STATE OF TEXAS §

April 21, 2017

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 21, 2017.

COUNCIL MEMBERS PRESENT: Mayor David Plyler; Deputy Mayor Jason Sofey. Council Members Brown, Couch, Howeth, Steele, Teamann.

COUNCIL MEMBERS ABSENT: None.

CITY STAFF PRESENT: Robby Hefton, City Manager; Brandon Shelby, City Attorney; Don Keene, Assistant City Manager; Mark Gibson, Director of Utilities; Scott Shadden, Director of Development Services; Steve Ayers, Director of Public Services; Mary Lawrence, Director of Finance; Danny Jones, Fire Chief; Zachary Flores, Police Chief; Jason Jeffcoat, Assistant Police Chief; Bruce Dawsey, Police Lieutenant; Danny Fuller, Fire Marshal; Chris Olson, Fire Division Chief; Tom Brown, Fire Division Chief; Dan Wood, Fire Division Chief; Tammy Davis, Controller; Jim Cross, Water Systems Manager; Kevin Winkler, Public Works Manager; Clint Philpott, Director of Engineering; Cathy Perkins, Human Resources Manager; Nate Strauch, Community and Support Services Manager; Theresa Hutchinson, Parks and Recreation Manager; Sarah McRae, Tourism/Main Street Manager; Moises Duran, Community Planning Coordinator; Junior Jaimes, Computer Support Technician; Pam Cloer, Assistant to the City Manager; Linda Ashby, City Clerk.

PURPOSE:

Call to Order, Quorum Determined, Meeting Declared Open

Invocation by Council Member Charles Brown, Sr.

Financial Update and Council Input for 2017-2018 Budget Year

Adjournment

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Plyler called the meeting to order at 12:02 p.m., declared a quorum present, and opened the Called City Council Meeting.

INVOCATION BY COUNCIL MEMBER CHARLES BROWN, SR.

FINANCIAL UPDATE AND COUNCIL INPUT FOR 2017-2018 BUDGET YEAR

Robby Hefton, City Manager, explained that the purpose of the meeting was to update the City Council on the work plan, where the City stands financially, and to look ahead to the budget process for 2018. Discussions have been held with individual Council Members to gather preliminary input, which will be presented at the end of the meeting, as well as some staff issues that will come up during the budget process.

The staff is still in the process of gathering budget input from the departments. Deadline for the input is May 5, 2017. Management meetings with the departments will begin in mid May and the Budget Workshop will be held on June 15, 2017, hopefully keeping it to one day. To do that, some presentations may be held at Regular City Council Meetings prior to the Budget Workshop. Mr. Hefton said the Parks Master Plan Update and the Storm Water Fee Program are about ready to present to the City Council.

Work Plan Update

Don Keene, Assistant City Manager, presented the status of the 2017 Initiatives. He said there are approximately 30 projects that are currently underway. These are not maintenance and repair projects, but are major projects that the Council has identified as initiatives. He added this is one of the busiest and most challenging times in Sherman. He updated the Council on the status of the projects.

Most of the utility projects are water related, and include the Water Treatment Plant Expansion, Southwest Elevated Water Storage Tank, Carriage Estates Water System, Preston Club Water System, and the SH 56 West Annexation / Water Main.

Thoroughfare projects include FM 1417 Development Management, Loy Lake Rebuild, Sherman Crossroads, Lamberth West Development, Friendship Road Development, Swan Ridge Drive Development, FM Hwy 1417 / US 75 (southeast) Development, Canyon Creek Drive Extension, Park Avenue Realignment, and several Texas Department of Transportation projects to leverage local tax dollars.

Mr. Keene said other projects include the Fire Station #4 Relocation, Pecan Grove Ball Fields, Library Renovation, Parks Master Plan Update, Substandard Structures, Stormwater Management and Planning, Downtown Sidewalks, Downtown Streetscape Phase 2, Grand Avenue Safety Improvements, and Compensation and Staffing Changes.

Also included are the Fixed Network, Hotel/Motel/Tourism Plan, Adjustment of Property Tax Rate, a Phased Bond Issue, and Partnerships with the Sherman Independent School District and the Sherman Economic Development Corporation.

Mr. Keene reiterated that there are a lot of good things going on. It is a challenge for the staff but they feel good about the progress that has been made.

Council Member Couch commended Mr. Hefton, Mr. Keene, and the rest of the City staff saying there are a lot of projects and the staff is doing a great job of keeping the City Council informed and a part of the process.

