STATE OF TEXAS §
June 17, 2010
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 17, 2010.

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

MEMBERS ABSENT: None.

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

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

DISCUSSION OF COMPREHENSIVE MASTER PLAN

2010-2011 BUDGET REVIEW

DISCUSSION OF LONG-RANGE PLANNING

APPOINT/REMOVE OR CONSIDER QUALIFICATIONS TO BOARDS AND COMMISSIONS
TEXOMA COUNCIL OF GOVERNMENTS (TCOG) GOVERNING BOARD (1)

ADJOURNMENT

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN
Mayor Magers called the meeting to order at 8:32 a.m., declared a quorum present, and opened the meeting.

APPOINT/REMOVE OR CONSIDER QUALIFICATIONS TO BOARDS AND COMMISSIONS
TEXOMA COUNCIL OF GOVERNMENTS (TCOG) GOVERNING BOARD (1)
Mayor Magers moved the appointment of a representative to the Texoma Council of Governments Governing Board to the front of the agenda for consideration.

ACTION TAKEN.

Motion by Council Member Smith to appoint Council Member Cary Wacker to serve as the City of Sherman's Representative on the Texoma Council of Governments Governing Board. Second by Deputy Mayor Steele.

Council Members were asked to designate the term of appointment in their motion.

ACTION TAKEN.

Motion by Council Member Smith to amend his motion to include that Council Member Wacker would be appointed to serve as Sherman's Representative on the Texoma Council of Governments Governing Board for the remainder of the term of the current sitting Mayor. Second by Deputy Mayor Steele.

VOTING AYE: Adami, Howeth, Smith, Softly, Steele, Wacker.
VOTING NAY: None.
MOTION CARRIED AS AMENDED.

OPENING COMMENTS

Mayor Magers shared information with the City Council that has recently transpired because he felt it affects the City's Budget.

At the initial Budget Meeting this year, the City Council challenged the staff to bring back a balanced Budget and to look for cost free ways to drive progress for the citizens of Sherman without raising property taxes. With a lot of ingenuity, the staff has achieved those goals and the proposed Budget is balanced with the same property tax rate.

Unfortunately, the City may need to increase water and solid waste rates. Approximately $2 million has been lost in annualized water revenue and the staff is recommending a 6% rate increase, which would get about 50% or $900,000 of the losses back. Mayor Magers said he wanted to review the past few years of water rates in relation to the Consumer Price Index (CPI).

Mayor Magers said, based on recent positive developments at the Texoma Area Solid Waste Authority (TASWA), he felt the City may be facing an increase of $2.50 to $3.00 per ton, which will equate to a rate increase of about $0.25 to $0.30 per month, per household.

Mayor Magers said he has had concerns about TASWA from the beginning, especially about long term liabilities. Sherman is an equal partner in TASWA with four other entities, however Sherman delivers over 50% of the municipal trash and about 45% of the overall trash. If debt is incurred and there are lawsuits in the future, he felt the City of Sherman would be the one sued.

Since its inception in 2005, TASWA has never "paid as it goes." The landfill is divided into cells and each cell has a useful life of about five years. In 2005, to open the landfill, financing of the first cell was wrapped into 20 year bonds. When the second cell was opened, TASWA issued debt for five years. In 2008-2009, costs remained the same, but because of the poor economy and a reduction in volume, revenues were reduced.

TASWA will soon need to open the third cell and the proposal for financing was to refinance part of the bonds and finance the third cell by extending the payments over 20 years. The end result was to have eight years of useful life in the landfill and pay it out with over 20 years of debt. While this keeps rates low, Mayor Magers said he could not finance eight years of use over 20 years. TASWA has never generated enough revenue to keep the cells moving forward.

A discussion on financing was held during a recent TASWA Board of Directors Meeting and at the end of the day everyone understood that this type of financing cannot continue. Mayor Magers said he was proud to serve on the TASWA Board of Directors and they are working on a plan to "blend" the two ideas, which are to raise rates over several years and finance the debt load.

Hopefully, by the opening of the fourth cell, TASWA will be self-sustaining, to pay for itself, and the cities involved will not be incurring on-going debt and liabilities.

He felt that Sherman would see a slight rate increase this year, with a plan where the City staff can see the highs and lows for three to five years in the future and plan rates and activities accordingly.

Mayor Magers reiterated that the meeting with the TASWA Board was non-political and was straight business. Everyone was trying to find a solution to the issue. He also praised Robby Hefton, Assistant City Manager/CFO, for representing the City of Sherman during the TASWA Meetings.

Mayor Magers said he felt there was a lot of uncertainty for 2010 and 2011. He stressed that the Council needs to focus on essentials for this year. This Fall the City will be holding long term planning sessions to see where Sherman is going. The last strategic planning session was held in 2005 and the Council has accomplished almost everything included in that plan. At the end of the planning session, the Council should have a final definition of what are essential services and necessities and things they would like to do.

