STATE OF TEXAS §

April 26, 2013

COUNTY OF GRAYSON §

BE IT REMEMBERED THAT A Called Meeting of the Sherman City Council was begun and held in the City Council Chambers on April 26, 2013.

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

COUNCIL MEMBERS ABSENT: None.

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

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

FINANCIAL UPDATE AND COUNCIL INPUT FOR 2013-2014 BUDGET YEAR

DISCUSSION OF BUDGET CALENDAR FOR FISCAL YEAR 2013-2014

ADJOURNMENT

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Wacker called the meeting to order at 11:04 p.m., declared a quorum present, and opened the City Council Meeting.

George Olson, City Manager, explained that the Budget Planning Meeting was an opportunity for the City Council to provide direction to the staff on the items they would like to include in next year's budget. The staff will also provide a financial update for the Council.

He added that this year's presentation will also include an update on the Hotel/Motel Tax. During the past several years, the Council has been trying to reduce the fund balance for this fund, and now some decisions need to be made. An exercise will help Council Members prioritize the things they want to include in the Hotel/Motel Tax budget.

Mr. Olson said the staff is focusing on the critical items and the major core functions. He said that revenues are "flat" again. The meeting will also include input from Council Members that will be used to determine items brought forward for the June Budget Work Shop.

FINANCIAL UPDATE AND COUNCIL INPUT FOR 2013-2014 BUDGET YEAR

Robby Hefton, Assistant City Manager/CFO, outlined the agenda for the meeting. He presented the current year budget highlights, saying one of the major things that the 2013 budget focused on was catching up on fleet purchases, and that is in process. There are revenue challenges in the General and Utility Funds and revenue is "fairly flat" compared to last year. Mr. Hefton said the City budgeted for an increase. However, spending is at or below budget so the net effect of the revenue and expenses is mitigated, especially in the Utility Fund. He added that there are "ample" fund balances in the major funds, with the fund balance at 75 days in the General Fund; over 100 days in the Utility Fund; and about 80 days in the Solid Waste Fund. There are challenges in the group health and Mr. Hefton said the staff is reviewing ways to manage the plan, as well as getting quotes from other companies. The Fielder Park project is underway and the Taylor Street facility should be completed next month. There are also various water and sewer projects that are progressing.

Financial Update
Mr. Hefton said the ending fund balance for the General Fund is at 74 or 75 days, which is on target. However, revenues are not keeping up with expenses by about $804,000 for 2013. The City budgeted for a deficit of about $113,000 because of some encumbrances, but this puts the City at about $700,000 worse than anticipated. Even so, the fund balances are adequate and no action is needed now. He added that these challenges are not because of expenditures, but because of revenues.

Council Member Smith asked when this would become a problem. Mr. Hefton said it would become a problem if the reserves fall below the target number of days. He felt there would be adequate fund balances through the 2014 budget, but if things continue to track as expected, there would be some challenges for 2015.

Mr. Hefton said in both the Utility Fund and the Solid Waste Fund, rates can be raised to increase the revenue, but there are limited ways to increase revenue in the General Fund. He did reiterate that there are some challenges going forward. One challenge is that sales tax is flat this year, while the City budgeted a 2.5% increase.

Deputy Mayor Howeth asked about the upcoming construction at Sherman Town Center and how it would affect the sales tax. Mr. Hefton said the staff would hope that the additional retail development would generate additional sales tax. He didn't feel that the highway construction would hurt the sales tax because it will be coordinated with the Texas Department of Transportation to minimize the negative impact. Mayor Wacker added that there are several ways to get to the stores and the construction won't be blocking the only way in or out. It will be inconvenient, but once the development occurs, it should have a positive impact.

Mr. Hefton said he would not be budgeting for a sales tax increase for the 2014 budget and it will be projected as flat. Franchise taxes are also down about $300,000, mostly in the electricity franchise. Franchise taxes will also be projected as flat for 2014. Altogether the City is down about $700,000 in revenues.