Financial Update

Mary Lawrence, Director of Finance, presented an update on the financial results for 2016 and where the City is for 2017.

For FY 2016, the General Fund was down $840,000, even though it was expected to be down $1 million, due to good sales tax performance. For FY 2017, revenues and expenditures are about where budgeted.

The Utility Fund for FY 2016 sees reserves down $1 million but they budgeted to be down $1.6 million. This was because there were higher reserves than were needed. This year there is pressure in the water and sewer revenues. There is a water contract with Panda Energy and because of the weather, they aren't using as much water as expected. There is a contracted sewer account with the City of Howe and that account is down. There are industrial surcharges that are down. Because of

these three things, year-to-date, the revenue is down about $250,000. Ms. Lawrence said there's also a "write-off" of a wholesale account that will be about $120,000. When the budget was built, the City planned on that revenue. She said the projected revenue will be reduced by about $700,000.

Mr. Hefton said the revenue in the Utility Fund is about $22,000, which represents about a 3% to 3.5% decline in the projected revenue. The revenue projects are above what was experienced last year, but below budget. Ms. Lawrence said, taking out the other things, the growth in the base is about 1.5%. There is a stable base with some growth in it.

Mr. Hefton said the City relies on the "cushion" of the reserves in each fund so they don't have to make adjustments in the rates on the spur of the moment.

Ms. Lawrence said commercial solid waste is another fairly volatile source of revenue that fluctuates. Reserves were up in 2016, but it's gone down in 2017 and is about 3% lower than last year. Part of the fluctuation is that companies learn to be more efficient with their trash. The City bills by container, but disposal fees are paid by the ton.

As for fund balances, the General Fund is higher than what was budgeted and is at 68 days of reserves. The Utility Fund is at 60 days and that is really the minimum. In the Solid Waste Fund, the projected is about equal to budget and there are about 67 days of reserves.

Ms. Lawrence said the City did have an opportunity in the last couple of weeks, to refinance some bonds. The City is currently in the process, and it will save about $42,000 per year in debt cost.

She displayed a graph of the sales tax history, which showed "a little bump" in 2016 from audit collections of about $250,000 from the State Comptroller. Sherman still has a very low property tax rate compared to their peer cities. Mr. Hefton said in 2013 there was a similar slope of lines in both sales tax and property tax. He said it was an indication of the growth that Sherman has experienced.

Deputy Mayor Sofey confirmed that Denison was at $0.64 per $100 valuation for their property tax rate. Mr. Hefton said the designated "peer cities" used for comparison are close to Sherman's size at 30,000 to 50,000 population.

In the Utility Fund, Ms. Lawrence said they have lowered the projection for water and sewer sales, and debt service is at $6.4 million. Of that debt service, $1.3 million is for the Water Treatment Plant Expansion project. Mr. Hefton said $1 million in debt is about $15 million in projects.

In the Solid Waste Fund, she said the ending fund balance will be about where it should be.

Ms. Lawrence addressed long-term bond debt, adding that Sherman mostly has Greater Texoma Utility debt on the water and sewer projects. Most other cities don't do water and sewer the same way Sherman does. Sherman has debt on water taken from Lake Texoma, and owns their water distribrution lines, the collection system, and they treat their own water. Sherman owns the means of production, which is different from the way most cities' water systems are handled.

Mr. Hefton said North Texas Municipal Water District's rates are increasing about 10% annually over the next eight years because they have about $500,000,000 in projects that are coming on line. While Sherman's rates are slightly lower than NTMWD's rates now, that gap will widen significantly over the next few years because of the debt coming online, that will be passed to the member cities. Ms. Lawrence added that Sherman has a very low tax supported amount of debt.

In the General Improvement Fund, Ms. Lawrence said the important number is the ending fund balance of $673,000 after the projects are completed. The projects are paid through bonds and

funded through operations. Some of the projects depend on if the School Bond Issue passes and other development in the City.

Council Member Couch verified that the $153,000 from FEMA for Travis Street repairs was for the sinkhole. Mr. Hefton said the bid on that project was about $400,000, but it was completed with City crews and the City saved about 50% by completing the project in-house.

Council Member Couch verified that the Downtown Streetscape project was the sidewalks on Lamar Street. Clint Philpott, Director of Engineering, said the City is waiting on final approval from TxDOT for the project.