Today the City Council needs to look at the upcoming fiscal year, keep taxes at the current rate, and keep fees as low as possible. The current issues are not cost issues. The City of Sherman is not spending money frivolously. The issues are revenue issues. He added that the City of Sherman has clean water, clean air, is next to one of the fastest growing metropolitan areas in the country, and next to one of the wealthiest counties in the country. The community must find businesses and attract jobs and use these assets that are unique to Sherman's location.

George Olson, City Manager, said there is not a lot of discussion about the 2011 Budget and the staff and Council are doing what they can with what they have. The agenda includes an update on the Comprehensive Master Plan. The City committed to following this Plan to move forward and even tough times don't mean we stop moving forward. Last year the theme of the Budget was to finish what was started, and that continues.

There will also be a report on the Tourism Department and there are positive things to discuss. Mr. Hefton will then discuss the Budget process and present the proposed FY 2010-2011 Budget, as well as recommendations for long term planning needs.

Mr. Olson said the City of Sherman has been lucky, but we are in the same position as most other cities and the staff is trying to manage the resources as best they can. It is serious and there is a lot of work ahead.

Mr. Olson said they are proposing a balanced Budget where all major funds are balanced and the current $0.32 tax rate is maintained. The staff continues to perform the essential / non-essential analysis and together with the City Council will prepare a long term plan for funding the on-going City operations. He added that the City cannot maintain the way they are operating now. Something must change.

However, Mr. Olson said today's meeting is not a platform to begin long term planning. Council Members must stick with the proposed FY 2010-2011 Budget today and the long term planning will be considered in the Fall.

Mr. Olson thanked the staff for their hard work preparing for the Budget. We continue to do more with less and still maintain a commitment of service to the citizens that is probably unmatched by any City in North Texas. We will take care of the City of Sherman and the citizens.

DISCUSSION OF COMPREHENSIVE MASTER PLAN

Don Keene, Executive Director – Planning and Public Works, explained that the Comprehensive Master Plan was adopted a year ago and is a framework to guide the future growth and development for the next 20 years and beyond. He presented a report on the top nine priorities of the Comprehensive Master Plan and outlined the progress made and the plans for each priority.

- **Updated and enhanced development regulations**

A major accomplishment was the designation of a Blalock Commercial Overlay District, which regulates development at the southern gateway to Sherman. An irrigation ordinance and an updated oil/gas well drilling Specific Use Permit ordinance are also pending Council approval.

The staff is also considering the evaluation and modification of other existing development ordinances, and additional ordinances such as character based ordinances, solar / wind power, flood water detention plans, and commercial overlay districts.

- **City Geographic Information System (GIS) enhancements**

The GIS project is an on-going process of optimizing the system that is already used in multiple ways. The database is used for property searches and the information is shared with the Grayson Appraisal District.

There are multiple layers of maps within the system and the possibilities are endless. Maps include flood plains, parks, child “safe zones,” contours, elevations, and water facilities. The storm water infrastructure mapping continues and three of the six phases required by the Texas Commission on Environmental Quality (TCEQ) have been completed. The entire project must be completed by 2012.

Mayor Magers verified that at the current time, citizens would need to come to the City of Sherman to access this information, however the plan is to make this available on the City’s website in the future.

Fifteen locator monuments have also been placed within the City which serve as points of reference in the system. The system will link project drawings and plans, and scanning is 75% complete. Mr. Keene said the value of the GIS system is to gain efficiency and provide additional information to the citizens in the location of the infrastructure. Future plans are to include utility lines, fire hydrants, and other infrastructure in the GIS.

- **Storm drainage studies and planning**

The City selected Espey Consultants, Inc. to assist in creating a unique, comprehensive Watershed Management Plan. The study will be comprised of more than just flood control and the staff is working with the consultants to identify the scope of work. A proposal will be presented to the City Council later in the year. Besides completing the Plan, Espey will also help the City locate funding, usually through Federal grants. The result should be a prioritized Capital Improvement Plan with affordable implementation. The Plan should also be a sustainable approach with a long term plan for Watershed Management.

- **Revitalization of older neighborhoods**

The City continues to offer ad valorem property tax abatements, has a substandard structure ordinance and demolitions, street enhancements, and water and sewer improvements. Mr. Keene recognized the Brockett Street project as an older neighborhood enhancement. Plans include maximizing the Community Development Block Grant Funding, which was actually increased this year.

- **Maintenance and enhancement initiative for existing parks**

Mr. Keene said the City is not only building new parks, but they are making improvements in older parks. Center Street is a new park with fields, a trail, playground, and pavilion. Two practice fields have also been added at Hawn Park. Many improvements have been made at Old Settlers Park and the only park improvement project proposed for next year's CIP Budget is the replacement of the shade structure on the quad. Martin Luther King, Jr. Park improvements include leveling, goal reorientation, and turf revitalization. All bleachers throughout town have also been replaced with aluminum bleachers.

Plans for the future include the shade replacement at Old Settlers Park, field lighting at Rosedale Park, basketball court and playground improvements at Fielder Park, and a new playground at Cherry Street Park.

