STATE OF TEXAS §

April 18, 2014

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 18, 2014.

COUNCIL MEMBERS PRESENT: Mayor Cary Wacker; Deputy Mayor Robert Softly. Council Members Davis, Johnson, Plyler, Sofey.

COUNCIL MEMBERS ABSENT: Council Member Watt.

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

PURPOSE: **Call to Order, Quorum Determined, Meeting Declared Open**

Proclamation
"Texoma Earth Day Festival Day" – April 26, 2014

Public Hearing
Introduction and Public Hearing of Ordinance No. 5814
Deleting in its Entirety Article 13.02 of Chapter 13 of the Code of Ordinances and Adopting a New Water Conservation and Drought Contingency and Water Emergency Response Plan

Adoption of Ordinances
Consider Adoption of Ordinance Number: 5814

Budget Planning
Financial Update and Council Input for 2014-2015 Budget Year

Adjournment

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Wacker called the meeting to order at 11:32 p.m., declared a quorum present, and opened the Called City Council Meeting. She said the Monday, April 21, 2014 City Council Meeting had been cancelled and a couple of items were added to this agenda.

PROCLAMATION
"TEXOMA EARTH DAY FESTIVAL DAY" – APRIL 26, 2014

Mayor Wacker presented a proclamation to Amy Hoffman-Shehan, Representative of the Texoma Earth Day Festival, designating April 26, 2014 as "Texoma Earth Day Festival Day."

Ms. Hoffman-Shehan said this is the 6th year for the Texoma Earth Day Festival, spearheaded by the "Green Team" from the Red River Unitarian Universalist Church, along with more than 30 other organizations. She outlined events at the festival including workshops, recycling, children's events, demonstrations, and keynote speaker Dan Lepinski, who lived "off-grid" with his family in Wisconsin for eight years.

She said the Texoma Earth Day Festival also received the "Community Inspiration" award for 2014, from the Interfaith Power & Light Cool Congregations challenge. Ms. Hoffman-Shehan thanked the City Council for the proclamation and invited volunteers to participate in the event.

Mayor Wacker added that this was the thirteenth year of the City of Sherman's curbside recycling program and the City has a strong commitment to recycling.

INTRODUCTION AND PUBLIC HEARING OF ORDINANCES
Mayor Wacker introduced Ordinance 5814 and called for a public hearing:
AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF SHERMAN, TEXAS, DELETING IN ITS ENTIRETY ARTICLE 13.02 OF CHAPTER 13 OF THE CODE OF ORDINANCES AND ADOPTING A NEW WATER CONSERVATION AND DROUGHT CONTINGENCY AND WATER EMERGENCY RESPONSE PLAN; PROVIDING FOR INCLUSION IN THE CODE OF ORDINANCES; PROVIDING FOR SEVERABILITY; PROVIDING FOR A REPEALER.

No citizens appeared before the City Council to discuss Ordinance 5814.

The Public Hearing was closed.

ADOPTION OF ORDINANCES
Ordinance 5814
AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF SHERMAN, TEXAS, DELETING IN ITS ENTIRETY ARTICLE 13.02 OF CHAPTER 13 OF THE CODE OF ORDINANCES AND ADOPTING A NEW WATER CONSERVATION AND DROUGHT CONTINGENCY AND WATER EMERGENCY RESPONSE PLAN; PROVIDING FOR INCLUSION IN THE CODE OF ORDINANCES; PROVIDING FOR SEVERABILITY; PROVIDING FOR A REPEALER.

Mark Gibson, Director of Utilities, asked the City Council to consider a revision to the City's Drought Contingency Plan that has been in effect since 1999, as required by the Texas Commission on Environmental Quality and the Texas Water Development Board. The revision must be completed every five years. He addressed changes in the plan, including a more viable, per capita, water consumption amount.

Mayor Wacker said Sherman has plenty of access to water and that is very valuable to the citizens. Mr. Gibson said the more water is conserved and the more efficiently it is used, the longer the supply will last. It is estimated that Sherman's supply is currently good through 2050 or 2060.

ACTION TAKEN.
Motion by Deputy Mayor Softly to approve Ordinance No. 5814, as presented. Second by Council Member Plyler.
VOTING AYE: Davis, Johnson, Plyler, Sofey, Softly.
VOTING NAY: None.
MOTION CARRIED.

<u>FINANCIAL UPDATE AND COUNCIL INPUT FOR 2014-2015 BUDGET YEAR</u>

Mayor Wacker said for six or seven years, the City has worked hard to maintain a lean and efficient response to the economic recession. Revenue has been down and there were many “tough” calls, including using excess reserves and “shelving” many infrastructure plans. She felt last year was one of the toughest years and as a result, the City has a new budget and operational base line from which to work, and a clear focus of what is important and strategic for Sherman’s future success.

