STATE OF TEXAS §

April 21, 2011

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, 2011.

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

COUNCIL MEMBERS ABSENT: None.

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

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

FINANCIAL UPDATE

FISCAL YEAR 2012 PRELIMINARY BALANCING

COUNCIL INPUT FOR 2011-2012 BUDGET YEAR

OTHER BUSINESS
Discuss and Consider Options for the Travis Streetscape Project

REQUEST TO ADVERTISE
Travis Street Mill and Overlay

ADJOURNMENT

<u>CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN</u>

Mayor Magers called the meeting to order at 12:07 p.m., declared a quorum present, and opened the City Council Meeting.

George Olson, City Manager, explained that this meeting would kick-off the budget planning session for the 2012 Budget. However, he added that the 2013 Budget must be kept in the back of their minds as they move forward. The Council completed the last long-term budget planning session in February 2011, and not a lot has changed since that time. At that time, the Council reviewed the five year picture and the impact it would have on the upcoming budget.

Today the staff will provide an update of the budget numbers and will receive input and direction from the Council on how to proceed with the FY 2011-2012 Budget. Mr. Olson added that, with the direction received from the City Council so far, the staff will continue to focus on completing long term initiatives and establishing the proper fund balances in the operating budgets. The revenues continue to remain "flat" as they have for the past few years, the rising fuel costs are also a concern moving forward, and the City's ability to fund major projects will be severely limited.

Today's agenda also includes two items concerning the Travis Streetscape Project.

FINANCIAL UPDATE

Robby Hefton, Assistant City Manager/CFO, explained that in the past few months, the City has focused on the long term planning for the next five years. This meeting and the next Called Meeting will focus on the 2012 Budget. This will also affect the 2013 Budget and the decisions made this year will affect future years. However, the current goal is not to solve budgets for future years, but only for the upcoming 2012 Budget.

Mr. Hefton said this meeting is not just a "revenue look" at 2012, but will be a rough estimate for expenses for 2012 too. He reminded the Council that the staff does not have the budget input from departments yet, so any projections are very rough estimates.

One of the major focuses this year has been on finalizing capital improvement projects and initiatives. Debt was issued in 2008 and 2009 to fund many street and park projects. Lamberth Road is now fully complete, which leaves two initiatives that need to be completed. Washington Street is progressing nicely and they should be pouring concrete in the next few days. There are also some downtown improvements that need to be completed.

Behind the scene, many man-hours are being spent on the website development and the new website should be online by the end of the fiscal year. The staff is also thinking about the street sales tax initiative that will be considered for the ballot in November 2011. The timeline actually starts during the summer.

Mr. Hefton said one of the challenges for developing the 2012 Budget is flat revenues from sales tax and property taxes. The staff has also been reviewing capital expenses very closely, especially equipment and fleet purchases. The plan is to repair what the City already has instead of replacing it at the present time. This delays purchases now, but at some point they will need to be replaced.

For the past few years, the Council has directed the staff to "right-size" the fund balances by transferring reserves to balance the budget. After this year, the fund balances will be where they need to be, according to Mr. Hefton. Fuel costs will also be a challenge for the budget. Mayor Magers verified that the City is exempt from certain taxes on fuel.

Utility Fund challenges include the closing of Folgers and MEMC. However MEMC's closing has now been delayed until around December 31, 2011, which will have a positive effect on the City's budget, for at least a portion of FY 2012.

General Fund

Mr. Hefton said the ending fund balance in the General Fund is projected to be about $5.4 million at the end of FY 2011, which is about 70 days in reserve. He added that 60 days in reserve is the lowest he felt comfortable in retaining. Sales taxes are tracking to be flat. Mr. Hefton said franchise taxes are up slightly from the budgeted amount and are expected to be $100,000 more than was budgeted. Fines and forfeitures are also up from the amount budgeted. The recent warrant round-up generated about $50,000 or $60,000 and contributed to the increase in this line item.

The City also agreed to be an EMS provider for the City of Howe, at their request, and collections and projected revenues have increased for this line item as well. Therefore, the City is about $300,000 to $400,000 better on revenues than was originally projected.

On the expense side there are a few ups and downs, according to Mr. Hefton, but the net effect is projected to end the year slightly better than budgeted. There should be approximately $400,000 in receipts over expenditures. The staff continues to use fund balances and there are a fairly high amount of transfers built in this year that normally don't occur.

