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Mr. Olson said the staff was given very clear direction by the City Council to fulfill the promises already made, finish the Capital Improvement Projects that were already started, and purchase additional Lake Texoma water as it becomes available. Currently the Greater Texoma Utility Authority is working to purchase 10,000 acre feet but that amount may increase to 20,000 or 25,000 acre feet.

The City has added approximately 200 acres of parks in the last two years, and park maintenance is an important part of the proposed budget. The staff is presenting a balanced General Fund Budget, maintaining the \$0.32 tax rate, planning additional bond projects, and addressing the high priority issues from the City's Comprehensive Master Plan, including GIS enhancements and some storm drainage improvements. The proposed budget does not include a cost of living increase for employees, but there are no layoffs either.

Mr. Olson said the proposed budget does include some operational efficiencies that were identified by the staff while looking at their operations and trying to maintain the current service level. Highlights of the proposed budget include the addition of four police officers for the Traffic Safety Unit and a civilian intelligence analyst for the Police Department, which are grant funded; three additional employees for the Fire Department, one per shift, to help control overtime; two additional Street Department employees which would allow bringing the street cut and curb and gutter repairs in house; and a new monthly bulk solid waste pick up.

Parks Presentation

Mr. Olson said Kevin Winkler, Parks and Recreation Administrator, recently had surgery and is unable to make his presentation on the Parks and Recreation Department. Mr. Olson will present his information.

Pecan Grove Park – Phase 1

Mr. Olson said Pecan Grove Park, Phase 1, features a 33-space parking lot, a picnic pavilion, a 1,068 square foot playground for 5 to 12 year olds, and 1,060 feet of concrete walking trail on the east side of the park. The park is late opening because of the rain and some slope issues but it should be open before the end of June 2009. There will be a dedication ceremony but not a big grand opening since Phase 2 of the project will be opening next summer.

Center Street Sports Complex

This project is also delayed and the proposed August 31, 2009 opening is based on rain days. Mr. Olson anticipated that the park will open in July 2009. The park will include a 100-space parking lot, picnic pavilion, 1,122 square foot playground for 5 to 12 year olds, a 2,500 foot concrete walking trail, two full-sized lighted sports fields with irrigation, and a restroom/concession building. The walking trail will tie into Binkley Park and Herman Baker Park. New policies will limit the use of the fields in order to protect the City's investment, however new programs such as adult flag football will also be started. Mr. Olson said the City has purchased the frontage on Center Street and will clean that area out in the Fall.

Pecan Grove Park – Phase 2

Mr. Olson said the City is completing the designs and specifications on the Pecan Grove Park, Phase 2 Project, and the bid should be awarded in August 2009. The project will include 6,300 feet of concrete walking trail, two parking lots, two playgrounds, six picnic pavilions, a fishing pier, restroom/concession building, and an amphitheatre with lawn seating.

This project does not include a nature trail, however Mr. Olson said there is a heavily wooded area that would be conducive to nature trails and the City would like to have citizens help design these trails in the future.

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Council Member Wacker questioned the use of a sidewalk across the top of the dam and said a grass base for that part of the walking trail would save money and be very functional. She added that concrete is not always needed to connect areas. Mr. Olson said the staff will look at the specifications to see if the sidewalk is an add alternate that could be removed. Mayor Magers confirmed that this Phase 2 trail will connect with the Phase 1 part of the trail too.

Council Member Steele confirmed that the amphitheatre will seat 3,000 to 4,000 people. Mr. Olson said however the available parking will be considerably less and in the event of large activities, Mayor Magers suggested using a park and ride system utilizing the Texoma Area Paratransit System buses. Electricity will be available adjacent to the amphitheatre and sewer will be taken to the park. Mr. Olson felt the venue could be a good one to bring people and revenue into Sherman.

Mr. Olson said the budget request for the Parks Department is to bring park maintenance closer to the standard. The national average is to have one full time employee for each ten or eleven acres of parks a City has. In 2005 the City's parks maintenance staff level was at one full time employee per 20.75 acres and in 2009 the level is one employee per 39.9 acres.

With the addition of Pecan Grove Park, Phase 2, the City will have added over 200 acres of parks over the last two years and currently has 11 employees for parks maintenance. Mr. Olson recommended adding two additional maintenance workers and a Maintenance Superintendent, purchasing a truck for the new employees, and one additional mower. This would allow a basic maintenance level of service. He then suggested evaluating the need and level of service that the City should provide and the funding available, as well as the possible use of privatization and other efficiencies.

Deputy Mayor Smith asked what type of privatization was being considered. Mr. Olson said the City now uses privatization contracts to clean the restrooms and for some mowing. Pecan Grove Park will not be mowed like Fairview Park and will still have some higher grass areas. He said the City needs to measure what they are doing, make sure the time is being used wisely, and that they have the correct equipment. He wanted to review revenue options such as grants and volunteer programs. Mayor Magers agreed that the City's assets need to be protected.

Council Member Steele said the parks are one thing that is seen and used and he felt there should be a high level of service for their maintenance. Council Member Adami said the request is to add three employees, however in 2004 and for a while thereafter, the City had 13 budgeted positions and dropped two employees last year for a total of 11 employees. Adding these three new employees will put the staffing at 14 employees, which is only one more than before. He said he was proud of the improvement of the parks and the City needs to maintain them, but not waste money.

Council Member Steele wanted to determine the cost to the City to maintain the parks and facilities that other entities are using. Mr. Olson said the City has interlocal agreements with the Sherman Independent School District and Austin College for their use of the City's facilities. Those agreements need to be reviewed to make sure the City isn't losing money. Mayor Magers said many outside teams use the City's facilities, and the pricing could feature a tiered system for non-citizen's use of the facilities.