FY 2018 Planning

Mr. Hefton said the Council now needs to look forward. There will be about two more months of data that will be used for the projections for the Budget Workshop. He said the City is preparing or laying groundwork for the future growth of the community. One way to do this is to plan for the location of roads, for new water and sewer infrastructure, and for the expansion or relocation of certain facilities, such as the library or fire station #4. As Sherman annexes and expands its footprint westward, they need to be able to serve those new areas. Such planning includes determining the location of future fire stations to best serve the citizens.

One key element of planning is transportation, not just for City streets, but also for leveraging funding with TxDOT to move projects up on their list, and to get Federal and State funding for the projects. By spending a little "Sherman money," Mr. Hefton said the City is able to make a great impact on how TxDOT money is spent.

Council Member Couch asked if the staff was seeing TxDOT projects move forward faster than they normally would, since Clay Barnett has been hired by Grayson County as the Metropolitan Planning Organization Director. Mr. Hefton said there are three things that are helping enhance the City's ability to have TxDOT dollars spent in Sherman. The first is Sherman's ability to spend some of their own money; the second is more attention since Mr. Barnett has been hired as the MPO Director and Grayson County Engineer; and the third is the new TxDOT District Engineer, Noel Paramanantham, who lives in Sherman. Mr. Hefton said he is a great asset to TxDOT, is easy to work with, and is "pro Sherman."

Mayor Plyler said that, adding local dollars to these projects also allows Sherman to have additional control over the design of the project.

Mr. Hefton said the Storm Water Program and the fee implementation will be a big item in the upcoming budget. He added that there might be a presentation on this item prior to the Budget Workshop too. The Council started talking about storm water management about 10 years ago and there was a flood in 2007 that caused "tens of millions of dollars" in damage throughout the area.

Since that time the City has been focused on how to deal with that in the future and it has been addressed in the Comprehensive Master Plan update. A Storm Water Plan was also developed which studied the infrastructure from a drainage standpoint, including a regional detention standpoint. Out of that study, came a list of projects on which the City should focus.

Over the last year, the City has done a fee study, which was required by law. Since they developed the plan, the fee study helps determine how the projects will be paid for. During the Budget Workshop, the staff will present a plan for storm water management. The first part will be an ongoing operational approach with a City crew to replace aging and failing storm water infrastructure, clean creeks and other drainage ways, and culvert repair and replacement. The second part would be the financial part and would probably include issuing debt to be paid through a storm water fee, phased in

and based on the size of the house. This would allow immediate impact and improvement to different areas.

The list identified about $50 million to $55 million in projects for the Storm Water Plan. The City has prioritized the list to focus on projects that would have more impact from cost or from leveraging FEMA dollars to help pay for the projects.

Other projects from the General Fund include a replacement plan for the Fire Department's self-contained breathing apparatus, various large fleet and equipment requests, and the street maintenance budget. These projects are large dollars and some can be scheduled in phases.

The Utility Fund includes projects for the development of utility infrastructure, including the extension of sewer to SH 289 and US Hwy 82, which is estimated to be a $2 million project. As the roads are developed, water and sewer infrastructure will also need to be developed. Those projects will also have an impact on rates.

Quality of life projects include the Parks Master plan update and various park projects coming out of the plan. Other park projects include the Pecan Grove West ball fields and bike trails and boulevards.

Mr. Hefton said staffing and facilities are also important and the staff will review employee compensation and benefits to make sure the City is keeping up with fair wages and that the employees are taken care of. He said he was "cautiously optimistic" about the healthcare issues. The City made some significant changes in how the group health plan is managed. He did not know the dollar impact it would have, but he felt it would be significant. If it is significant, he said they would like to help offset some of the pain that the employees have had to date in helping bear that burden.

He said the budget would also address staffing levels and those needs related to growth in the City. Sherman can't grow and expand without also expanding the ability to serve and provide the needed services. Mr. Hefton said the City also has some old buildings that really need to be evaluated and addressed. He was not sure what the effect would be on the budget for these issues.

Mayor Plyler said, during this process, he wanted to take special care to look at the employee compensation package. Because of the changes in health care, as the City adds more projects, he wants to be sure they don't ask the employees to "work more for less." Mr. Hefton said you need to take care of the employees. It's not an easy task, but it is a priority and he said the staff would bring back a recommendation.

Council Member Couch said there are several governmental entities that are "out of control" with their spending, however he complimented the City of Sherman on operating very efficiently and with the taxpayer in mind. He said, as an elected official, he appreciated that. Mr. Hefton said he is extremely proud of the City employees because they have been asked to do more with less, even when the City expands.