Mayor Magers said the beginning fund balance for the General Fund was better than projected last year. Mr. Hefton said the beginning fund balance was better than projected because some items last year performed better than projected, and some of the things originally budgeted in 2010 were moved to 2011. There were a couple of grants that the City received, however they were unable to spend the money in 2010, so they were moved to 2011. Mr. Hefton added that between good budget performance and a timing difference on when some of the expenditures occurred that affected the fund balance.

Mayor Magers confirmed that the City is looking at a $5.4 million fund balance at the end of the fiscal year. Mr. Hefton added that is about 70 days in reserves.

Utility Fund
Mr. Hefton said the ending fund balance for the Utility Fund is projected to be $3.2 million, which is just over 60 days. Revenues are projected to be slightly higher than budgeted, because MEMC has delayed their closing until the end of the year. Since this will be a full year of water and sewer charges, there will be a positive variance and a net effect of about $300,000 of additional revenues.

Expenses will include the biosolids removal project which increases the contractual services line item by about $1.5 million.

Mr. Hefton reminded Council Members that Utility Fund debt service will decrease a little in 2012, but will really decrease in 2013. The Utility Fund is nearly "break even" but has an adequate fund balance of about $3.2 million.

Solid Waste Fund
Mr. Hefton said the Solid Waste Fund is performing better than expected. Revenues are higher than budgeted, mainly because of construction in the industrial sector, such as the expansion at GlobiTech. Expenses are tracking very close to the amount budgeted. The net effect is that projected revenues are about $200,000 better than what was budgeted.

The ending fund balance will be about $2.1 million, just short of 150 days of operating expenses. The proposed plan is to reduce that fund balance to a reasonable level in the 60 to 75 day range, and to help "smooth out" a couple of funds in the 2012 Budget.

Insurance Fund
Mr. Hefton said the Insurance Fund was "under water" at the beginning of 2010, because of significant claims for the preceding three years. In 2010 there was a $1 million transfer in to help the fund and last year's ending fund balance was $800,000.

Claims for 2010 were about $3.1 million. For the prior three years, claims were in excess of $4 million every year, topping out as high as $4.5 million for one year. Mr. Hefton said the City is back to what he considered a "normal claim year," however they do project to be up slightly from the budgeted amount.

Mr. Hefton said he would like to have a higher ending fund balance, however there is no action to take to get there. Hopefully there will be good claims experience.

General Improvement Fund

Mr. Hefton said they are projecting an ending fund balance this year in the General Improvement Fund of about $800,000, which won't finance big projects. If there are some smaller initiatives that the City Council would like to see in 2012, those might be possible. Lamberth Road cost over $900,000, so there are no huge projects that could be completed with the balance remaining.

The staff does expect that the Washington Street project will be completed this year and the Lamberth Road project has already been completed. The General Improvement Fund started the year with $4.7 million, but that has been reduced by completing the outstanding projects.

Money is included in the fund for the mill and overlay of Travis Street, from Washington Street to Jones Street, but the Council will be discussing a plan later in the meeting.

Council Member Adami asked if the original plan for Travis Street was a three-year plan, with $100,000 budgeted the first two years and $75,000 the third year. Mr. Hefton said the long-term Capital Improvement Program included the purchase of right-of-way going north on Travis Street to improve Travis Street from Lamberth Road, going north. That $50,000 and $75,000 per year was for right-of-way for that project. Mr. Hefton added that this project has been moved in the CIP, but he expected there would still be money in the long-range plan to help with right-of-way purchase. A detailed five-year review will be presented at the Budget Work Session.

Mr. Hefton said there are also transfers out that are reducing the fund balance and those are happening as budgeted.

Utility Improvement Fund

Mr. Hefton said most of the City's major utility work is completed through the Greater Texoma Utility Authority so it doesn't appear on the City's books. The City will have about $500,000 at the end of this year for some smaller projects. Larger projects will continue to be completed through GTUA.

The staff's internal approach to the 2012 Budget will be to use the excess fund balance in the Solid Waste Fund to bridge budget gaps in the Utility Fund and the General Fund to FY 2013. Mr. Hefton said that is absolutely the right thing to do because the City doesn't need 150 days of fund balance in any fund. The staff feels that 2012 will be the last significant year that can be done. The transfers will come primarily from the Solid Waste Fund. Council Member Adami verified that $1.2 million will be transferred from the Solid Waste Fund to the General Fund and $500,000 from the Solid Waste Fund to the Utility Fund.

Mr. Hefton said the staff's approach to the budget will also be to minimize capital spending. Fleet will be repaired where possible, instead of replacing the item. There may be some cases where the fleet does need to be replaced and that will be done. The staff will continue to focus on the long-term approach and meetings will probably be scheduled in November 2011 for the long-term planning.