Council Member Howeth asked about the equipment that is left at the Hawn Skate Park. Mr. Olson said those types of parks have a high rate of vandalism, however he felt skate parks were good for the community. Kevin Winkler, Parks and Recreation Administrator, said much of the original equipment was deteriorated and has been removed. The CIP includes a five year plan to add more equipment at the Skate Park.

- **Strategic annexation planning**

Mr. Keene said part of the Comprehensive Master Plan was the adoption of a Future Land Use Plan. Areas of particular interest include Washington Street, Lamberth Road, and Highway 289. He added that Highway 289 and Highway 82 will become the western gateway to Sherman and will be a critical area.

- **Downtown development / revitalization**

Water lines for the Travis Street Project have been replaced and the staff is combining two projects, the Travis Street mill and overlay and the Downtown Square Tax Increment Financing (TIF) Streetscape Project in order to get a better cost on the projects and for efficiency. Brockett Street has also been rebuilt and increased connectivity to Downtown. If the Texas Department of Transportation (TxDOT) approves the grant request, then the Houston and Lamar Streets Gateway Streetscape Project will move forward. Mayor Magers confirmed that the announcement on the TxDOT grant should occur in the fourth quarter of 2010.

- **Trail, Bikeway and Greenway Master Plan and initial trail network development**

A big project over the past year is the connectivity of the hike and bike trails at Baker Park, Center Street Park, and Binkley Park. These parks feature over two miles of trails that are available to citizens. There are also plans for additional parks, trails, and greenway networking.

- **Roadway system maintenance, upgrades, and safety improvements**

Mr. Keene listed projects that have been completed including the drainage and drivability of Taylor Street; intersection improvements at Loy Lake Road and Texoma Parkway; the Canyon Creek Drive Extension; the Brockett Street Rebuild; and extensive street mill and overlay projects.

Plans include the Downtown Streetscape Projects; ramp reversals on U.S. Highway 75 near Sherman Town Center; improvements to Loy Lake Road, between U.S. Highway 82 and Pecan Grove Road; and ongoing maintenance programs. He added that there are plans to "re-visit" the street sales tax in 2012.

Mayor Magers said the street sales tax was originally passed in 2007 and part of the promise to taxpayers was to do what the Council said they would do with that plan, and that has been done. He felt this was the best tax that the City uses because 50% is not even paid by Sherman citizens. He felt the sales tax for streets had been a tremendous asset for Sherman and if the Council wants to continue he would support adding it to the ballot in 2012.

Mr. Hefton said the Election itself would be held in November of 2011 and the tax would start in 2012, so it would be "seamless" with the current tax. Mayor Magers recommended that the Council start putting plans together now to include the question on the ballot. At this point it would not be a tax increase but a tax continuation. Deputy Mayor Steele verified that if the measure failed on the 2011 ballot, it could not be brought back for 12 months, which would end up being even longer because of the process required.

<u>2010-2011 BUDGET REVIEW</u>

Tourism Update

April Patterson, Tourism Director, said the tourism industry in Sherman is still doing okay even with the poor economy. She has recently had visits from hotel buyers because Sherman's hotels stay filled. Because of that, Sherman is able to offer programs that are usually free to residents and visitors, however it is very important to communicate with local residents about the events.

Ms. Patterson said there are plans to begin the branding process in-house to help maintain cohesiveness between the City of Sherman, Chamber of Commerce, and the Sherman Economic Development Corporation (SEDCO).

Updates also need to be made to the website and Council Member Smith confirmed that $75,000 has been included in the proposed Budget for the City and Tourism website. The funding will be from the Hotel/Motel Tax. Mr. Hefton added that part of the plan for the website is to consider how it's managed. The goal, probably for 2012, will be to have a usable website that might include an in-house person whose primary function is the website. Mayor Magers added that SEDCO has some funding that might be available for the project.

Ms. Patterson listed various tourism sponsored events such as the National Travel and Tourism Week, Hot Summer Nights, U.S. Hwy 82 Yard Sale, and the Christmas Parade and Snowflake Festival. This year the Sherman Council for the Arts and Humanities was unable to find anyone to handle food and retail vendors for the Annual Sherman Arts Festival. The Tourism Department was already supposed to handle marketing, communication, and advertising for 2010 but now they will also be handling food and retail vendors. Mr. Hefton explained that Sue Malnory usually spearheaded the event, but she was unable to do it this year and no one stepped up to help. Therefore, the Tourism Department will handle the duty for now. Mr. Olson said the event will be evaluated to determine what happens in the future. Mayor Magers expressed concern that the event would end up being the City's event every year instead of being run by volunteers.

Potential events might include motorcycle events, a Jazz Festival in conjunction with the new Jazz Museum, and sports tournaments for youth, adult, and professional. Ms. Patterson also listed community partnerships that either receive grants or to which she dedicates time or marketing services.

"Lights on the Lake" will be held on Saturday, July 3, 2010, starting at 7 p.m. and will include the ribbon cutting for Pecan Grove Park, a fireworks display, and a concert. The park will open at 4 p.m. and the event is sponsored by Landmark Bank.