Mr. Hefton said there are no major stories with expenditures in the General Fund and they are tracking about as expected.

In the Utility Fund, Mr. Hefton said there is a healthy $6.6 million fund balance, which is about 120 days. He said in 2014, the staff will probably recommend drawing that fund balance down to about the 90 day range. Those funds could be used to help fund items in the 2014 budget. That will give the City about $1.5 million from the Utility Fund for the 2014 budget to draw the fund balance down to $5 million.

There is about $400,000 less in revenue in the Utility Fund, mainly from sewer revenue from industrial users. Some of the industries, to their benefit, have added reclamation processes that help them but hurt the City's revenues. He said revenues in the Utility Fund are down about $400,000 versus what was budgeted. Expenditures are also down about $1 million, mainly in well repairs.

Mr. Hefton said utilities and debt service are down about $200,000 each, so the fund balance in the Utility Fund is up about $700,000 over the projected amount.

The revenues are flat in the Solid Waste Fund and the expenditures are holding as projected. There is a savings of about $100,000, but the net effect is that it is performing as expected when the 2013 budget was built.

Mr. Hefton said in 2014, 2015, and 2016, it was planned that the Texoma Area Solid Waste Authority would build up a reserve fund so future cell constructions would be paid for in cash instead of borrowing money. The net effect of that would be that over the life of the next four cell developments, including the one they are currently constructing, it would save TASWA about $2 million. TASWA rates were set by their Board with the idea to accumulate the cash over the next three or four years, beginning in 2014, so future cell developments can be funded with cash. He added that, for the City, this will mean that the "contractual and sundry services" line item will increase by about 10% to 13% for about three years, and then should, "in theory", drop back down. The majority of this line item is for tipping fees.

He briefly addressed the General Improvement Fund and the Utility Improvement Fund. Several projects are currently "in process." The Utility Improvement Fund should have an ending fund balance of $1.5 million, which is a little better than expected.

Hotel/Motel Tax Fund

For the discussion on the Hotel/Motel Tax, Mr. Hefton introduced Don Keene, Director of Public Works, to outline the tourism program. He said the City of Sherman has a solid plan for what they do and they want to work that plan in a balanced budget. Currently the proposed 2014 budget is not balanced, and the staff would ask for Council input on their priorities to help make the budget a balanced budget.

He outlined the Tourism Department's mission statement and core values, as well as their goals and objectives. Their goals are to increase visitor awareness, foster usage of City facilities, and to support local arts and humanities programs and other tourism related groups. He added specific actions that the department planned to do for each goal.

Mr. Olson explained that the Tourism Department had not always been under the City of Sherman. It has been at the Chamber of Commerce and on a committee under an appointed City Council Committee with a hired employee under contract. When it was brought in-house, there was not a lot of money. The staff reviewed what they had and developed a structure based on the resources. The City doesn't provide a lot of additional services, because they don't have the staffing to do that. Therefore it was designed to help, promote, provide facilities, and advertise. The City has been "running" some events because these were popular events and the City kept them going.

Mr. Keene said the plan is to be balanced financially and to keep the tourism expenditures within the revenue that is received. He outlined the preliminary 2014 budget. Money for tourism comes mostly from the Hotel Occupancy Tax. In 2014, that revenue is projected to be approximately $454,000, which is a 20% decrease over the last five years.

Projected expenditures include debt service, which pays for the Auditorium and Ballroom renovations in 2000; Auditorium and Ballroom expenses, which includes maintenance and operations for an average of over 30 events per month; administrative expenses; Hot Summer Nights at $19,000; Lights on the Lake at $15,000; other programs such as the Arts Festival and visitor center; advertising; grants for events such as the Sherman Symphony Orchestra, Hagerman Birding Festival, and holiday sports tournaments at $25,000; the Central Business District incentive grants; funding through the Sherman Council for the Arts and Humanities to various non-profit organizations at $36,000; and to the Sherman Museum at $83,000.

Mr. Keene said the goal is for the 2014 budget to be balanced financially and they are not there yet. He asked Council Members to provide input on their priorities in the tourism program.