Police Department Presentation

Tom Watt, Police Chief, said after many years of working on budgets, he felt this year, the key elements were all in line with a common goal to be proactive to the community. The Council and the senior management staff are all proactive, and that is also what the Police Department is

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trying to do. The first step to a proactive Police Department was a better records management system. With the City Council's help and some grants, they were able to accomplish this over the past three years.

At the present time, manpower levels are the only impediment to being proactive. In an effort to be more efficient, Chief Watt said they are addressing manpower issues with two grant opportunities.

In 2006 the Police Department instituted a Traffic Safety Unit (TSU) and created eight positions. It was decided to grow the Unit slowly and only four of the positions were funded at the time. The four positions that Chief Watt is asking to staff now are the four positions that have been unfunded since 2006.

The TSU was developed with specific goals and objectives such as reducing the number of crashes, reducing injuries and fatalities, aggressive DWI enforcement, and community and school awareness programs. The TSU would also decrease the workload of patrol officers by assisting with traffic accident investigations, serving as escorts, and highway drug interdiction. Chief Watt promised periodic updates to brief the Council on the success of the TSU.

One grant, the COPS Hiring Recovery Program, would allow 100% funding for 36 months for four officers that would be used in the TSU. The grant requires no local match, but does require a one-year retention after the 36 months. Chief Watt felt at the end of the three-year funding period, he would have no problem justifying the tremendous impact these additional four positions would have for the City of Sherman.

Chief Watt added that Police Officer Mark Wood is expected to return to duty on Sunday, June 21, 2009, after an extended illness. He is a member of the current TSU and that will bring the Unit back up to four officers. Chief Watt felt adding four additional officers to the TSU would make a tremendous impact on the general traffic flow in Sherman and would calm things down. Mayor Magers confirmed that adding the four officers would be contingent on the City receiving the grant funding.

Council Member Adami said the Council approved the four positions in the TSU, but he was unaware of the statistics generated with that program. He asked if the goals had been met and if the community was safer. Chief Watt said there haven't been four officers in the TSU for a long time. There were two or three resignations with officers moving to the Metroplex and the TSU staffing was reduced to two officers. With Officer Wood's illness the TSU was reduced to one officer.

At the inception of the program, Chief Watt felt the only thing they could do was increase the number of citations written and try and slow things down. With the additional four officers, the TSU can be more proactive, being in the schools, more DWI weekends, and things that would add to the efficiency and effectiveness of the program.

Mr. Olson added that the staff needs to communicate with the City Council better and provide more measurements in Council approved programs. Several years ago the Council approved a change in the salary structure for police officers and firefighters. Since the change, there has been a tremendous impact on the City's ability to get better qualified applicants and hire better officers in both departments. Both departments actually have waiting lists now. Mr. Olson promised the Council that measurements will be made and related to the Council.

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Council Member Adami expressed concern about adding four additional officers when he really didn't know how the program was going with the initial four officers. It was hard to add additional officers when the stigma is that they are there only to write tickets. He wanted to be sure that traffic safety was also being improved. Chief Watt said with the inability to sustain four officers in the TSU, it has been very difficult to man the Unit. He committed to the Council, when the TSU comes on line, he will report the successes and the lack of success directly to the City Council.

Chief Watt said originally there were 18 or 20 "hotspots" that were designated for the TSU to patrol. Those hotspots periodically change, but are usually major thoroughfares.

Deputy Mayor Smith confirmed that the grant is for three years of funding, including salary, benefits, retirement, and equipment. After the three years, the City would be required to keep the officers for one year, whether or not the goals are being met. Cost of the four officers for one year would be approximately \$250,000.

Chief Watt said the return on investment for the TSU has been substantial. Deputy Mayor Smith asked if writing tickets justified the positions. Chief Watt said the justification of the positions is the safety and welfare of the citizens and a reduction in traffic accidents.

Council Member Adami asked if there had been a reduction in traffic accidents so far. Chief Watt said there was no major reduction in accidents for 2008 from 2007, however the manpower of the TSU has been very sporadic. Many times the TSU was staffed by only one officer, and that is not effective. There were also several horrific accidents in 2008, including the bus accident that killed 17 people. Chief Watt said he believed that there would be a decrease in the number of accidents, injuries, and fatalities, at the end of the four year period with a fully staffed TSU.

Council Member Adami asked what was provided for with the creation of the original four positions in the TSU and the compensation salary study. The TSU has been down to one officer, was the City unable to recruit additional officers. Chief Watt said in 2005-2006, the City lost two or three officers to the Metroplex. He could not take those positions from the patrol officers because they must have first responders available. Therefore the TSU was reduced to one person. The horrible bus accident also happened in August 2008 and three officers were tied up on that criminal investigation for about six weeks. Officer Wood also became ill during this time. Chief Watt said there were two or three major fatalities in a row and the officers that should have been working to reduce accidents were actually working the fatalities.

Chief Watt said with the Federal government paying for the four officers for a three-year time period that would allow the City to evaluate the success of the TSU program. In the police industry, Chief Watt said it is understood that a good TSU is the way to reduce accidents, injuries, and fatalities. Deputy Mayor Smith said he had no problem with the Federal government funding the program for three years, but he was concerned about the following years when it is hard to eliminate employees once they have been added. Chief Watt said it is not difficult to delete the positions if you understand Civil Service.

Chief Watt said the City has just added 200 acres of parks and has added new roadways. The City is doing a lot of infrastructure work to provide for growth in the community, and as the City grows, additional police officers will be needed anyway four years down the road.

