaller cost impact that might be done. Mr. Olson said there are some smaller items, but it comes down to how the budget performs in the Utility Fund as to whether the City has money to fund the projects. The $70,000 in the Utility Improvement Fund won't go far. Mr. Hefton said there are some administrative, non-project types of things that were identified in the study, but most of those would need to be done in conjunction with other things. He did add that there might be some smaller CIP projects that could be moved forward if the Council would like.

Mayor Wacker said the other project that needs direction is a new fire station. The remaining funding is at $425,000, which can be redirected if the Council wishes. She reiterated that the land acquisition and site plan development for a new fire station was estimated at $300,000.

Council Member Sofey felt it was important to begin looking for property for the fire station. He did not want to set a specific amount of money aside for that purpose. Council Member Plyler felt the sooner the Council acted on that the better, because the price of land is not going down. Council member Johnson said there is also a long lead time for the purchase of land and construction of a fire station. He would like to explore the situation but not set a specific dollar amount. The land could be secured today even if the fire station is built several years from now.

Mayor Wacker said the City doesn't have "working drawings" yet and asked if land was found, could the City move forward on getting a site plan and engineering drawings. Mr. Olson said it would depend. He verified that the Council gave the staff the authority to begin looking and identifying and potentially negotiating for property. He said it could be that the staff could also design specific plans.

Mayor Wacker reiterated that step one was to pursue a location. Mr. Olson said the location would be in the Town Center vicinity. Council Member Watt said one fire station is just off

Texoma Parkway and he asked about the possibility of staying on Texoma Parkway but moving north. J.J. Jones, Fire Chief, said the new station would probably need to be located between Loy Lake Road and Travis Street, north of S.H. 82.

Council Member Plyler asked how that would change what is being done at Blalock Fire Station. Mr. Hefton said the property has not been marketed yet and will be driven by demand. The City is letting SEDCO help drive that as they encourage more development. Mayor Wacker said there is a site for relocation of that fire station, it just depends on timing.

Mr. Hefton verified that the Council did not want to allocate any funding at this point for the new fire station, but leave the funds there for allocation at a future date, when there is more information and a recommendation. On the storm water, he did not hear any consensus on funding the storm water fee study at this time. Council Member Johnson said he liked the idea of moving toward a regional detention policy, but did not think the timing was right now. Maybe it can be revisited in the next couple of years.

Council Member Sofey asked if citizens would still need to continue to follow the ordinance for on-site detention. He said that requirement is expensive financially and is ugly. He asked how they would go about getting rid of on-site detention. The answer was to have regional detention areas.

He asked if the storm water fee study was approved today, would it be years before the on-site detention issue was solved. Mr. Olson said once the study was adopted, it would tell you that you're going to a regional detention requirement. Mr. Barnett said there would be a point where it would make since to bond that project to build a regional detention facility. If a one-acre development is built today, it won't cause a substantial increase in flooding. When developments accumulate, that's when it causes a problem. There could be a certain amount of development and when a critical mass is reached, you could build the regional detention facility. Bonds could be issued for the money that has not been collected and the regional facility could be built.

Mayor Wacker asked if there was any flexibility in the ordinance. Mr. Olson said there can be a fee in lieu of detention in some areas. Mr. Barnett agreed that there should be a fee in lieu of detention, but that doesn't give the City anything to bond against. That is a concern and is where the storm water detention fee could be used. Mr. Hefton said, long-term, there is not a mechanism in place to do something other than on-site detention.

Mr. Barnett said the average storm water fee in Texas is $3 to $5 per residential customer. The study is required to justify the fee and the study takes approximately a year to complete and costs $200,000. Mayor Wacker asked how long the study would be valid. Mr. Olson said the study is based on the current conditions when it is completed and as Sherman grows it will need to expand the footprint.

Mr. Olson said the City won't solve flooding in Sherman. In a 100-year flood, water will cover U.S. Hwy 75, which is a major thoroughfare. These are things that will help today, but as Sherman grows they must determine what the plan is moving forward.

Council Member Plyler said since Sherman is moving toward a regional detention system, would it be better for the citizens not to encumber them with a storm water fee, but to have another avenue for funding specific, regional storage solutions. Mr. Olson said the thing he likes about the storm water fee is that it is specific. It is a dedicated, on-going revenue source for use for regional facilities. Mayor Wacker said it is equitable too. The purpose of the study is to make sure the fee is in line with what a household or business specifically contributes to storm water runoff. Mr. Hefton added that you can do storm water projects without storm water fees, as long

as the money is there. From a staff standpoint, the storm water fee is good because it is earmarked for that specific purpose.

Council Member Plyler said he wasn't sure where a regional detention facility would be located for Post Oak Creek. Mr. Hefton said the plan identifies where the regional facilities would be located. That work has already been done. Funding the projects is the problem.

Mr. Barnett verified that the Storm Water Plan cost $333,000, and the City paid half and the Texas Water Development Board paid the remainder.

Council Member Watt asked if the storm water fee study could be considered an economic development issue. Mr. Olson did not think it would be, but the staff could ask SEDCO. He also asked if now was the right time to do the study and implement the fee. Council Members discussed the storm water fee and its implementation.

Mayor Wacker questioned if there was enough money to do both the storm water fee study and something on the fire station. Council Member Johnson asked if the City funded the storm water fee study, would there be enough money for the land purchase for the fire station. Mr. Olson said the Council could authorize the fee study and the staff could still look for a location for the fire station with the $400,000. If the land purchase was more, the Council could consider moving money to fund the purchase. Mr. Hefton said the Council could consider a budget amendment if needed, but the impact would be determined by the amount needed.