Council Member Sofey asked how much longer the City would be paying on the debt service. Mr. Hefton said it was originally 20 year debt and there is approximately seven or eight years left. Cost of the debt service is between $110,000 and $120,000 annually. By the City's bond covenant, they are required to set the money aside for the debt service payment first, prior to any expenditure. He added that 2% of the 7% collected is earmarked for debt service.

Mr. Hefton presented a five-year look at the financials for the Tourism Department. In 2014, there will be $177,680 in revenue available for programs and events. Anticipated expenditures for 2014 are at $263,399. In previous years, the goal was to spend down the fund balance from over $400,000 to what should be $100,000. The fund balance is below where it should be and is at $44,169. Mr. Hefton said as it sits today, there is a problem of about $100,000 that needs to be "fixed."

He presented a chart with the following tourism projects listed: Hot Summer Nights, Lights on the Lake, advertising, event grants, Downtown Grant Program, Sherman Council for the Arts and Humanities, and Sherman Museum. Mr. Hefton gave Council Members three colored dots to place on the list to designate their priorities for the tourism program. This direction will help the staff balance the budget for final presentation to the City Council in June 2013. (A copy of the priority selection is attached to the Minutes)

Mr. Olson clarified that "event grants" include high school basketball tournaments to the Hagerman Birding Festival to the aerobatics events. Mr. Hefton said the "Downtown Grant Program" is for people who reinvest downtown and is a matching grant for up to $25,000.

Mayor Wacker said with the mission and goals the City has, they are focusing on promoting the City, getting the name out, and supporting these events. The City would not necessarily be the entity putting on the events. Mr. Olson said the City's major role is to get the community more involved in the events, not to organize the events themselves.

Deputy Mayor Howeth asked if a 10% cut across the board would bring the budget to where it needs to be. Mr. Hefton said it would require a 35% cut across the board to reach the budget numbers. Council Member Johnson asked about the sponsor participation for events such as Hot Summer Nights and Lights on the Lake. Mr. Hefton said participation varies for Hot Summer Nights and entities may sponsor one night or a banner. For Lights on the Lake, a local bank pays for the entire fireworks show, which is almost half of the event.

City Council Members took a break from 11:54 a.m. to 12:15 p.m.

Mr. Hefton thanked Council Members for their participation with the Hotel/Motel Tax priorities saying that it would allow the staff to develop a plan for the June Budget Work Shop. He reiterated that the SCAH funding is a pass-through of money for eight or ten different organizations. The grants range from $1,500 to $5,000 and cannot be more than a small percentage of their budget. Therefore SCAH is not the main funding source for any of these agencies.

Fleet Purchases
Mr. Hefton said one of the major themes for the 2014 budget would be fleet. He presented a summary of fleet purchases for the last four or five years. In 2010, the City purchased the ladder truck. It was financed, so the initial cash outlay was only about $200,000. There was an intentional increase in fleet purchases in 2013 as part of the "catching up" process. It amounted to a little over $1 million in the General Fund alone.

Mr. Hefton said the City needs to be spending about $850,000 annually on fleet. They have actually been spending about $600,000 a year since 2007. The Council authorized additional spending on fleet in the current budget year. The requests for fleet purchases in the 2014 budget have been close to $2 million in the General Fund. Those are requests and have not been approved by the staff for inclusion in the proposed budget. If those requests were granted, that would bring the average for that seven or eight year time period back where it needs to be. He added that 2014 is the final "catch-up" period for fleet purchases.

Mr. Hefton said the primary focus on the operating functions for the 2014 budget would mainly be on the Public Safety, Streets, and Sanitation Departments. He added that they have already started focusing on fleet and equipment purchases, group health, and expansion of the existing street program.

There are also several primary services that the staff hasn't been focusing on because resources have been limited. These include alley and right-of-way maintenance, which was cut seven or eight years ago. The program was to maintain the alleyways so the City could get equipment in there to repair the water and sewer lines. Originally the City had a crew for the maintenance, and then Mr. Hefton said it was "outsourced." There is no longer a dedicated program to maintain the alleyways.

