STATE OF TEXAS §

June 10, 2008

COUNTY OF GRAYSON §

BE IT REMEMBERED THAT A Called Meeting of the Sherman City Council was begun and held in the Council Chambers of City Hall, 220 West Mulberry, Sherman, Texas, on June 10, 2008.

COUNCIL MEMBERS PRESENT:	Mayor Bill Magers; Deputy Mayor Cary Wacker. Council Members Adami, Howeth, Softly, Steele.
COUNCIL MEMBERS ABSENT:	Council Member Smith.
CITY STAFF PRESENT:	George Olson, City Manager; Robby Hefton, Assistant City Manager/CFO; Doreen McGookey, City Attorney; Scott Shadden, Director of Developmental Services; Mark Gibson, Director of Utilities; Larry Wortham, Director Parks and Community Service; Tom Watt, Police Chief; Jeff Jones, Fire Chief; Rita Gaither, Planning and Development Coordinator; Mary Lawrence, Controller; Pam Cloer, Assistant to the City Manager; Linda Ashby, City Clerk.
PURPOSE:	**Call to Order, Quorum Determined, Meeting Declared Open** **Summary Financial Information** **Estimated Financial Operating Results for 2007-2008** **Capital Improvement Funds for 2007-2008** **Revenue Projection for 2008-2009** **Status of Council Initiatives from 2007-2008 Budget Process** **Identification of Planning Initiatives for 2008-2009** **Executive Session** **Section 551.074 – Personnel Matters:** **Deliberate the Appointment, Employment, Evaluation, Reassignment, Duties, or Dismissal of Certain City Employees** **Open Meeting** **Reconvene into Open Meeting and Consider Action, if Any, on Items Discussed in Executive Session** **Adjournment**

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Magers called the meeting to order at 12:12 p.m., declared a quorum present, and opened the City Council Meeting. He introduced the format for the meeting adding that the economy has slowed down and he urged the Council to look at basic needs not wants.

George Olson, City Manager, said this meeting was a very important piece of the budget process. The staff will give an overview of the City's financial situation and will introduce initiatives from the Council and the staff. The Budget Work Shop will be held in July 2008.

Mr. Olson outlined highlights from the current year including the adoption of an additional sales tax to reduce property taxes and for street enhancements; the issuance of $5 million in Certificates of Obligation in the General Fund for various projects; the update of the Comprehensive Master Plan; various annexations including Highway 75 and Highway 82 West; amending the downtown improvement program; and Capital Improvement Projects such as the Center Street Park, Pecan Grove Park Phase 1, Brockett Street enhancements; water and sewer along Highway 75 North, and water on Highway 82 West.

SUMMARY FINANCIAL INFORMATION

Robby Hefton, Assistant City Manager/CFO, reviewed the finances of the City in the General Fund, Utility Fund, Solid Waste Fund, and the Capital Improvement General and Utility Funds. The General Fund is supported mainly by taxes and accounts for general activities of the City. The Utility Fund is supported by water and sewer rates. The Solid Waste Fund is supported by commercial and residential solid waste rates and by recycling rates. The General Improvement Fund accounts for general capital projects such as streets and parks; and the Utility Improvement Fund accounts for utility capital projects such as water and sewer improvements.

Mr. Hefton said the City has begun collecting the sales tax for the street enhancement program that was recently approved by voters. June sales tax revenues from the State Comptroller will be the first month that includes receipts from this sales tax.

ESTIMATED FINANCIAL OPERATING RESULTS FOR 2007-2008

General Fund

The beginning fund balance for the General Fund is about $2.5 million, better than what was projected when the budget was built. Therefore the General Fund has a more than adequate fund balance and a reserve level of 83 days. Generally, the City tries to keep the reserve level at about 60 days. For 2008 the expenditures are in excess of receipts by about $1.7 million. The General Fund is balanced on an on-going basis. Mr. Hefton added that personnel costs generally account for two-thirds of the General Fund costs.

Council Member Adami asked about the increases in the supplies and maintenance line items. Mr. Hefton said the main change was an internal accounting change where the capitalization policy was changed from one line item to another. Equipment under $5,000 is now charged to supplies instead of equipment and buildings.

Maintenance costs increased because last years rain caused many street maintenance projects to be delayed until the Fall. Therefore two years of street projects are in this year's projected budget numbers.

Utility Fund

The Utility Fund will have a reserve level of 64 days, which is close to the target level. The projected expenses are less than the adjusted budget. The adjusted budget is the original budget approved plus all projects that were in process last year and were "rolled forward." The types of projects that were rolled forward include some huge well repairs that cost $400,000 and weren't completed until Fall of this year, and the biosolids program that was delayed because of the rain.