Mayor Magers said he wanted to get feedback on the program regardless of how it is doing, good or bad. The Council needs to see the results of the changes that they make. He addressed the salary compensation study several years ago saying the Council invested a lot of taxpayer dollars trying to solve that problem. Until today, he said he did not know what the result of those

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changes had been. Now the Council is being asked to invest in the TSU program and they need feedback about the program's results. Council Member Wacker suggested quarterly reports about the program. Chief Watt added that if those positions need to be deleted after the three-year period, even with Civil Service, it will not be hard to do so.

Chief Watt presented charts of man-hours that have been relieved from the regular patrol officers by using the TSU to handle accident investigations and escorts.

Council Member Adami added that he felt the crime rate should also be down with more patrol activity. Chief Watt said there are many issues that drive the crime rate. He said the Sherman Police Department is mainly a reactive police department. The officers run from one call to another and very little proactive policing exists. Just adding people is not what it's all about. The key is to add people in smart locations so they can direct the patrol shifts where they need to be working. He needs time to grow the plan and become more efficient and proactive.

Council Member Adami said he understood several years ago that part of the benefit of the TSU was to alleviate patrol to do a better job at being proactive instead of reactive and reducing overall crime rates. Chief Watt felt a solid impact could not be made with only one or two officers in the TSU. At full manpower it will relieve additional officers to do other things and they will have some opportunity to have some impact. He said organizational change takes time.

Council Member Steele verified that TSU officers are baseline police officers but have additional training. Chief Watt added that when a priority one call comes in, if TSU officers are the only backup, they go. This is the only patrol related call TSU officers would handle. They receive additional training in accident investigation, radar enforcement, laser enforcement, and traffic safety programs for the kids.

Council Member Wacker said the TSU would give the Department more tools to help with public safety issues and crime prevention issues, however the results can't be guaranteed because of other factors. She did feel that the numbers should show some impact.

Chief Watt asked the Council to give him an opportunity to put the full program together and said he would report back with a six month or yearly update and if it's not working, the program will be deleted. He felt that once the program is manned, it will show its effectiveness.

Chief Watt said the second grant is for a Civilian Intel Analyst position and would provide 100% of funding for one year with no local match. There are also no retention requirements, however subsequent Justice Assistance Grant funds may be awarded during the following three years. Chief Watt said the Department currently has one Intel Analyst now and has had incredible success with the program. The current Intel Analyst spends approximately 60% to 65% of his time going through the databases looking for crime trends and patterns to help the officers work smarter.

Chief Watt added that this position would be a civilian position. Mayor Magers said the concern is that there is a return on the taxpayer's investments. There must be accountability. Council Member Smith said he has been behind the Police Department for many years but if the positions are just being added to write tickets to justify the positions, he does not like it. He was in support of the Intel Analyst position and felt it would be very beneficial.

Chief Watt said the Council has been behind the Police Department for a long time and they are the ones held accountable by the citizens. It is their job to manage what is going on in the City. The essence of proactive policing is using your assets in the most intelligent, smartest way you

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can. The Intel Analyst will essentially double their ability to be smarter and to target habitual offenders and is a critical position.

Council Member Adami said it is easy when the grant is for equipment but when it is for personnel that you might have to let go later, it is very difficult to make that decision.

Fire Department Presentation

Jeff Jones, Fire Chief, discussed four topics, maximizing the Homeland Security and Assistance to Firefighter Grants, bringing some of the training in house for employee development and succession planning, a further reduction in overtime expenses, and apparatus replacement.

Most of the grants for the Fire Department have been reactive. Since 2006 the City has received over \$600,000 in grant funding. He introduced the large pieces of equipment that have been purchased with this grant funding, including the rescue watercraft; a trailer with heavy rescue equipment for structural collapse below grade and high angle rescue; the command post; and a new pump simulator.

With the new pump simulator the Fire Department can train and also provide for annual required pump tests on the equipment. Previously the Department's apparatus needed to be taken to Dallas or Oklahoma for the annual pump tests. Now it can be handled locally in one day. This provides for a reduction in manpower and in travel time.

Chief Jones said after the bus crash in 2008, the City applied for a grant for some specialized mass casualty response equipment. They have received tentative approval for the grant, however some of the grants make require a 10% or 20% local match. If the City receives the grant, Chief Jones said they will need to make a critical decision concerning the local match, however some funding has been included in the budget for that local match. Mayor Magers confirmed that some of the grants include money for training and overtime costs for current personnel.

Chief Jones also recommended adding three additional employees, one per each shift to improve efficiencies and reduce overtime costs. The plan should save over \$40,000 in real overtime costs. It is an addition of employees but will result in a real reduction of overall costs. Mr. Olson said the Department may still have overtime costs during bad events. Council Member Adami said overtime is a huge management issue and still needs to have good overall review. He felt Chief Jones would need to be accountable for the overtime issue. Mayor Magers added that overtime in the Fire Department has been an ongoing critical issue.

Chief Jones said by adding the additional employees, taking advantage of grants for equipment, and providing for a lot of in-house training, they are identifying various ways to reduce the overtime costs. Sending an employee for out-of-town training incurs travel costs and in many cases, overtime costs. If that cost can be shifted to purchase equipment, partially or wholly through grant money, and the training can be done in-house, the overtime costs have essentially been reduced. Chief Jones said that is one of the steps that the City is taking.

He said no personnel have been added to the Fire Department since 1996 and there has been an increased demand for service. The success of the City Council's previous salary structure plan that was completed two years ago, is that they now have a waiting list.