FISCAL YEAR 2012 PRELIMINARY BALANCING

For the General Fund, Mr. Hefton said the staff is projecting $5.5 million to $5.6 million in fund balance at the end of the year. That is a little over 70 days. This fund balance includes the $1.2 million transfer from the Solid Waste Fund. Both revenues and expenses have been kept very flat, except for the transfer out to the Debt Service Fund. The fund is up $400,000, but the transfer out to the Debt Service Fund is more than that amount.

In the Utility Fund, in 2012 the staff has factored in a full year of the effect of the MEMC and Folgers closing. If MEMC stays in full operation through December, then that revenue will increase by about $200,000 or $300,000. To be safe, the projected budget assumes no revenue from MEMC in 2012. Mr. Hefton said the net effect of MEMC and Folgers is about $1.8 million to $2 million per year in revenue. The water and sewer rates were increased for the current year to recoup about half of the expected loss. The staff will continue to look at the need for a rate increase, however the projected budget does not assume any rate increased at this time. Mr. Hefton said if expenses can be held as budgeted, no rate increase will be needed for 2012 and the fund balance will be kept at an acceptable level.

Mayor Magers mentioned the impact on water usage that GlobiTech's expansion will have which has been estimated to be an increased water usage from 300,000 gallons per month to 500,000 gallons per month. This expansion will have a positive effect on their water usage. Mr. Hefton said, at least for 2012, unless something changes drastically in the next couple of months, he did not think the staff would propose a rate increase.

Council Member Adami confirmed that there would be a $500,000 transfer from the Solid Waste Fund to the Utility Fund to keep from having a rate increase. This means the City is $500,000 short of being able to cover the costs of the Utility Fund for 2012. Mr. Hefton referenced the debt service for 2012, which is at $5.5 million versus the debt service for 2013, which is at $3.9 million. He added that he would rather use the City's savings account to get by for a year and smooth the ups and downs in expenses and revenues, rather than enact a rate increase. Mayor Magers felt the last thing the City should do is increase rates or costs for doing business in Sherman.

Council Member Adami said the source of revenue for the Utility Fund is water and sewer rates. Either the revenues are adequate to cover the costs, are they aren't. The economy "is what it is." The City has also lowered taxes and not raised water rates for several years, but they've lost water users and the costs don't go away. He felt that both the Solid Waste Fund and the Utility Fund were businesses and should be treated as such.

Council Member Smith felt transferring money from the Solid Waste Fund to the Utility Fund was okay on a one-year basis, if the staff was confident that wouldn't be a problem in the coming years. Mayor Magers said if there is an ongoing deficit, then the Council needs to increase the rates. Mr. Hefton agreed that each fund should be self-supporting. But he added that it's okay on a one-time basis if money needs to be moved because one fund has more fund balance than needed, but it can't happen continuously. He did not recommend using this method on an ongoing basis to balance the funds.

Mayor Magers confirmed that, with the proposals, all funds would be in balance and have adequate reserves. Council Member Adami added that the Solid Waste Fund and the Utility Fund are different because they are enterprise funds or business funds. Mr. Hefton agreed that the revenue sources are different for the various funds and added that there would still be fund transfers because human resources, administration, and finance do work for the Utility Fund and that should be paid for by the Fund.

Council Member Adami asked that the Budget Workshop include what the revenue projection entails for both 2012 and 2013. This should include the "ramp up" of industries that might be coming and also industries that are closing. The information should also include expense projections and future debt needs. Mr. Hefton said there will be a long-term look that will consider the staff's best guess on this information. There is a big project for nutrient removal at the Wastewater Treatment Plant that could cost $1 million or $10 million. The project will be funded with debt.

The Solid Waste Fund includes $2.4 million in transfers out and will leave an ending fund balance of $1.1 million, or 70 plus days of reserves. Expenses in this fund are basically flat.

<u>COUNCIL INPUT FOR 2011-2012 BUDGET YEAR</u>
Mr. Hefton asked the Council if there were any topics they wanted the staff to address for 2012 that will affect the numbers before they bring back a proposed budget. Mayor Magers said the Council has been pretty judicious the last few years in the projects they have brought forward. The City is paying their bills and has not laid off employees. He said one of the key things the City has done is to move the Election to November, which will save money. He hoped the City would continue to complete the projects in a timely manner and under budget. Mayor Magers said he had no big projects but wanted to see the City finish what was started.