The City also hasn't focused on succession planning, technology, facilities maintenance, and emergency preparedness the last few years either. Some of these items may be included in the 2014 budget.

Mr. Hefton said the focus for the 2014 budget will be the continuation of catching up on fleet, group health, the streets program, Hotel/Motel Tax Fund, the Municipal Airport, water and wastewater, stormwater plan and projects, and building and development fees.

He added that currently a consultant is studying the condition of the runways and taxiways of the Airport to determine the timing, scope, and cost of a project that would be needed for an upgrade. Council Member Smith asked if that assumes the Airport will stay open. Mr. Hefton said it assumes that if the Airport stays open, this is what would be needed. After the study is completed, there will be other decisions to be made. Hopefully the study will be completed in time to make a presentation at the Budget Work Shop.

Mr. Hefton said there continues to be significant projects in the water and wastewater areas. In the past it has been said that the engineering and expansion need to be done when the City reaches about 75% capacity, and that is where the City is now. The staff will review the timing on expansion of the plants.

He said the City should have the stormwater plan back during the next month and have a fairly complete draft. There should be a presentation either at the Budget Work Shop or prior to that. This plan will include projects that need to be completed.

Ongoing Balancing
Mr. Hefton said discussion of the ongoing balancing does not apply to the 2014 budget because those numbers are not in yet. But he wanted to give the Council a feel for what they need to be thinking about long term, in the next year or two.

In 2008-2009 the City's General Fund budget was $30.0 million and the budget today is $30.2 million. For the last five years, there has been a "flat" budget. The Dallas-Fort Worth Consumer Price Index increase has been 9% over the same period. However that has created some challenges as the City moves forward.

For 2014, Mr. Hefton said they expect sales tax to be flat, property tax to be relatively flat, and franchise tax to be flat. There will be some positive impact from Panda Power in 2015, and more in 2016. There is also additional retail development on the north side of town that will help increase property tax a little. If there is growth it will probably be in the 1% to 2% range. Mr. Hefton said all this points to an approximate $29 million revenue budget. The City is already at a $30.1 million budget, without any of the items that need to be focused on but haven't been. That is status quo. With no salary increases or any increases the City would still be at a $450,000 deficit. Mr. Hefton said it will be worse than that, but the "sky is not falling." Ongoing, there are challenges in the General Fund.

It is also expected that expenses will be relatively flat. There will be a gap in the debt service for the next two or three years because debt service has dropped off. Costs will continue to rise with the expansion at the Water Treatment Plant and the Wastewater Treatment Plant. As it stands today, Mr. Hefton said the Utility Fund has a $500,000 "hit." There is an adequate fund balance to help absorb some of the deficit.

There are no major stories in the Solid Waste Fund. Mr. Hefton said there might be a temporary increase in expenses for two or three years when TASWA increases their rates to build up funding to pay for cells.

Council Input
Mr. Olson said the staff hasn't changed their focus over the past few years. They are still focused on core services and taking care of the basic services. He reiterated that they have not seen the individual requests from the departments yet. He said his goal is to make sure the City carries on the basic core services at an acceptable level. He asked for direction from the City Council on anything else they want the staff to include in the proposed budget for the Budget Work Shop in June.

Mayor Wacker thanked the staff saying with the loss in revenue over the past few years, it has been a challenge. The staff has done a great job of providing what the citizens need. She said this is in part due to an economic down-turn, but also because several years ago the Council moved to a revenue model where revenue is more heavily dependent on sales tax rather than property tax. Sales tax is very sensitive to economic conditions. Sherman hasn't see recovery, because sales tax can't generate the revenue that is needed. She said to really move ahead, the Council and the community need to commit to rebuilding a robust economy. She said there are some positive signs, but they need to continue to do the core things, clean up the City and set the table for business success and for industry to move here. Sherman must be pro-active.