Council Member Adami asked about the future use of Pecan Grove Park and whether Hot Summer Nights might eventually be moved to that location. Ms. Patterson said she has not planned to move Hot Summer Nights at this point. She felt that the downtown merchants would prefer to have the event remain on the Municipal Building Grounds, but felt that staff should consider resident feedback too. Council Member Wacker agreed that moving the event would change the nature of the event. Ms. Patterson added that there could be another concert series held at a different time at Pecan Grove Park.

Ms. Patterson updated the Council on the Visitor's Center at A Touch of Class Antique Mall. There is a "Welcome to Sherman" sign on the outside of the building that advertises local events. The Visitor's Center is open seven days a week, however the atmosphere is not always conducive to visitors, especially if they have small children or for those visitors that don't enjoy antique shopping. She added that with more events, it would be nice to have a manned facility where event registration could also be handled.

The Tourism Department also handled tourist, community, and relocation contacts. They foster relationships with hotels, the Chamber of Commerce, SEDCO, Downtown Sherman Preservation and Revitalization, Sherman Council for the Arts and Humanities, Hagerman National Wildlife Refuge, Texas Travel Information Centers, neighboring communities, and tourism associations.

In April 2010, the Tourism Department took over rental for Kidd-Key Auditorium, the Municipal Ballroom, and Gazebo and Grounds. There have been changes in policy and they have been received well. She also recommended consideration of facility improvements such as a "full-service" kitchen renovation, wheelchair accessibility for the Auditorium, projector and screens in the Auditorium and Ballroom, signage for interior and parking lot, and Ballroom lighting to provide dimmer switches.

Council Member Adami was familiar with one community that had a "blow-up" screen and showed Disney movies in the park. He felt that was a good tourism event and said it was very well attended. Ms. Patterson hoped that maybe the Sherman Community Players or Theatricks might be interested in presenting a play in the amphitheater at Pecan Grove Park.

City Council Members took a break from 10:04 a.m. to 10:28 p.m.

Essential / Complementary Discussion
Mr. Hefton explained that this year the staff changed the mindset of how they approach managing the activities. The essence is to focus on the things that the City should be providing to citizens, both at a "high level" and at a department level. This process compares both essential and complementary services and has caused some changes to this year's proposed Budget. The staff looked at recouping costs on complimentary services, which are defined as services that benefit one person or maybe a family, instead of the entire community.

For example, the Cemetery is good for the City to have available, but the burial plot is complimentary because it benefits one citizen or his family. The proposed Budget includes fee increases for the Cemetery services based on a direct cost analysis of the actual charges for services such as opening/closing a grave and weekend burials. Charges were also compared to other cemeteries in surrounding communities and Sherman's fee increases should bring the charges more in line with what other cities are charging.

Mayor Magers asked who would pay for the maintenance and operating costs after the Cemetery is filled up and no longer selling lots. Mr. Hefton said the City would pay. Mr. Winkler explained that there is a portion of the lot cost that is designated for perpetual care. Council Member Adami added that this perpetual care amount is put into an escrow account and the earned income from the account is used for future maintenance and operation costs. Mr. Hefton said this is a process and the approach taken this year is to cover the direct costs not necessarily to bring the service up to the market rate.

Council Member Adami felt that the Cemetery should have a presentable facility and he was concerned about the look of the metal building on Lamar Street. There is a future project in the CIP for upgrade of the building and he realized that this year probably was not the year to schedule the project, however he wanted to be sure that project was included in the future.

Deputy Mayor Steele verified that the City does not currently charge for police escorts for funeral processions. Mr. Hefton said he felt that was a complementary service and said the service could either be reduced if more officers are needed on the street, or possibly there could be a charge for the service. The staff is not proposing any changes at this time, but that could be an efficiency change at a later date. Council Member Wacker felt that in a City the size of Sherman, that would be perceived as a "big negative." Mr. Hefton added that the cost is only about $10,000 to $15,000 annually.

Mr. Hefton said the staff has reviewed many areas for possible fee increases and those will be brought back to the City Council at a later date, prior to the beginning of next fiscal year.

Mr. Hefton said the staff also looked at areas that might be a duplication of services. Several years ago the City closed the Day Care Center because it was a duplication of services that could be performed more efficiently by the private sector. He did not say they were recommending closing the Glennie O. Ham Center, however some of those services are being duplicated either through the Parks Department or the School District.

Mr. Olson added that the Glennie O. Ham Center and the Senior Citizens Center are now under the Parks and Recreation Department. The goal would be to utilize those staff members in the overall Parks and Recreation planning. Mr. Hefton said the proposed Budget includes a reduction from four full-time employees to three full-time employees in those areas.

Water Issues

Mr. Hefton addressed water issues including the recent purchase of additional Lake Texoma water rights and how that effects the City and can be used as an asset, especially in long term planning.

MEMC and Folgers are expected to close in the first or second quarter of 2011. Currently they represent $2 million annually in water and sewer revenue. Therefore the staff will be proposing a 6% increase in water and sewer rates to get about half of that money back for the coming year. The long term effect will be discussed at the planning session scheduled for the Fall.