Chief Jones is recommending replacement of one engine, purchased in 1999, based on age, mileage, engine hours, pump hours, and maintenance costs. The engine will be replaced with a ladder truck for the Downtown area. The current truck will be moved to Station 3, which will allow

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for future growth to the north and west. This plan will also provide critical protection to the east side of Sherman and Austin College area. Cost of the ladder truck is \$1.1 million and it should last 10 years on the front-line and a couple of years in reserve. The ladder truck will not have the high traffic that a regular engine would have so the lifespan should be increased. The purchase will be financed.

Chief Jones said the City has replaced one engine annually for the past three years at a cost of just under \$400,000. Mr. Olson said the staff has changed the City's policy on vehicle replacement, but in 1999 the City purchased four new engines. They all turned 10 years old at the same time, but this is the last piece to be replaced and the replacement schedule will now be spread out.

Chief Jones said the Fire Department will not be adding any new programs this year and plans to maintain what they are currently doing. They will maximize their efficiency through grant opportunities and will continue to focus on inside professional development, and make the operations as efficient as possible. They will also replace one piece of equipment.

Mayor Magers said he served on the Homeland Security Committee with Chief Jones and he praised him for the good job he does representing Sherman.

Council Member Adami asked for feedback on the overtime situation in six months after the new budget beings. Mayor Magers addressed the preference of hiring paramedics over emergency medical technicians that are on the waiting list. Chief Jones said the Ordinance allows that preference be given to applicants that are already paramedics. That's where the Department is moving and many individuals are paying for their own paramedic training.

Council Member Howeth said she sees many students that want to become a firefighter. Chief Jones said there was a patriotic spike after 2001, but now with the poor economy, a public safety job is a steady job and the employees want to stay with the Department.

City Council Members took a break from 10:00 a.m. to 10:09 a.m.

Street Presentation

Jeff Miller, Director of Public Works, presented reports on two departments in his area of responsibility.

Brush / Bulky Waste Collection Programs

The City began a Curbside Brush Collection Program in July 2008 which has been very well received by the public. It has proven to be very easy to collect brush monthly with the two brush trucks that were previously purchased by the City. The program serves over 12,000 homes monthly and has good participation rates. Over the last 12 months, approximately 15,000 cubic yards of brush has been collected through the program, saving the taxpayers over \$75,000 a year at the landfill.

When the program first began, Mr. Miller said there was a fairly high participation rate, however that has now settled into a consistent rate of 15% to 20% monthly. Over the year there has been a participation rate of 80%. The brush is taken to the City's South Plant and not to the Ida Road site. It is ground three times a year and used as boiler fuel.

Mr. Miller said with the success of the brush program, the staff is proposing to add a monthly Bulky Trash Collection Program, starting October 1, 2009. He is confident that the additional service can be provided with no additional equipment or manpower. The collection schedule will

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be the same as the brush collection program. With the new service, taxpayers will save money by not having the special pick-up or the Spring Clean-Up services. The program should also help keep the City clean, provide year round collection, and cause less Code Enforcement, at no increase in cost.

Mr. Olson said there will be “growing pains” with the new service and there will be a higher cost special pick-up for those not following the program. The staff wants to make sure that the trash is not sitting out for a week before the scheduled pick-up. Mr. Miller said the focus is to keep the City as clean as possible.

Street Department

Mr. Miller said while preparing the FY 2009-2010 Budget, two critical Street Department areas were identified where the staff felt they could improve. The areas are the repair of street cuts and the repair of curb and gutter. Currently those tasks are performed by outside contractors. Mr. Miller said after considerable discussion and analysis, the staff feels that these tasks can be performed in-house more cost effectively and efficiently.

In an average year, the City pays a contractor from \$160,000 to \$200,000 to make street cut repairs. Mayor Magers confirmed that this is an ongoing expense for the Street Department. These repairs come from water line breaks, sewer line repairs, utility connections, curb cuts, and the repair of the old, failing curb and gutter across the City. The cost of adding two new employees to the Street Department is approximately \$90,000 and some of the material used for street cut repairs is already housed at the South Plant, the savings potential will be significant. He added that the City will have the ability to make the repairs more quickly and at the higher quality demanded by the City.

Council Member Adami said the City used to repair the curb cuts and curb and gutter repair in-house, but stopped and began contracting the job out. He asked what had changed to make it advantageous to do in-house again. Mr. Miller said timeliness is the critical issue. The street cut repairs that are being made through contractors are good but the problem is whether or not the contractor is available when the repair needs to be made or is he on some big job and unavailable for three or four weeks.

Council Member Adami clarified that the City's specifications on street cut repairs states that the repair should be completed within 10 days from the cut. This allows time to be driven on for maximum compaction. Streets are cut hundreds of times per year for utility repair by either City personnel or the other utility companies. There is a tracking program to monitor in-house street cuts and a permit program to oversee the activity by other utility companies and plumbers. The repairs must be made to a certain standard to minimize the damage to the street base and the driving surface.

Mr. Miller said the function of curb and gutters is to move storm water efficiently off the streets. Failure to do that leads to premature street base failure and damage to the driving surface. Sherman has thousands of linear feet of old, failing, poorly constructed curb and gutter that needs to be replaced. Everyday there is additional damage to the curb and gutter as vehicles and trucks drive over the curb and gutter and break them.

Mayor Magers asked if there would also be an opportunity to complete some sidewalk repair as well. Mr. Miller said typically the curb and gutter is a separate unit even if the sidewalk adjoins it. Mr. Olson added that there could be some coordination but the staff and Council needs to review the Ordinance and policy on sidewalks and determine who owns them and who repairs them.