Council Member Sofey said it is important to maintain the things the City already has. The focus must be on maintaining what is here. He asked to forward his items to the staff at a later date, after he has had time to consider the information. He did have questions about the Airport and the future costs to maintain it for the next five to twenty years. He also asked if there were any alleys or right-of-ways that the City could get rid of and how much of an increase in the permit and development fees would be needed. Mr. Hefton said some of those discussions will be held at the Budget Work Shop.

Mr. Olson said the staff would bring the focus issues back to talk about. He asked if there were any other items that the Council would like to see brought back.

Council Member Smith said he understood that the Airport study would include maintenance costs over the next 20 years and when those maintenance issues need to be scheduled, but he asked if it would also include the economic impact on the City. Mr. Olson said this study would not. This study is strictly what it will cost. Mr. Hefton said if the City is going to keep the Airport, it needs to be run like a business and needs to be self-sustaining. He did not feel that debt should be issued for Airport maintenance, but that it should come from cash. However if enough cash was not accumulated, should it be supported with General Fund money. Council Member Plyler questioned the sales tax impact of the Airport and what revenue possibilities are there; basically the economic impact of the Airport. Mayor Wacker asked if there was a potential for growth at the Airport. Mr. Olson said all the current study will do is quantify the costs for repairs at the Airport. Council Member Johnson asked if numbers could be put together for the Budget Work Shop to brief the City Council on the Airport over the past few years.

Council Member Smith brought up a previous request from former City Council Member Chip Adami to redo the office at West Hill Cemetery. Mr. Hefton said there is no money in the General Improvement Fund. If projects like that were scheduled, the money would need to come from somewhere else. There won't be a lot of projects in the 2014 plan because there is no money. Council Member Sofey said improvements for that building, as well as other items for the commercial right-of-ways, should be kept on the list to do, but only when money is available.

Council Member Plyler asked the staff to put together, for the next meeting, two or three scenarios to look at revenues and the options that there might be to close the gap. Mr. Hefton clarified that since the Utility Fund is funded by rates, this would really only apply to the General Fund. There are a couple of major revenue sources over which the City has control. This is no control over sales tax or fines and forfeitures. There is really no control over ambulance rates, because the City will only collect the amount allowed by the insurance companies. Therefore the only major areas to look at that would have a major impact on revenues are permits and licenses for building fees and property taxes. The staff will prepare these scenarios, but there are only a few items over which the City has control.

Mayor Wacker said the City is already focused on enforcement and clean-up and she felt those should continue.

Council Member Smith asked if the staff was considering a cost-of-living adjustment for employees. Mr. Hefton said he did not know. Typically that would not be driven by the staff but by the City Council and management. In the General Fund, a 1% cost-of-living adjustment would cost $150,000 or $160,000 and a 2% adjustment would cost $300,000. Scenarios for an increase will be presented at the Budget Work Shop and the Council can discuss it at that time.

Mayor Wacker said she was really interested in what the staff would bring back on the group health insurance. Could a wellness program help reduce claims? Many employers are focusing on prevention as a strategy.

DISCUSSION OF BUDGET CALENDAR FOR FISCAL YEAR 2013-2014

Council Members discussed the proposed budget calendar. The Budget Work Shop has been proposed for Wednesday, June 19, and Thursday, June 20, 2013 instead of Thursday and Friday. Mr. Olson said it has been tentatively approved for Thursday and Friday, but the staff would like to move it back one day. Mr. Hefton felt the meeting would still be one day, but the second day would be available if needed. There are some programs that will need discussion.

ACTION TAKEN.

Motion by Council Member Sofey to set the Annual Budget Work Shop for June 19 and June 20, 2013, as presented. Second by Deputy Mayor Howeth.

VOTING AYE: Howeth, Johnson, Plyler, Smith, Sofey, Softly.
VOTING NAY: None.
MOTION CARRIED.

<u>ADJOURNMENT</u>

There being no further business to come before the City Council, motion was duly made and approved to adjourn the Called Meeting at 12:58 p.m.

MAYOR

ATTEST

CITY CLERK