Water is a relatively high fixed cost business and the debt must be paid no matter how much water is pumped and sold. About 65% to 75% of the costs are fixed and include personnel, maintenance costs, and collection and distribution costs. Variable costs include utilities, chemicals, and other supplies.

Mr. Hefton said the City does have a lot of strengths in that they are providing water services to existing customers and potential customers. He referenced the Texas Municipal League Utility Rate Comparison Chart to show Sherman's ranking with the current rate and the proposed rate. Even with the 6% increase, Sherman would still be in the middle of other Texas cities with similar population. Sherman has an incredible availability of water in terms of raw water that is stored in Lake Texoma. Currently the Water Treatment Plant can treat 10 million gallons of water per day, but can be expanded to treat 25 mgd, and with the most recent purchase of water rights, Sherman has about 35 mgd stored in Lake Texoma. Sherman also has a ground water production capacity of 13 mgd, for a total of 48 mgd of water. Currently the City is using only 8 to 10 mgd.

Sherman also has the ability to use either or both ground or surface water for all current needs. In February the City shut down the surface water system and supplied ground water to the entire City. This is an incredible feature that the City can meet all current water needs with either system if needed.

Mr. Hefton said the City has the capability to sell treated surface water, ground water, raw water, and treated effluent which is the discharge from the Waste Water Treatment Plant. He said the City has high availability, high quality, high reliability, and many types of water to offer. As the water resources are marketed to potential customers, Sherman could become the regional purveyor of treated water for Grayson County. This is definitely a long term asset for Sherman.

Mr. Hefton added that Sherman has a major gas trunk line running through the City, 48 mgd capacity of water, a power plant that is still on track to build in Sherman, and clean air. Council Member Adami said these assets need to be utilized and the City needs to find businesses that replace the water use that will be lost with the closing of MEMC and Folgers. He wanted to be sure that SEDCO also works to bring these types of businesses to Sherman. Mr. Hefton added that Sherman also has rail service and all the needed infrastructure that an industry would need.

Mayor Magers said Panda Energy would bring $600,000 annually, but that will be dwarfed by the loss of MEMC and Folgers. Because a portion of the lost revenue from Folgers is from a high industrial surcharge for the Waste Water Treatment Plant instead of water flowing through the lines, the City will be losing about 8% or 9% of volume and 12% of revenue. Mr. Hefton added that MEMC has been the largest industrial water user for Sherman for many years and was either the number one or number two water user for ten years.

Mr. Hefton said the staff is proposing to continue working with the Greater Texoma Utility Authority (GTUA) on the plan to become a regional purveyor of water both through water availability and plant capacity, and to continue focusing on industrial recruitment through SEDCO and the City. The staff is proposing a 6% increase which will amount to approximately $900,000 annually.

Council Member Adami reiterated that the Budget is not an expense problem, it's a revenue problem, and he felt the City should be more proactive in looking at rates. He felt in past years the Council has been "reacting" to events that cause the cost to increase. For the long term approach he felt the City should get out of the reactionary thinking and become proactive with rates. Since fixed costs increase, there should be some method of planning to increase rates, maybe at a slower pace, to get to where they need to be to account for future costs.

Mayor Magers said one way to de-politicize the issue is to tie increases to some other measure, such as the Consumer Price Index (CPI). Council Member Adami said when the cost of service increases the increase should be tied to the actual cost of providing the service. He was not sure the CPI was the correct measure to tie the increase too. He questioned if the City was getting adequate reserves for other things or are there other needs that the rates need to pay for. He also asked if the proposed 6% increase was enough this year.

Mr. Hefton said at the end of the discussion today, the Council will be discussing long term planning and will get an idea of financing for the next five years. It will include known debt service and known "other costs" and will give the Council a better view of the whole picture. He also said the Council may want to look at the financial policy and how the CIP projects are funded. Some people think a fixed cost is static, but as it relates to personnel, it varies with changes in the cost of providing services.

Mayor Magers reiterated that the 6% increase will get the City through the upcoming year. He did not feel there was enough information in hand today to support a larger rate increase. The Council is looking at the 2011 Budget to be balanced without increasing taxes. A long term planning session will be held in the Fall to determine the plan for next year. Mr. Olson said the staff and Council are working to take a longer view at the situation and plan farther in advance. They are trying to change from being reactionary and to think ahead.

Council Member Adami said if during the long term planning session, the Council determines that the rate increase should be larger than 6%, he would support a Budget amendment to increase the rate rather than wait until next year. Council Member Smith agreed that if the rates need to increase, he felt the citizens would appreciate just doing it. Council Member Wacker felt increasing the rate over a period of time would be better. Mr. Hefton said as the day proceeds, he felt the Council would see the plan for the rate increase a little better.

Financial Presentation – FY 2011

Mr. Hefton said the proposed Budget is balanced in the major operating funds, by using the savings account and anticipated revenues. This plan is not sustainable for the future, only for FY 2011. At the end of 2011, the City will still have reserves on hand. The reserves are slightly lower than he would like to see, said Mr. Hefton, however they are still "healthy" and are more than the Charter requires. There is no tax rate increase in the proposed Budget but it does include a 6% water and sewer increase.