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Council Member Steele asked if the City receives reimbursement from the other utilities when they cut the street. Mr. Miller said there is an agreement with the utilities, principally the gas company, because they do the most cuts. They use their own contractor at their own expense, the City inspects and approves the cut repair. The Ordinance does state an amount that is charged if the City makes a cut for a plumber or anyone else, and the City does bill them.

Mr. Miller explained that in 2007 the City privatized street sweeping by entering into an Interlocal Agreement with the City of Plano. From the beginning, the contractor gave the City poor service and it cost a lot of money. The contract was terminated, however two City driver positions had already been eliminated. After the contract was terminated, the Street Department, without adding staff, began sweeping the streets again with old equipment.

Mr. Miller said sweeping the streets is important because the streets receive runoff from adjacent areas during rainfall events, and with that runoff comes debris such as rocks, stone, litter, trash, and hydrocarbons from the street. If the debris is not swept up, it will eventually enter the storm water system and end up in the creeks, streams, and ditches. Vegetation growing in the asphalt street will also eventually break down the asphalt. Sweeping picks up the weed seed and scrubs off the vegetation that is growing in the street. Litter is another reason why the streets are swept.

The staff recently obtained a quote from a sweeping contractor to sweep the streets four times per year, excluding the Downtown area, for over \$90,000 annually. If we consider the in-house cost to sweep, equipment, maintenance, fuel, and labor, the City's cost would be approximately \$65,000 annually, which would be a savings of \$25,000.

Mr. Miller proposed the purchase of the necessary equipment to continue sweeping the streets in-house. It can be done more cost effectively and the City would control the quality and performance of that service. The City could still sweep all streets four times a year, but they could also sweep after special events, construction and maintenance operations, after storm events, and can generally move toward better maintained streets and a cleaner City.

Council Member Steele confirmed that the \$65,000 would include the debt service on the equipment. Mr. Miller said the sweeper they are proposing to purchase is a regenerative air sweeper and is a brush and a vacuum, and has the ability to pick up rocks and stones.

Council Member Softly asked how someone would get a street swept that needed it. Mr. Olson said the City has not been sweeping the streets for a month and a half because the equipment is inoperable. The City is at a crucial point now.

Council Member Steele confirmed that a street sweeper generally costs \$175,000 to \$180,000 and lasts 10 to 12 years. The City would pay for the equipment over a five to seven year period. Council Member Howeth confirmed that the debris from the street sweeper is considered solid waste and must be eventually taken to the landfill.

Financial Presentation – FY 2010

Robby Hefton, Assistant City Manager/CFO, presented a review of the City's financial status adding that the staff is taking a longer term approach to this year's budget than in the past. There are several things over the next few years that will effect the City's budget including issuing the last series of bonds at the end of this summer to complete the projects. This will affect the financials over the next 20 years. Panda Energy will bring both tax dollars and water revenue into the Utility Fund. With these types of issues, the staff felt they should take a more comprehensive, longer term look at the budget because today's decisions will affect the City's future. There are also several other items of efficiencies and a few new programs, many of which will be funded

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through grant money or savings. There are also several Comprehensive Master Plan priorities that are included in the budget, including storm water management, GIS system development, development ordinances, and parks maintenance to standard.

Mr. Hefton said “at a high level” the General Fund is balanced for 2010. There are some revenue sources and some expenditures that will be increasing, but it is balanced on an on-going basis. The Utility Fund is not balanced on an on-going basis, but Mr. Hefton will present more information on that Fund later.

In the Solid Waste Fund, rates continue to increase for the Texoma Area Solid Waste Authority Landfill, as well as fuel costs. Another increase has been included in the Solid Waste Fund. There has been a decrease in revenues for the Fund, especially in the Commercial Solid Waste Program. Since construction has been down, the roll-off business is also down. Other companies are also finding efficiencies that help them save money, thereby costing the City revenue.

Rate increases in the Residential Solid Waste Program have not kept up with the cost of the service, which has increased partly because of TASWA costs. Mr. Hefton said the staff is recommending a rate increase for residential solid waste collection. Mayor Magers asked if the driving cost to the City was the landfill costs. Mr. Hefton said the landfill tipping fees are the biggest driving cost increase for the Solid Waste Program and it is hard to know where these increases will stop. The City’s rate is currently at \$11.90 but needs to be \$14 per resident.

For the General Fund, new programs are proposed at a net total of \$166,000. Some of the programs will be funded by grants and some will be partially funded by savings in other Funds.

General Fund

Mr. Hefton said the staff is projecting to be at \$5.7 million in reserves in the General Fund in 2010. This is 71 days of reserves. The target is at least 60 days, but as previously related to the City Council, Mr. Hefton would like to begin increasing the target for money kept in reserve. Revenues are projected to increase by approximately \$1 million, in multiple line items. Increases are projected in property taxes due to new property and a modest increase in existing property tax values. Mayor Magers confirmed that the additional taxable value is about \$50 million and about half of that is new property. The tax base is about \$2.1 billion.

Mr. Hefton said increases for sales tax were built in at 2% for inflation and because the City will have had 12 months of sales tax in lieu of property tax. Other increases are noted in fines and forfeitures and grants and miscellaneous.

Council Member Adami asked about the reduction in interest revenue. Mr. Hefton said the staff is projecting to begin the year with less than they did last year, so most is just a function of fund balances. He said the City is currently receiving about 1.25% now, which is good.

Total expenditures are expected to be down about \$1 million. Personnel expenditures are expected to increase, but there are no across-the-board increases built in. The net effect relates to the additional personnel proposed, increases in the Texas Municipal Retirement System rate that is being phased in over several years, and a slight increase in group health insurance.