Revenues are down slightly due to industrial usage issues with a couple of the big industries. Reserves are projected to be at $3.5 million and Mayor Magers confirmed that reserves should be closer to the $3 million range. In FY 2005-2006 the reserves were at $6.4 million, which was too high. Therefore some of the reserves were used to complete capital improvement projects.

Mr. Hefton said the City should fund some percentage of the utility improvements through utility rates. Therefore, there should always be a transfer out of money to the Utility Improvement Fund as well as the General Improvement Fund.

Council Member Adami asked why only a portion of the Utility Improvement Fund came from the Utility Fund. Mr. Hefton said most of the large utility projects are contracted through the Greater Texoma Utility Authority and they are funded through debt service instead of a transfer. The projects are funded from rates, but not as a transfer of funds. Generally, there should not be any crossover from the General Fund to the Utility Improvement Fund. There is an annual transfer of about $1.5 million from the Utility Fund into the General Fund that represents administrative and franchise costs for services provided by the General Fund. There is a similar transfer into the General Fund from the Solid Waste Fund for franchise costs.

Solid Waste Fund

Mr. Hefton said fees generated from services provided in the Solid Waste Fund are more than 95% of the funding source for this fund.

Mayor Magers informed Council Members that tipping fees at the Texoma Area Solid Waste Authority Landfill will increase from $24 per ton to $28 per ton, effective October 1, 2008. This is a 17% increase. He added that there will probably be another $2 per ton increase next year. The cost of fuel will also increase.

Mr. Hefton said reserves for the Solid Waste Fund are adequate at 73 to 74 days, which is higher than the target amount. Fees are down slightly due to one industrial customer that changed the process of their waste stream. That's good news for them but results in lower fees for the City.

Council Member Steele asked if other TASWA partners experienced a 17% increase in tipping fees. Mayor Magers said everyone had the same percentage increase. Council Member Adami asked why member entities of TASWA paid the same as other non-member entities.

CAPITAL IMPROVEMENT FUNDS FOR 2007-2008

General Improvement Fund

Mr. Hefton said the General Improvement Fund includes bond proceeds and the capital projects that are funded. This year, $10,300,000 was budgeted for bond proceeds. The City issued $5 million in bonds and after closing fees, the City netted $4,950,000. This results in a large ending fund balance of $9.7 million. He added that the City is spending about $2 million less than was expected.

Mr. Hefton said of the $6.8 million projected ending fund balance in the General Improvement Fund, $2.3 million is not designated. Another $4.35 million is designated for bond projects. Mayor Magers verified that some of the bond projects are scheduled for next year.

Utility Improvement Fund

Mr. Hefton said $4.6 million is projected in reserves for the Utility Improvement Fund at the end of the fiscal year. Originally the staff planned to include the Highway 75 water and sewer extension to Highway 691 in the Utility Improvement Fund, however cash was not received from the Sherman Economic Development Corporation as originally projected. This has become a Greater Texoma Utility Authority project. GTUA will build the water and sewer lines, the City will pay the debt service to GTUA, and SEDCO will reimburse the City for the debt service.

Mr. Hefton added that the City has seen a good budget experience on several of the bigger projects, including the Water Treatment Plant upgrade.

REVENUE PROJECTION FOR 2008-2009

Mr. Hefton outlined the revenue projections for 2009. The General Fund revenue is essentially flat however several things are being paid for by different funds. The debt issued must have a separate ad valorem tax pledge so that money is in a different fund and the City would expect to see a decrease in property tax revenues for 2009 based on the debt service. A portion of the new sales tax was in lieu of property tax, so the City would expect a decrease in property tax revenues and a proportional increase in sales tax in lieu of property tax. Even with all the changes, the revenues are "holding their own." This assumes a $0.32 tax rate.

Council Member Adami asked about the decrease in franchise taxes. Mr. Hefton said the franchise fees come from electric service, gas service, telephone service and cable television service. As prices fluctuate, the City's revenues fluctuate too. He said electric and gas represent about 75% of the franchise fees. Even though electric and gas rates have increased to consumers, their cost is based on the cost of natural gas. The natural gas prices have been steady the last couple of years. He felt the rate might be adjusted some.

Mr. Hefton said the staff is projecting inflationary revenue increases of about 2% in the Utility Fund and Solid Waste Fund for residential service. He said the staff will probably propose a rate increase in the Solid Waste Fund rates especially for commercial service. The increase is proposed because of the increase in gate rates at TASWA and because there has never been any rate increases in the commercial program.