Council Member Plyler said it sounds like the fire station property is the main priority. He verified that the cost of the storm water fee study was $200,000, and asked if the City could accrue half the money this year and half next year. That would also allow time for citizen input.

Mr. Olson emphasized that the renewal of the street sales tax next year was going to be critical.

Council Member Davis said he was very opposed to increasing the property tax. The property tax was increased last year, it will probably be increased this year, then the storm water fee, this is another $3 to $5 per month, and then you're going back to the voters and ask them to renew the street sales tax. Mayor Wacker said the street sales tax doesn't increase anything, but would just renew what is already there. However, she said it would be a very negative effect if it's not renewed.

Council Member Davis verified that the 2.4 cent increase in property taxes would equal about $550,000. He said the City's budget is $60 million, and $500,000 is less than 1% of the budget. He asked what else could be cut to save that $500,000, adding he didn't want to hear closing the Splash, closing the library, or not mowing the baseball fields. Mr. Hefton asked if he meant $500,000 ongoing or for one year. Council Member Davis clarified by saying for one year.

Mr. Hefton answered that the things that were added this year were for police and for employees, so that would probably be up for discussion. Council Member Davis said there is $425,000 in the General Improvement Fund and that could be reduced. Mr. Hefton said there is no requirement that a specific amount is kept in that fund. Council Member Davis added that it was also possible to bring the reserves of the General Fund down to 72 days of fund balance. Mr. Hefton said it was possible, but he expressed concern about bringing the fund balance down and said anything that is done in 2015 to defer building back up the $1.5 million, pushes all other numbers even lower. His concern was not for 2015 if this was done, but for 2016, 2017, and 2018.

Mayor Wacker added that this is the approach the Council has taken for the last six years, borrowed from everything and built a bigger deficit into the budget, and not addressed the ongoing needs of the City. Now the City is taking "bigger hits" on equipment purchases and ongoing maintenance on items that are really critical to the operation of a City at the level that the citizens expect. She said at some point, a low tax rate in itself has no value to people because it takes away what they need in their daily life. Compared to other cities, Sherman's tax rate is so low, that you want to apologize because you can't deliver the things people really want. Every dollar paid in taxes comes back to the citizens in a service that improves their life on an ongoing basis.

Council Member Davis said he has lived in Sherman for approximately 15 years and has been very happy with the service and feels that the employees, the direction, and the philosophy have done very well. The Council has done a good job through some very difficult times these past years. He added that he hates to increase taxes unless it is absolutely necessary, and he felt there were ways to avoid a tax increase.

Mr. Hefton said four years ago, there was some extra, one-time money from the Utility Fund that was used. That can no longer be done from the Utility Fund because the debt service is increasing for the Water Treatment Plant. That $1 million to $1.5 million a year that has been transferred from the Utility Fund is no longer available. This is a step to help make up that $1.5 million per year.

Council Member Watt said the staff has been told for six or seven years, if they don't have to have it, don't budget for it. They have been through the essential versus non-essential exercises. The City has "cut" so much they just can't "cut" anymore. There have been many great programs that have had to be cut, and after awhile it becomes a second rate City.

Mayor Wacker said she understands what the public mood is, but the Council must take responsibility for the long-term fiscal health of the City too. Knowing that every year you're just slipping more, at some point you have to address the long-term needs of the City and not encumber future Councils with the burden of fixing these crises.

Council Member Plyler said he is also a "low tax" person, but if the Council doesn't take modest steps each year, then they will need an increase in a couple of years that will put them in a "rollback" situation. He is looking at 2017 and 2018, and the numbers say Sherman could be in trouble if incremental steps aren't taken. Sherman's tax rate is at the bottom of Texas cities, and that's not good. Citizens leave Sherman to find more things in cities to the south. He felt that in order to keep the City financially healthy, no one would "fuss" about a 2.5 cent property tax increase.

Council Member Davis said he wished we could do these things without a tax increase. He didn't think a tax increase for $550,000 was worth it. Council Member Sofey said he didn't want taxes to increase either, but the City has used a lot of band aids and duct tape to hold things together. He expressed concern if the City doesn't prepare, and if something worse happens, such as the street sales tax doesn't pass. He felt there should be small steps along the way.

Mayor Wacker said the Council is looking at pro-active financial planning for the City's future and they are delivering value for what they get. The on-going revenue must address the future needs of the City and that citizens will get the return in services that matter to them. Sherman will still be the second lowest tax rate among their peer cities, by 22 to 25 cents.

Mayor Wacker reiterated that the fire station should be considered first with some options. Mr. Hefton said no money will be put in the budget today for the fire station, but the staff will bring back some recommendations about direction, knowing that the budget can be amended. The money will be kept in the fund for that purpose.

Mayor Wacker said when the situation with the fire station is resolved, if it's possible to move forward with the storm water fee study, that will give the Council a framework for what needs to be done in the future, knowing that it might be a year or two before it is implemented.

Mr. Olson emphasized taking one step at a time. Mr. Hefton said no money will be appropriated for these two projects at this time. Options on the fire station will be discussed later and it will be determined then if there are funds available for the storm water fee study. Council Members did agree.

Mr. Hefton said the information will be put together in Draft Budget form and there will be a series of meetings, public hearings, and disclosures that will be required. The actual adoption of the budget and tax rate will be in August and September. He said the final numbers from the Grayson Appraisal District should be available by the end of July, and changes in the tax base could cause adjustments to the budget.

Mayor Wacker said everyone in the community is working to make sure Sherman stays on a positive trend and we hope these efforts continue to pay off in the next year and each year we end up in a better place and the numbers don't stay flat.

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 1:24 p.m. Documentation for the Budget Work Session is held in the General File "Budget Work Session FY 2014-2015" in the City Clerk's Office.

_____
MAYOR

ATTEST

_____
CITY CLERK