Supplies increased about \$200,000, partially because the City has held back over the last couple of years on computer purchases. Also all tools and equipment under \$5,000 is placed in this line item and some of the equipment that can be purchased with grant money is placed in this line item.

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Mr. Hefton said there is a \$200,000 transfer from the General Fund to the Debt Service Fund to help service the Certificates of Obligation debt.

Utility Fund

Mr. Hefton said a 1.5% rate increase in water and sewer was built in. The fund balance is projected to be \$3.5 million, which is 65 days of fund balance. There is a one-time transfer in of \$450,000. It appears to be balanced for 2010, but Mr. Hefton said without the \$450,000 transfer in, the Fund would be about \$300,000 “under water.” Long term the debt service will be substantially reduced in three years and revenues will increase with both water sales to Panda Energy. The expenses are nearly flat, about \$100,000 increase on a \$17 million budget, or less than 1%.

There are some personnel increases that relate to open positions and the TMRS and group health increases. The Biosolids Program cost is included in the contractual and special services line item. For 2010, the staff has included the normal cost of processing the biosolids and some additional funding to begin emptying the basins. The staff will make a final recommendation on the biosolids later this year. The discussion has been whether they should be land applied or landfilled.

Solid Waste Fund

Mr. Hefton said he had more concern about the Solid Waste Fund. He included a \$1 rate increase in the Residential Solid Waste Program, but it really should be a \$2 rate increase this year.

Mayor Magers said TASWA has had consecutive increases for the past two years for a total of \$4, or approximately 20% on the City's cost of dumping trash. Two years ago the City did not increase the rates for the first year of TASWA's increase, but they did increase the rate a little last year. Of the three municipalities, Sherman hauls about half of the trash and pays the same amount as the other entities. Sherman's rate will be \$30 per ton this year, the same rate that any citizen taking trash to Hillside Landfill would pay without a contract. He felt the City needs to raise rates to meet the actual costs for use of the landfill.

Mr. Hefton said there are three major programs in the Solid Waste Fund, including the Residential Trash Program, the Commercial Trash Program, and Residential Recycling. Residential Recycling is paying for itself. The Commercial Trash Program does pay for itself in a normal year, however with construction down this is not a normal year. The staff is also not projecting that it will pay for itself in 2010 either, but it is not far off from a “break even” point.

From a policy standpoint, Mayor Magers verified that whether the City takes residential or commercial waste to the TASWA Landfill, as of July 1, 2009, they are paying \$2 more per ton. He recommended that the City increase both the residential and the commercial service to offset this increase.

Mr. Hefton said in 2006, the Commercial Trash Program was generating between \$400,000 and \$500,000 more than it cost. That has been going down steadily and now it's not paying for itself. He felt that maybe the policy should be that each program should pay for itself individually. It is very close now to breaking even and may increase with the economy. He said if it doesn't increase, then the rates should definitely be increased to meet the costs. Mayor Magers added that originally this fund had a large fund balance, and the Council decided not to increase rates, even though TASWA did, to reduce that fund balance. He emphasized that the reduction in the fund balance was by design.

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Mayor Magers felt the City should take the steps today to get the rates in line with the costs. Council Member Adami said he would be in favor of a smaller rate increase for commercial now than to have to make a huge increase next year. He also felt the City needs to increase the residential rate and should probably review the rate for recycling and whether or not the second recycling container should be free.

Deputy Mayor Smith confirmed that the Commercial Program was increased 4% last year for a total of \$125,000, however it was the first increase since the City took over the program. The Residential Program was increased 11% last year. Mr. Hefton said the City would have needed to increase rates another 8% last year. This year, to cover the costs, the rate increase should be 8% to 10%. Deputy Mayor Smith confirmed that the City can't do anything about the cost increases because their rate is being increased by TASWA.

Mr. Hefton said the City actually needs about another 8% or \$200,000 for the Commercial Program. To balance the Commercial Program for 2010, the City needs an 8% to 10% increase in rates. Mr. Hefton said he did not build in any increase for commercial in the proposed budget and only built in \$1 for the residential. The residential rate really should be increased by \$2.

Deputy Mayor Smith asked what the theory was behind increasing the residential rate but not increasing the commercial rate. Mr. Hefton said residential is in the hole and there is no indication the revenues will be changing. On commercial, if business and construction picks back up, then the revenue will increase. He said it is easier to increase rates in increments, rather than reduce rates that have been increased. Deputy Mayor Smith felt there should also be an increase in the commercial rate.

Council Member Adami asked about a project in the General Improvement Fund to rebuild the Solid Waste driveway for \$60,000. He felt it should be funded with a transfer from the Utility Fund. Mr. Hefton said the General Improvement Fund is a "catch all" for any project that is not a utility project. He recommended transferring \$60,000 from the Solid Waste Fund into the General Improvement Fund to pay for the project.

Mr. Hefton confirmed that the Council did want to increase both the residential and the commercial solid waste rate, mainly because of the increase in the TASWA rates. Mayor Magers said even with the \$2 TASWA increase, their budget is still very "slim." Mr. Hefton said today, to fix the residential rate, a \$2.10 rate increase is needed. Every year the rate will need to be reviewed depending on the TASWA increases.

Mr. Hefton said the City has only had one rate increase for commercial service since it began and they have reduced the fund balance to where it needs to be. Mayor Magers recommended raising the residential rate \$1 and the commercial rate \$1, which would increase revenue more than raising the residential rate \$2. He said more tonnage goes to TASWA on the commercial side rather than the residential side.

Mr. Hefton felt that each program should be self-sufficient and the rates should be based accordingly. To be self-sufficient, the residential rate needs to be increased \$2 and the commercial rate needs to be increased 10%.