Mayor Magers said the Council needs to review solid waste rates with a two year window, because TASWA rates will probably increase next year too. TASWA's plan is to increase the gate rates to $32 per ton over a five year period.

Mr. Hefton addressed challenges for the FY 2008-2009 budget. The City's contribution rates for the Texas Municipal Retirement System will increase from 15.77% to 18.36%, which will cost the City approximately $400,000. The plan is to phase the contribution in over three or four years.

Mr. Hefton said it appears that the plan for addressing the group health plan will be a one-time transfer of $1 million from the General Fund to replenish the insurance fund. This measure will only get reserves back in the group health plan. There will still be an on-going problem. He did not recommend going out for bids at the present time because the claims have been so bad and the City doesn't want to incur a huge increase in premiums. Mr. Hefton said the City normally has two or three claims that reach the stop loss level, but this year it appears they will have ten.

Council Member Adami asked if the trend was still to self-insure. Mr. Hefton said it was for cities with a population the size of Sherman. He added that if the City had 400 employees instead of 300, they might want to change from a self-insured plan.

Mr. Hefton explained how the City charges each of the funds at the projected cost for the insurance for employees for that fund. Council Member Adami said $1 million is being transferred from the General Fund to replenish the insurance fund. He wanted to be sure the other funds, Utility Fund and Solid Waste Fund, were also charged a proportionate amount to replenish this fund since they have employees too. Mr. Hefton reiterated that funding is allocated to each fund for on-going health insurance costs.

Mayor Magers said the total annual effect of TMRS is $400,000 and the on-going increase for health care funding is $500,000, therefore, moving forward, the City will have an additional $1 million in payroll expenses. Mr. Hefton added that the staff is looking at various alternatives for modifying the employee health benefits, including a change in the deductible.

Council Member Adami verified that the TMRS changes were mandatory and asked for a summary of the changes. He felt it was a better accounting of cost to charge each fund for their percentage of funding to TMRS based on the employees covered in those funds.

Mr. Hefton said the most recently Consumer Price Index percentage is 4.4%. Most of the CPI is attributed to the utility and fuel costs.

Council Member Howeth asked about the increase in employee health insurance. Mr. Hefton said the additional cost is due to major claims. This year the City will have approximately ten major claims as opposed to the normal two per year.

Mr. Hefton said the staff's budget strategy is to finish what was started, focus on the essentials, and follow the money. The staff is discussing third-party revenue collection partnerships in areas such as courts, solid waste, water/sewer, ambulance, and hotel/motel tax.

He added that there are currently two hotels that are deficient on their payments and the staff is pursuing avenues of collection. Mayor Magers asked if the payment of bills to the City could be tied to water usage and if someone doesn't pay their City obligations, could their water service be disconnected. Doreen McGookey, City Attorney, said she is currently looking at that issue as well as filing a lawsuit against the hotels. Council Member Howeth recommended that the Tourism Department not advertise these hotels if they aren't paying their hotel/motel tax.

Mr. Olson confirmed with the City Council that the staff's prioritization of the General Fund is the same as the Council's prioritization as they move into budget planning. The first area of concern is public safety, including police, fire, code enforcement and animal control; the second is streets; the third is administrative, including management, finance, legal, clerk, human resources, engineering, building maintenance, and development services; and the fourth priority is community services, including cemetery, library, pools, senior center, parks and grounds, Glennie O. Ham Center, community development, and day care. Council Members agreed these were the priorities that should be considered as the staff moves into budget planning.

Mr. Olson presented projects that were discussed during last year's Budget Work Shop and the status of those projects. Most projects have either been completed or are in process, but a few have been delayed.

Mayor Magers confirmed that the Travis Street overlay project will begin after the water line has been replaced. That water line should be awarded at the next City Council Meeting.

Council Member Steele asked about the status of marketing the City and the website development. Mr. Olson said the staff has looked at including tourism with the project, however it is still under discussion. Mr. Hefton said the staff sees marketing the City through the website and the redevelopment of the website tied to the tourism initiative and that tourism initiative is still under discussion.

Council Member Howeth suggested that the City's website include the actual dates for Council Meetings.

STATUS OF COUNCIL INITIATIVES FROM 2007-2008 BUDGET PROCESS

Mr. Olson presented the FY 2008-2009 budget planning initiatives adding that the City needs to complete the projects that have already been started. He presented a list of staff initiatives designating them as essential, important, or discretionary.