Council Member Wacker felt the City was wise to "hold the course" and try to offer the same level of services as in the past. Deputy Mayor Steele felt there would be necessities for the future and he wanted to know the long-term expenses that will be coming in the future. He also asked at what time does the City stop talking about the "flat sales tax" and instead consider a new base line that is lower than in the past. Mr. Hefton said five years ago, Sherman's sales tax numbers were about $2.5 million to $3 million less than they are now. When the Sherman Town Center opened, they started pulling in consumer activity from a larger base. He felt it would be hard to experience that type of growth without a major retail development. He said maybe $11.2 million is Sherman's new base and Sherman is at that peak.

Mr. Hefton said sales tax is driven by inflation and the consumer's appetite for spending. He couldn't estimate when people's confidence would return for them to spend at the levels at which they were previously spending. Deputy Mayor Steele said the businesses at Sherman Town Center seem to be maintaining pretty well. Mayor Magers added that Midway Mall is having some problems.

Mr. Hefton said previously the City could count on an annual sales tax increase of 2% to 3%. Mayor Magers felt that the long-term sales tax trend would be at some level of growth. Short term it will probably be low. Mr. Hefton added that for 2012, no sales tax growth is projected.

Mayor Magers asked Council Members if there were any projects they wanted to put forth. No Council Members presented projects.

<u>OTHER BUSINESS</u>
<u>DISCUSS AND CONSIDER OPTIONS FOR THE TRAVIS STREETSCAPE PROJECT</u>
Mr. Olson said the original Travis Streetscape Project was to mill / overlay and streetscape Travis Street, from Washington Street to Jones Street. The project also included the streetscape of the downtown square, the relocation of overhead utilities on Travis Street to under the street, and the replacement of light poles.

All bids for the project were rejected due to a lack of qualified bids within the budget. The staff committed to research alternatives and provide options for the Council's consideration. The project needed to be scaled back. The staff met with the architect to discuss putting the utilities under the sidewalk and met with the Texas Department of Transportation to discuss changing the project that was submitted for the enhancement grant that was awarded.

The staff came up with two options. Option 1 is to mill / overlay Travis Street with CIP money; streetscape from the square to U.S. Hwy 75 with TxDOT grant money, the City's match, and tax increment financing money; and relocate the utilities and lights with Sherman Economic Development Corporation money. The estimated total completion date would be May 2012. Mayor Magers said

SEDCO never authorized $1 million for the project. Mr. Olson did not offer much confidence that the utility companies would be able to complete the relocation of the utilities in the allotted time frame.

Option 2 includes the mill / overlay of Travis Street from Washington Street to Houston Street using CIP money; the streetscape on the square from TxDOT and City money; mill / overlay to the center strip on Houston and Lamar from TIF money; and the Elm and Rusk Street intersections paid from TxDOT and City money. This option would consider the future under-street relocation of overhead utilities. The estimated completion for the mill / overlay is August 2011 and for the total project would be February 2012. This option would stop the overlay at Houston Street because of the construction around the square.

Mayor Magers asked for an explanation of the TxDOT grant and spending on the project without spending taxpayer money. Mr. Olson said the City applied for and received a grant in conjunction with the original Travis Streetscape Project for improvements from the square west to U.S. Hwy 75, not including the square. The City's match is 20%.

The staff asked TxDOT to allow them to redesign the project to include the square as part of the project. TxDOT finally agreed to the revised plan. This will allow the City to start on the streetscape project, however it doesn't address the underground utilities.

Council Member Adami said SEDCO only committed $550,000 to the projects. He also verified that there were no plans in Option 2 for replacing lights. He felt the lights should be considered now if they were still going to be considered later. Mr. Olson said the problem is dealing with the other utilities and their part of the relocation project. The low bid to relocate the lights was $560,000. Deputy Mayor Steele expressed concern that the cost of burying the power lines continues to increase. Council Member Wacker said the cost was $1 million back when she was the Main Street Coordinator, and they were unable to afford the cost then.

Deputy Mayor Steele asked if the possibility will ever exist to relocate the utilities underground. He said the original design was for the trees to help cover the downtown utility lines. Mr. Olson said the staff had an obligation to see how much it would cost to bury the lines, however now they must ask if it is wise to spend that money to bury them.

Council Member Adami said there was a commitment of money from SEDCO that is not considered in Option 2. Deputy Mayor Steele did not remember SEDCO's money being earmarked for lights and he asked if that money could still be used for a portion of the project in Option 2. Mayor Magers said to his knowledge, the SEDCO Board of Directors never voted to contribute money. It was a conversation that was in the budget contingent upon other things. It was earmarked in their budget, but he did not know what it was earmarked for. Mr. Olson added that SEDCO wasn't consulted until the question of the utility lines came up.