Council Member Adami added that the City has expanded services by offering the monthly brush pick up and now the monthly bulky trash pick up. Council Member Wacker added that, even at the new rate, Sherman citizens get a lot of value from the service provided.

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Mr. Hefton added that he is proposing that the second trash cart be supplied at the same rate as the first trash cart. Council Member Wacker was still in favor of the free second recycling cart, in order to encourage citizens to recycle rather than put it in the landfill. Council Member Adami agreed, but suggested reviewing that in the future as costs increase.

Mr. Hefton said an increase of \$2 (\$1 is already built in) on the residential and 5% on the commercial would generate about \$275,000 annually, which is back to break-even and puts the fund balance back where it should be. Mayor Magers suggested increasing 6% on the commercial. Council Members decided to increase the residential solid waste rate by \$2 and the commercial solid waste rate by 6%. Mayor Magers added that Sherman residents and businesses are still not incurring the full cost increase that the City is getting from TASWA.

City Council Members took a break from 11:26 a.m. to 11:32 a.m.

General Improvement Fund

Mr. Hefton said the General Improvement Fund should end the year with about \$500,000 in fund balance. However, he said that might not happen depending on some projects. Several of the projects are completing things that are already in process. Money is also included in the budget for the City's portion of the Texas Department of Transportation projects for the U.S. 75 Frontage Road Reversal and the Canyon Grove Road Relocation. Both are Metropolitan Planning Organization projects in which the City is participating. Mayor Magers added that those are the top two projects on the MPO list and if TxDOT funding becomes available, they should be done first. Mr. Hefton said that money needs to be in the City's budget or TxDOT considers the money not available for that project.

Mr. Hefton said there is also money budgeted for street oversizing in case opportunities arise with development for the City to widen the street. The money is appropriated but there are no specific projects at this time. There is also money budgeted for drainage improvement projects and the staff has developed a comprehensive list of culverts that are already failing. The staff has programmed approximately \$1.25 million for drainage related projects over the next five years. They will also look for grant money for drainage basin studies that will help identify areas of concern.

Mr. Hefton said \$60,000 will be moved into the General Improvement Fund for the Solid Waste Driveway Rebuild from the Utility Fund. This will allow the Drainage Improvement Project line item to be increased to \$300,000.

Mayor Magers addressed the \$40,000 budgeted for the Recreation Center Study. He did not feel the project was needed this year, especially with the current economic situation and not being able to give the City employees a salary increase. Council Member Wacker asked if the study would encompass a new facility or the utilization of existing buildings. Mr. Olson said the study was recommended by the 2005 Parks Master Plan and would be a multifaceted study to determine what is needed in the community, and when and where it is needed. Council Member Adami agreed that the project is valid but right now might not be the right time.

Mr. Hefton said the budget does include a GIS Project for \$146,700, which includes software, training, hardware, and development of additional database levels for all departments that had requested a budget item.

Utility Improvement Fund

Mr. Hefton said currently the budget includes \$4 million for 2010 for additional water storage rights. That number might change and if the City can get 20,000 acre feet of water storage, the

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number will increase to \$8 million. The City will be financing whatever storage rights become available and it will not affect the ending fund balance. Mayor Magers confirmed that there will be no problem for the City to take on the financial burden to purchase the water storage rights.

Insurance Fund

Mr. Hefton said there is a transfer out of the Utility Improvement Fund into the Employee Insurance Fund. He felt the Employee Insurance Fund had “gotten over the hump.” Of course no one knows when other catastrophic claims will come up, but the ones the Fund had previously seen, even those extending over multiple years, are no longer an issue. He added that the City has seen a great claims history over the last three or four months.

The proposed budget includes \$3.6 million in claims for the next fiscal year. The City has had three years of pretty bad claims, but the trend seems to be turning. Council Member Adami asked if the City should review whether self-funding insurance is still the right way to go. Mr. Hefton said the staff does review that issue annually but they don't always approach the Council with a recommendation to make changes. With the City's consultant, Fidelity Benefits, the staff reviews claims history, projected claims, and goes out for RFP bids both on a self-funded basis versus a full indemnity plan, reviewing which one makes sense for the City.

Mr. Hefton said it will be reviewed again this year and barring any unforeseen multiple catastrophic claims, the City will be in better shape with a good fund balance. He felt the City had experienced three years of anomalies, but it wasn't from an increased utilization; it was an increased number of claims over \$100,000.

Hotel/Motel Tax Fund

Mr. Hefton said the Hotel/Motel Tax Fund appears not to be balance, but it truly is. The amount transferred to Auditorium/Ballroom is more than is usually transferred, because there are a couple of projects they are trying to fund for the additional \$40,000. The ending fund balance is also larger and as discussed in previous years, it needs to be reduced. The funding levels are fairly constant for the budgeted items.

The proposed budget also reflects bringing the Tourism Department in-house. With this change, the administration costs are significantly less than in the past, and more Hotel/Motel Tax dollars can be spent on program costs such as grants, marketing, and website. Mayor Magers confirmed that tourism program costs have increased from \$26,000 last year to \$116,700 this year. He agreed this is what was intended with the changes in the Tourism Department.

Citizen's Question

Ernestine Harrell, 2600 Nantucket Drive

Mayor Magers said Ms. Harrell asked to speak to the City Council. She had questions about the reconstruction of West Washington Street and the use of a bond issue to fund the project. Since the bond issue will be \$3.7 million, she asked if the interest rate on those bonds had been set. Mayor Magers said the City expects the interest rate to be approximately 4%. Since the budget is tight and the economy is not expected to get better in the next six months, Ms. Harrell asked how the interest on the bonds would be paid and where the repayment would come from.