Council Member Adami verified that the off-site drainage projects related to Brockett Street were in addition to the project already planned. Mr. Olson said the drainage issues would be aggravated by the Brockett Street Enhancement Project. He added that many of the problems are adjacent to the railroad track. Some of the projects maybe as easy as cleaning out storm drains.

Mayor Magers felt the Canyon Creek Drive extension was tied to the Pecan Grove Park Phase II project.

Council Members took a break from 1:25 p.m. to 1:31 p.m.

IDENTIFICATION OF PLANNING INITIATIVES FOR 2008-2009

Mr. Olson said it was the City Council's turn to identify planning initiatives they would like to see in the budget process.

Mayor Magers felt there were two issues with employee health care, a short term, hopefully once in a lifetime issue, to replenish the fund; and a long term issue for allocation. He reiterated the importance of completing the CIP projects that the City has committed too in the proper time frame. The projects were to be completed in two years, except for the streets which were included in the four year sales tax plan. He has heard that the citizens are frustrated by Councils making promises and not following through. He added that the Canyon Creek Drive extension project should be tied to the Pecan Grove Park Phase II project.

Council Member Steele wanted to consider the cost and whether or not the street sweeping program is needed. He asked what would happen if it was not done and what the benefit was to the program. Council Member Wacker felt there was a benefit to the program. Mr. Olson said the City is currently providing the service internally.

Council Member Steele had also asked about improvements to the Old Settlers Park fields, including grading and leveling, however he said this was not a budget issue and had been addressed.

Mayor Magers addressed park maintenance saying as the park system is expanded, the City will also have added maintenance costs. Council Member Steele agreed saying the City must determine more efficient ways to maintain the parks, including the possible privatization of maintenance.

Deputy Mayor Wacker said last year the Council discussed hiring a professional park planner, and she wondered if there was a key staff member that could help in the future with park planning and engineering.

Council Member Adami did not want to assign a priority to these items, but wanted the staff to provide information for the Budget Work Session and then let the Council decide what items would be included in the final budget.

Council Member Howeth expressed concern about the constant maintenance from vandalism of the Hawn Park Skate Park. She did not know whether the solution was maintenance or better security.

Mayor Magers felt the Council should also discuss the tourism and the downtown area but mainly about moving money around and not increasing the budget.

Council Member Adami wanted to discuss West Hill Cemetery and its appearance along a major thoroughfare. He felt the metal building could be enhanced and the concrete markers at the entrance could be painted.

Mayor Magers said the Council has discussed linking Fairview Park to Pecan Grove Park by a trail system. Baker Park has been linked to Binkley Park and to the Center Street facility. He added that even painted bike trails along some of the streets would be a start to the process. He felt the parks are more valuable assets if they are linked together.

Council Member Softly asked to look at additional street lighting over certain area streets that he will identify for the staff.

Council Member Howeth asked for a copy of the City codes relating to trash, junked vehicles, high weeds and grass, and other environmental code issues.

Council Member Adami asked for a time line, with completion dates, for projects in progress. Council Member Steele agreed that those are the questions that citizens ask him and a time line would help him provide information.

EXECUTIVE SESSION – IN ACCORDANCE WITH CHAPTER 551, GOVT. CODE, V.T.C.S., (OPEN MEETINGS LAW)

THE CITY COUNCIL WILL NOW HOLD AN EXECUTIVE SESSION PURSUANT TO THE PROVISIONS OF THE OPEN MEETINGS LAW, CHAPTER 551, GOVERNMENT CODE, VERNONS TEXAS CODES ANNOTATED, IN ACCORDANCE WITH THE AUTHORITY CONTAINED IN THE FOLLOWING SECTIONS.

SECTION 551.074 -- PERSONNEL MATTERS:
DELIBERATE THE APPOINTMENT, EMPLOYMENT, EVALUATION, REASSIGNMENT, DUTIES, OR DISMISSAL OF CERTAIN CITY EMPLOYEES

On Motion duly made and carried, the Open Meeting recessed and reconvened in Executive Session at 1:47 p.m.

On Motion duly made and carried, the Executive Session recessed at 2:19 p.m. and reconvened in Open Meeting.

OPEN MEETING

RECONVENE INTO OPEN MEETING AND CONSIDER ACTION, IF ANY, ON ITEMS DISCUSSED IN EXECUTIVE SESSION

There were no items to be discussed from the Executive Session.

ADJOURNMENT

There being no further business to come before the City Council, motion was duly made and approved to adjourn the Called Meeting at 2:20 p.m.

MAYOR

ATTEST

CITY CLERK