Council Member Teamann said he had discussed with Mr. Hefton, hiring an outside firm to evaluate and make sure salaries are in line with peer cities. Mr. Hefton said, in the past, the City has used an outside firm to help drive or validate the situation, and said that would be discussed during the Budget Workshop. He said it would probably be used more for the public safety departments because their pay is complex. Most other employees are either paid hourly or salary.

Mr. Hefton said the previous projects were identified by the staff, but there are also projects that are identified by the City Council. He introduced projects and concerns that were raised by City Council Members during their individual meetings.

The first was to continue focusing on the clean-up with substandard structures, and possibly expanding the program a little. The staff will continue to focus on substandard structures, but some input was to expand the program. He said more resources could be added to the Environmental Code Office to help combat the problem. Additional funding could also be set aside to expand the program and look at commercial structures too.

Council Member Howeth asked if the City tried to recoup any money from individuals. Mr. Hefton said that is possible and the staff would probably review other cities' policy to see how they do it. The problem with commercial structures is that they are probably older and have asbestos, which must be abated. He did feel that a portion of the cost should be recouped from the property owner. Before trying to tear the structure down, the City encourages the property owner to take care of it themselves.

Council Member Teamann verified that many of the properties are owned by out-of-town heirs that really don't care about it. Mr. Hefton said the staff may ask for more resources and another Environmental Code Officer.

Mr. Hefton said he was not sure what funding would be available for the Jumpstart the Heart Program. The staff has discussed whether it is a Hotel/Motel Tax item or a General Fund item. He said it would be discussed more with the budget.

Other items that will be discussed include artificial turf at Pecan Grove Ball Fields, Main Street grant opportunities, Skate Park improvements, bike trails and boulevards, and Texoma Parkway building standards. Mr. Hefton said there are several things that need to be reviewed along Texoma Parkway including old buildings; standards that are used for building, design, and redevelopment; signage; and code enforcement issues. He said recommendations will be submitted to the City Council to address the issues.

From a funding standpoint, Mr. Hefton said the staff will ask for more debt to continue the development infrastructure and transportation program. The debt will also include some Parks and Recreation dollars for facility development in the 2018 CO issue. The estimate as to how much debt would be needed for 2018, is about $16 million. He said a majority of the dollars relate to transportation and streets, but there will be some in the parks area, and maybe in another area too. He said the City would probably need one more bond issue in 2018 for now.

Mr. Hefton showed comparison slides with Sherman's tax rate as compared to peer cities. Sherman's tax rate is $0.394, and the average of the peer groups, with populations from 30,000 to 60,000, is $0.63.

Council Member Teamann verified that the City's capacity for debt is limited by State law and has more to do with the tax rate. He said the City must pay for this new debt through rates, unless there is money set aside that is not used for operations. He said there would be an impact, but he could not say what it would be for 2018.

They try to minimize the impact through the tax rate by supplementing the growth in the tax base. If the City receives more tax revenue next year because property values increase, that additional revenue will help offset what is needed from the tax rate to pay for the debt. The tax rate is the last thing that is set but as debt is added, it will increase. The average debt rate for cities our size is $0.19, and Sherman is currently at just over $0.04. Cities don't grow by paying for things out of their "checking account," they issue debt for infrastructure.

Council Member Teamann verified that there are currently no bonds that will be paid off soon. Mr. Hefton said the City has not been issuing debt in the past. Debt is used for large projects, not paying for employee raises. He said the debt rate will increase, but they try to minimize the impact.

Mr. Hefton presented the average water rate for Sherman's peer cities. The average rate for 5,000 gallons of water, which is what the average household uses, is $34.69. Sherman's water rate is $32.10, or 8% lower than our peer cities. He did not know if a water rate increase would be needed this year, however the City is about $700,000 down in revenues.

In summary, Mr. Hefton said it is a continuation of what we've been doing in terms of planning and development activities. There was Council input about cleaning up the City, more money for substandard structures and environmental code, making sure we take care of what we have, and taking care of the employees. He asked Council Members if there were any other issues that they wanted to discuss as the budget is built for 2018. There were no other issues at this time. Mr. Hefton said the staff will bring back a balanced budget for Council discussion and consideration.

ADJOURNMENT

There being no further business to come before the City Council, motion was duly made and approved to adjourn the Called Meeting at 1:34 p.m.

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MAYOR

ATTEST

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CITY CLERK