Mayor Magers said the \$3.7 million will be spread over 20 years of bond payments and will be paid from General Fund dollars. The City has no impact fees but they do ask the developer to pay a road escrow fee. That road escrow fee has been paid except for a small portion that has not been developed. The road will be taken from the west side of F.M. 1417, Heritage Parkway, to the City limits, and has already been paid for with road escrow fees. Lamberth Road will also be rebuilt using the same process. S.H. 289 is supposed to open in July 2009. The City has a

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road thoroughfare plan and the Council's feeling is that the roads need to be moved so when development comes the proper roads are in place and the City will be ready for the proper development.

Mayor Magers felt there would be a race between the City of Sherman and the City of Southmayd to develop land east of S.H. 289. He said the Council is going to make sure the City is prepared so that when development comes there will be a choice of development. Good roadways will be a clear advantage for Sherman.

Council Member Adami said the thoroughfare plan was publicized and was presented to the citizens in 2007 for a vote. It passed with 70% of the voters in favor of the plan, which also included both the Washington and Lamberth Street extensions. The Council is doing what the voters asked them to do. They also identified cost savings to expand what they originally said they were going to do.

Ms. Harrell was concerned about incurring this type of debt. Mayor Magers said for the first time, the City of Sherman has a AA credit rating and can handle this debt. The budget includes plenty of money to pay the debt. He confirmed that the interest rate is fixed.

Mr. Hefton added that not only is the bond issue a fixed rate, but the City actually has lower interest on the "front end" which could be as low as 2 point something percent. As for debt, the City is extremely lowly leveraged with debt compared to most cities the size of Sherman.

Council Member Adami added that he felt it was smarter to pay for assets that last 20 or 30 years over time instead of up front. Mayor Magers added that the City is not going to pay for developments to the west. Developers will pay, but the City needs to be sure they have the right infrastructure for growth.

City Council Members took a lunch break from 11:58 a.m. to 12:13 p.m.

DISCUSSION OF LONG-RANGE PLANNING

Financial Presentation – Long Term

Mr. Hefton said the staff wanted to start looking at long term planning issues at a very high level. They want to look at what the financial impact is for the things that are decided today and how that impacts operations over the next few years. He presented revenue and expense trends and projections for the General Fund, Utility Fund, and Solid Waste Funds, for the next five years and for a couple of years prior. This is not an attempt to balance any budget for any year other than 2010; it's just to have a heads up as decisions for the upcoming year are made.

The General Fund is driven by sales tax, property tax, and franchise taxes and the long-range planning includes things they know are coming, such as Panda property taxes which will come on line in 2012.

Mr. Hefton presented the five-year financial projections for items that were actually known at this time. The first scenario doesn't include any cost-of-living increase, however he presented a second scenario that does include a 2% across-the-board, cost-of-living increase. The budget is projected to be balanced in 2010, but there are some challenges in 2011 through 2014. There could also be changes in revenues so the end result is not known at this time. Mr. Hefton said the long-range planning would just help the Council set their minds on the effects of such items as the Certificates of Obligation and the TMRS increases. The benchmark on \$30 million expenditures needs to be \$5 million to \$5.5 million in fund balance. He added that every year there are challenges but nothing he saw now really caused him major concern. Every year the

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requests are more than the revenue and the staff has to find ways to be more efficient and balance financing.

According to Mr. Hefton, the Utility Fund looks good especially because of Panda Energy coming in and a reduction in the debt service. The City will be in a good financial position, especially in years three through five. Revenues were projected using a modest 2% growth estimate for water and sewer sales, either through growth or rate increases. Starting at 2012, the debt service will start to be reduced. He also referenced projects that are built into the budget that may or may not happen.

Mayor Magers confirmed that, based on what is known today, the City has the capability to purchase whatever water storage becomes available in Lake Texoma.

Mr. Hefton said the Solid Waste Fund projects will be positive with the changes discussed earlier today. Even though the City of Sherman has only a 20% control on TASWA, they need to watch expenditures and will need to make adjustments every year.

Mr. Hefton said the staff is being pushed by Panda Energy to get the tax abatement agreement and the 380 Economic Development Agreement done because Panda wants to get started. Deputy Mayor Smith confirmed that the tax abatement agreement will probably be on the Council Agenda for the first meeting in July 2009.

Council Direction

Council Member Adami commended Mr. Olson and Mr. Hefton, as well as the staff on their good forward thinking. He said on a \$30 million budget, foresight was definitely needed. Mr. Hefton said he is not satisfied with the AA bond rating and the staff will be working for the next level. Long-term planning is one of the things that they look for in the bond analysis process. They also want to know if a City has written debt policies, written financial policies, and do they do long-term planning that is presented to the Council. He said the long-range planning is a tool and a practice that should be in place anyway, but it also helps the City get to a AA+ bond rating, which is the next goal.

Mayor Magers confirmed that it will probably take from three to five years to get the various funds to a 90 day fund balance. He felt the three year Council terms would help give a more consistent plan for running the City. Council Member Wacker agreed because the projects are being financed by bond issues over a longer period of time and the City will be working with the Comprehensive Master Plan. The Council can now make good, evidence-based decisions.

Mayor Magers said the last two years of budgets have been better than in past years. He praised the staff for a job well done. Council Member Adami said the staff also did a great job of recognizing the issues of drainage and did a great job implementing the plan.

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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 12:32 p.m. Documentation for the Budget Work Session is held in the General File "Budget Work Sessions FY 2009-2010" in the City Clerk's Office.

ATTEST

MAYOR

CITY CLERK