TASWA rates are also increasing to the City by about $2.50 to $3.00 per ton, so Mr. Hefton said there will probably need to be a rate increase to citizens of about $0.25 to $0.30 per month on the residential bill. The solid waste increase is currently not included in the proposed Budget.

Mr. Hefton said this proposed Budget is "cut very close" and there is no contingency. He expected that there would probably need to be a Budget amendment near the end of the year. Normally the City includes a contingency for things that happen that are not anticipated by the staff. This year that contingency is not included.

The staff is proposing very few CIP projects and there are no new fleet purchases planned this year. The plan is to extend the life of the assets by providing major repairs for fleet instead of replacing it. There are proposed fee increases and more fund transfers than usual.

The Health Insurance Fund is doing well now and will need no extra cash infusion. The City expects to have a $1 million fund balance in the fund at the end of 2011. Two years ago the City was "upside down" in the fund but now the claims history is back to normal and even performing better than what a normal year would be. Mr. Hefton said claims are expected to be $3.1 million in 2010, as opposed to two years ago when the claims were $4.9 million. The fund is building reserves.

Several years ago, the Council wanted to begin "paring down" the fund balance on the Hotel / Motel Fund and the staff has done that. A portion of the fund balance will be spent on one-time items such as the website for $75,000, the Municipal Ballroom kitchen remodeling for $65,000, and increasing the grant amounts.

The City is also proposing a one-time payment to employees in 2011 of $500 to each employee. The cost will be less than $200,000 to the General Fund. This payment will be made out of fund balance.

Mr. Hefton said the main goal this year is to maintain what is being done and to provide essential services with no tax rate increase using the reserves on hand while still maintaining reserves well above what is required by the Charter. He reiterated that the plans for 2011 are not sustainable for the future but get the City to a long term planning stage where the situation can be considered three to five years in the future.

He added that Panda Energy is still coming to Sherman but it has been extended one year from the original expectation, so the financials will need to be modified to reflect that extension.

City Council Members took a lunch break from 11:31 a.m. to 12:13 p.m.

General Fund

Mr. Hefton presented a closer look at some of the major funds. The General Fund is projected to have an ending fund balance of $4.4 million at the end of 2011, or 55 to 57 days of reserves. The Charter calls for 36 days, however Mr. Hefton said he felt the City should have 60 days of reserves. The transfers into the General Fund are higher than normal because some one-time transfers are being made from the Airport Fund and the General CIP Fund to help balance this year's Budget. A detailed schedule of transfers is included in the Budget documentation.

He did expect a "bump" in property taxes this year based on new value and additional value. Mayor Magers verified that Wilson N. Jones Hospital and Carrus Medical Center will be added to the tax role. The staff is projected "flat" sales tax with no growth next year. The City did realize about 1% of growth this year versus last year. Fines and forfeitures are expected to increase due to collection activities for corporation court fines.

Expenses are being held fairly close with $28 million listed expenses. There are hardly any transfers out on equipment or buildings. That only includes equipment in excess of $5,000 and does not include fleet. The City has cut back on capital spending and transfers out.

The General Fund will have a cushion of approximately $463,000. Mr. Hefton added that includes only the current $0.32 tax rate and the increase on property taxes is truly value and not on rate.

Utility Fund

Mr. Hefton said the Utility Fund will have an ending fund balance of $3.9 million, or 70 to 71 days in reserves. The fund includes additional transfers in of $1.1 million, with $1 million of that coming from a one-time transfer in from the CIP Fund. The Fund also includes the 6% rate increase for water and sewer rates and the loss of MEMC and Folgers.

As for expenses, Mr. Hefton said maintenance and repair is down $250,000 because the staff budgeted for only one well repair. Well repairs cost $250,000 to $300,000 each and the City had two this year. A Budget amendment will be needed if additional repairs are needed.

Mayor Magers asked for clarification on the water and sewer rate increase. Mr. Hefton said the staff budgeted for a "normal" summer, with the increase for the proposed water and sewer rates, and a decrease for the loss of MEMC and Folgers.

Variances include a $200,000 increase for utilities and a $400,000 increase in debt service for the additional Lake Texoma water rights. There were some open positions in 2010 that were budgeted as fully funded. Capital expenses are also down significantly because the staff is trying to extend the useful life of many items with additional repairs.

Mr. Hefton said there is a transfer out to the General Fund that is lower than in the past, which is calculated on revenues and expenses. There is an adequate fund balance for 2011 with the 6% increase and the transfers in.

Solid Waste Fund

Mr. Hefton said there is no rate increase for the TASWA expenses included in the proposed Budget. A 3% rate increase would equate to $0.30 per month on the residential rate or $130,000 in total expenses that would be spread out between commercial and residential customers. That should be "a wash" between revenues and expenses.

In the Solid Waste Fund, vehicle usage is hard to project and more susceptible to variations. A heavy part of the expense in this fund is fuel costs and if the cost of gas increases $1 per gallon, the reserves would be depleted.