Mayor Magers was concerned about the timing of the project. The mill / overlay of Travis Street was included in the original street sales tax package. In November 2011 the Council is going to ask the voters to renew that sales tax initiative. He felt that his personal credibility was "on the line" and it was critical to be able to tell voters that the Council did what they said they were going to do with the street sales tax money. On the Travis Street Project, he felt there were many unknowns that were critical to completion of the project such as burying the utilities. He recommended completing the mill / overlay of the street and the portion of the project with the TxDOT grant funding. He felt that completion of the project was critical to the renewal of the sales tax initiative.

Council Member Adami agreed that the project should be done, but it should be done the right way. He felt that voters would understand whether the project was completed before or after Election Day, as long as the project was done correctly. He did not feel there was a rush to complete the project prior to Election Day.

Mayor Magers did not think it was a good use of taxpayer dollars to spend $700,000 to $1 million to bury power lines on one side of Travis Street. The plan to bury power lines did not come from the City, it came from the engineering firm and from Downtown Sherman Preservation and Revitalization. The bids came back significantly over budget. Council Member Adami felt the bids were over budget because of the way the City bid the job.

Deputy Mayor Steele said there had been some problems with bids received in the past and with contractors that couldn't do what they said they would do. Council Member Howeth asked for clarification on whether or not the project would continue south on Travis Street to Jones Street or would stop at Lamar Street. Mr. Olson said the mill / overlay will be continued to Jones Street when the construction on the square is completed. Council Member Howeth expressed concern about the lack of projects in southeast Sherman. Council Members said projects were completed in southeast Sherman.

Council Member Adami suggested a hybrid approach to Option 2. SEDCO already has $550,000 budgeted and he suggested asking them to fund part of the streetscape to U.S. Hwy 75, encompassing a part of what was already planned. Mayor Magers said he was not sure SEDCO money could be used for beautification.

Council Member Howeth left at 1:33 p.m.

Mayor Magers verified that there is money for Option 2 through the CIP, TxDOT grant, TIF, and City. He felt that if Travis Street is not completed correctly before the Election in November, it will have a negative effect on the sales tax initiative. He agreed that the City needs to have a plan to look at burying the overhead wires. Then the Council will know if it can be completed economically or not.

Mr. Olson said obviously the Council wants to do the entire project, but they are leveraging funds and saving dollars, and there is a start for the downtown. There is also a plan for continuing the project as money becomes available. The staff wanted to present a plan that was fiscally conservative. Council Member Smith said the City doesn't have the money now. Council Member Adami said SEDCO wants to participate but there is nothing in Option 2, where they are included.

Mayor Magers said the City needs to accept the TxDOT grant and get the project moving. With Option 2 the mill / overlay would be scheduled for completion by August 2011. Mr. Olson said there are two options, one option includes the mill / overlay of Travis Street from Washington Street to Lamar Street, and the other option gives you the same mill / overlay but will not be completed until March 2012. He added that the estimate on the underground lines is $700,000 to $1 million. SEDCO has committed $550,000 to the project.

Mayor Magers said with one option, the mill / overlay will be completed by August 2011, in time for the sales tax Election. The other option would include the same project and burying the utility lines underground, but would not be completed until May 2012. He reiterated the importance of completing the mill / overlay project prior to the November 2011 Election.

Deputy Mayor Steele said he would like to have the bigger project, but there is just not enough money to complete it. Council Member Smith said he and Council Member Wacker have been dealing with these issues since 2006. She felt that by accomplishing this plan, with the pedestrian features, the Council will have delivered on what they wanted to do downtown.

<u>REQUEST TO ADVERTISE</u>
<u>TRAVIS STREET MILL AND OVERLAY</u>
ACTION TAKEN.

> **Motion by Council Member Wacker to advertise for bids for Option 2 of the Travis Street mill and overlay project, accept the TxDOT grant funds, and ask SEDCO for financial assistance for the project. Second by Council Member Smith.**

VOTING AYE: Magers, Smith, Softly, Steele, Wacker.
VOTING NAY: Adami.
MOTION CARRIED.

Deputy Mayor Steele said they had their eyes set on something bigger, but this will deliver something very nice for the downtown. Mr. Olson reminded Council Members that TIF funds will continue to accumulate and can be used to continue downtown improvements.

Council Member Adami felt that the estimate of $700,000 to $1 million to bury the utilities was too much. He did not feel comfortable voting for the proposal.

Deputy Mayor Steele felt that time was of the essence and the project needs to move forward.

<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 1:46 p.m.

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MAYOR

ATTEST

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CITY CLERK