Mr. Hefton said the TASWA volume is down and costs used to be about $1.4 million. With the fee increase, costs will be at the same level. Last year there was a $2.00 residential rate increase and a 9% to 10% increase on the commercial rate. This was the first ever increase in commercial rates.

There are also transfers out to the General Fund and Utility Fund to cover things those funds do for the Solid Waste Fund. This is basically a "cost of doing business," similar to a franchise fee. The Solid Waste Fund also repaid the General Improvement Fund for the rebuilding of the Transfer Station Wall two years ago. Mr. Hefton said the State allows reimbursement of costs to a City with a franchise fee. Mayor Magers reiterated that a franchise fee would be an expense to the Solid Waste Fund but a revenue to the General Fund. The "franchise fee" is still 8% plus a portion of the revenue stream. Mr. Hefton added that there are State statutes that govern the amount that can be charged for a franchise fee.

Mayor Magers asked if the $2.00 solid waste rate increase to Sherman citizens last year actually covered the lower volume and the increase in rates that TASWA charged the City. Mr. Hefton verified that the rate increase more than made up for the decrease in the tipping fees. He added that the City has also realized an increase of about $100,000 for the sale of recycling materials and the majority of that amount is due to the sale of cardboard. Paper mills are out of pulp or raw materials and are paying premiums of $80.00 to $90.00 per ton for cardboard.

Insurance Fund

Mr. Hefton said in the Insurance Fund, the projected fund balance at the end of next year is expected to be $1.2 million, or about one-third of the premium expenses or about 30% of the total net expenses. He explained that on this fund it doesn't make sense to set the projected fund balance at 60 days because it depends on the claims for that year. There is a cushion in the Insurance Fund, but another bad claims year could make a big difference in the fund balance. No transfers are needed this year for the Insurance Fund.

Mr. Hefton said the City has not raised retiree insurance for many years. The cost of providing insurance coverage to retirees is $400 per month and the retiree is paying $310 per month. The goal is to cover the cost by the retiree and not the City. He added that there are some retirees this will not apply too such as firefighters that received a "fixed cost" during collective bargaining negotiations and some retirees that retired between 1984 and 1989. Retirees not under another agreement would be affected. Council Member Smith verified that the cost to the City is about $10,000.

Council Member Howeth asked if any decisions should be made prior to the Federal Government's health care program. Mr. Hefton said the health care program could affect the City's plan, but he did not know what the changes might be at this time.

Mayor Magers recommended tying the increase to the CPI so it would de-politicize the rate increase and felt that should be discussed during the long range planning later this year.

General Improvement Fund
Mr. Hefton said there are only a few projects in the General Improvement Fund including the Canyon Grove Road relocation, which is located at Travis Street on the back side of Wal-Mart. He did not know a start date or cost on this project but the City is working with TxDOT.

Another project is the third lane on Highway 75 North from Highway 82 to Loy Lake Road. A few years ago money was budgeted for ramp reversals along that same area but TxDOT decided to pay for the project from another fund. Some of this money will be used for the third lane on the highway.

Originally Woodmont was supposed to pay for the third lane but that is no longer an option. Between all these projects, the third lane on Highway 75, Travis Street behind Wal-Mart, and the ramp reversal should be completed. The only project left is the Loy Lake Road Bridge over Highway 75, which will be a multi-million dollar TxDOT project. Mr. Hefton said there is currently $225,000 funded for the third lane project, however it can be used for whichever of the four projects are scheduled first.

Council Member Adami asked if the sales tax to improve existing streets could be used for the Highway 82 Bridge at Travis Street. Mr. Hefton said it is supposed to be used to improve existing streets.

The General Improvement Fund also includes drainage improvements and the geographic information system (GIS) system, which are high priorities. There is a transfer in for the Solid Waste Interior Driveway Rebuild project so there is a zero net effect. The final project is the Old Settlers Park Shade Structure Repairs. After all projects, the remaining fund balance will be $170,000 which gives a little flexibility.

Utility Improvement Fund
Mr. Hefton said besides the transfer out, the only money set aside is a contingency for utility oversizing. The ending fund balance will be approximately $600,000 for projects next year. There is about $2 million left at GTUA from project savings over the past couple of years. Plans are to use this money for projects in 2011.

Hotel / Motel Tax Fund
Several years ago, the City Council directed the staff to reduce the fund balance in the Hotel / Motel Fund. At the end of 2009 the fund balance was $403,000 and is projected to be $150,000

at the end of 2011. One-time costs for the kitchen remodel and the website will help reduce that fund balance. Some grants were also increased. The fund also includes money for projects such as Hot Summer Nights, the Lights on the Lake, and the Red River Bike Rally.

Airport Fund
Mr. Hefton said the Council previously directed the staff to reduce the fund balance in the Airport Fund. This fund balance was reduced by $400,000 with a transfer to the General Fund. Council Members discussed the cost of fuel and the revenue generated from fuel sales.

Mr. Hefton explained that when the City accepts grant money from the Federal Aviation Administration (FAA) funneled through TxDOT for the Airport, the requirement to keep the Airport open for 20 years starts over. If the Airport is closed prior to that 20 year period, the City would have to refund the grant money. The last grant accepted was in 2005.

Mr. Olson said the current Airport Advisory Board is developing a long term business model for the Airport that they will soon be presenting to the City Council. There are some issues that will need to be addressed at that time. Mr. Hefton added since the City is moving $400,000 from the Airport Fund, there will not be money to build hangars. Council Member Smith said they originally decided to let the private sector build hangars and since they have not done that, there must not be a market for the hangars. Mr. Hefton added that the request is not coming from the staff, it is coming from the Airport Advisory Board.

<u>DISCUSSION OF LONG-RANGE PLANNING</u>
Financial Presentation – Long Term
Mr. Hefton addressed long term planning issues. Pressures on the Utility Fund include the loss of MEMC and Folgers. Pressures on the General Fund include the Texas Municipal Retirement System (TMRS) changes that the City is about through implementing; revenue decreases of $1.1 million per year from flat sales tax and struggling franchise fees; an extensive capital improvement program over the last few years; and employee compensation of $350,000 per year.

Mr. Hefton said the staff needs some long term planning meetings with the Council in the Fall to plan for the next five years. Mayor Magers said the City has met most of the goals of the previous Strategic Plan from 2005. Mr. Hefton added that they want to continue to focus on essential services and to be efficient on what services are delivered and how they are delivered. They also need to discuss revenue enhancements. Mayor Magers felt that managing water sales should be a “revenue enhancement” bullet point and should be a strategic goal for the City of Sherman.

The staff has taken known things and factored them into five year projects along with revenue assumptions. For 2011, essentially all the City’s debt service is being paid from savings on the projects, according to Mr. Hefton.

Mr. Hefton presented TML Tax and Debt Surveys and felt that they showed that if the City of Sherman is providing the same services and amenities as other cities her size, then Sherman is doing it for a lot less tax money than other cities.

He also presented Utility Fund Revenue Projections including the effects of MEMC and Folgers, which is about $2 million per year. For 2012 they also included Panda Energy water usage, however that probably needs to move out one more year. Mayor Magers said Panda’s problem is that electric rates are so low, they can’t “lock in” customers for long term contracts at a higher rate than they can get today. According to Mr. Hefton, most plants are gas-fired plants and regardless of what plant your power is generated at, the price you pay is based on the cost of gas-fired plants. So customers are paying electric costs based on the price of gas. Historically gas prices are higher, however for the last year and a half, they are at about half the normal rate.

According to Panda Energy there are not immediate market forces that will be driving gas rates back up. Therefore, customers can't save a lot of money by locking in a rate that is higher than the current market rate.

Mr. Hefton said there is still some uncertainty about the need for projects and which year they might fall into. He said they will provide several scenarios for the long term planning meetings.

The Solid Waste Fund appears to have a large fund balance, but the projections do not include increased TASWA rates or increased fuel costs. The fund should be evaluated on an on-going basis.

He also presented detail on the debt service requirements through 2015.

Council Direction
Council Member Adami asked about transfers out in the Solid Waste Fund and what portion relates to franchise fees or to a specific project. Mr. Hefton said he will break out those costs at the next presentation for all funds, but especially the Solid Waste Fund. Mayor Magers also wanted to look at this after TASWA decides how they will handle their rate increase.

Council Member Adami said it is hard to evaluate when you are comparing "actual 2008-2009" and "projected 2009-2010" to next year. He asked to have a five year past history of the budgeted amounts too. Mr. Hefton will prepare a five year look back and a five year look forward.

Council Member Wacker felt there were still very positive things in this year's Budget and for the future. Sherman is reaping her past benefits and still holding her own. She felt good about what had been done and felt that things would get better two or three years in the future.

Mr. Hefton praised the staff for their hard work during this tight Budget year. He asked the City Council about the proposals that were presented for the FY 2010-2011 Budget.

Mayor Mages said the Council understood that there would not be excess revenue for projects. The proposed Budget is balanced with the same tax rate, which is what the Council requested. He felt they should take a hard look at increasing fees or taxes for the future. When times are good, the Council doesn't have to make hard decisions. At the end of the long term planning sessions, the City Council needs to agree to take steps to make the City viable and moving forward, with things such as fee increases.

He did not feel that increasing property taxes is the answer to Sherman's situation. The key things that need to be looked at are the water, solid waste, and business development. Mayor Magers felt it was very important to put a plan in place to sell Sherman water. Sherman needs to find the revenues, but it is too early to increase taxes.

Council Member Adami said the City Council committed to voters that if they passed the sales tax for streets they would lower property taxes. The lower property taxes need to remain in place for the current term of the sales tax for streets. Mayor Magers agreed and said the Council does what they say they will do and they have credibility with the taxpayers. He asked to see scenarios with and without the sales tax continuing.

Council Member Adami said the Council appreciates the work done by the staff and he wished the economy was better so they could consider a cost of living adjustment.

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 1:44 p.m. Documentation for the Budget Work Session is held in the General File “Budget Work Sessions FY 2010-2011" in the City Clerk’s Office.

MAYOR

ATTEST

CITY CLERK