She felt they are now seeing some signs of economic improvement and things look promising, with some growth and expansion. The Council has already received information on some of the most critical projects that will be addressed going forward. She said the policy decisions that the Council will make this year, will affect the well being of Sherman for many years to come. Today’s meeting is information and will set the stage for the full budget discussion in June. No decisions will be made today.

George Olson, City Manager, said the Council had some tough decisions to make and had heard what the staff felt were the top five critical issues facing the City. There are also other critical issues that need to be addressed to maintain the City as we want it to be. This meeting is not to establish the budget, but the staff is asking for direction.

He said he is proud of what the City has done during this recession. Most recessions last 12 to 18 months, but this one has continued for six or seven years. Sherman still provides the leadership in the Texoma region and we want to be sure that continues and we move forward. Mr. Olson said none of the items brought forward for the budget are “wants.” The staff is focusing on “needs” for sustaining this community moving forward. To do that, the Council must make tough decisions. With the Council’s direction, the staff will present a proposed budget in June.

FY2014 Financial Update

Robby Hefton, Assistant City Manager/CFO, presented current year highlights of the various funds. In the General Fund, 2013 ended up better than projected, mainly due to the “front end” of the Panda Energy construction. Construction started in June 2013 and continued in 2014. The net benefit to the City was about $900,000, which is a $1.8 million positive swing for the General Fund, versus what was projected.

Expenses are also slightly down in the General Fund, compared to budget, mainly due to open positions, such as those at the Police Department. They are holding a test tomorrow for police officers and 149 applicants have registered. Open positions create good budget performance. Ending reserves for the General Fund for fiscal year 2014 are projected to be at $8.6 million or 103 days.

In the Utility Fund, ending reserves are slightly lower than projected and revenues are higher. Ending reserves for fiscal year 2014 are projected to be at $5 million or 83 days.

In the Solid Waste Fund, 2013 ended up close to the projection and 2014 looks better, primarily due to the Panda Energy construction. Net revenues are projected to be up $400,000 or at 110 days.

Capital Improvement Program Fund balances in the General Fund will end at about $300,000 and in the Utility Fund at about $900,000 at the end of 2014. These funds will be pooled with the “one time” money and distributed to other projects.

Mr. Hefton highlighted several budgetary areas in the different funds. In the General Fund, sales tax is at $14.3 million. Originally $13.1 million was budgeted, but at that time the City didn’t have the foresight of the Panda Energy project. Sales tax ended in 2013 at about $13.3 million, so the net increase in sales tax is about $1 million, versus 2013. That number will go back down because the activity at Panda Energy is trailing off.

Franchise taxes are up, primarily due to the electric utilities and the cold winter. Years ago when the electric market deregulated, for cities, the only way that electric franchise taxes would increase was based on demand and not on rates. Therefore, Oncor could drastically increase their rates and the City would still receive the same franchise revenue because that fee is based on demand. Sherman's increase in franchise tax is about $150,000 versus budget.

Mr. Hefton said that, due in part to the open positions at the Police Department, there was also a reduction in traffic fines and court costs. That line item is projected to be down about $500,000. The net of that effect is a positive swing of about $900,000 from about $30.8 million to $31.7 million.

As for expenses, there was an adjusted budget of about $30.9 million and the staff is projecting a $30.3 million or $30.4 million range. Most of the $500,000 positive variance is in the personnel line item for the open positions. Mr. Hefton explained that the City has just over 400 employees, and they have to budget as if those positions will be filled the entire year. Inevitably, some of those positions will be open at some time, but each position must still be funded. The baseline budget must be based on the assumption that the positions will be filled all year.

The General Fund ending balance is projected at $8.6 million or 103 days. That balance will be drawn down to a normal level when that one-time money is used for some one-time projects.

Revenue is projected to be up slightly in the Utility Fund. All the numbers weren't in when the budget was built so the actual sewer revenues ended up greater in 2013 than was budgeted. Because projections are based on what actually happens, the staff projected that sewer revenues would be greater by about $200,000 than was projected, because 2013 ended up about $200,000 more than was projected. Therefore, the Utility Fund should be about $400,000 net to the positive on revenue.

Mr. Hefton said the staff planned to spend down fund balance by about $2.7 million in the budget, but it will be closer to $1.6 million because of some additional revenue and savings on several line items. Maintenance and repair is one of the biggest variances, which includes maintenance and repairs at the Water Treatment Plant, Wastewater Treatment Plant, small water lines, and water main breaks. Normally the City also budgets for at least one major water well repair or rehabilitation, which costs $250,000 or $300,000. Up to this point there have not been any repairs that weren't budgeted. That means there is currently a savings of $200,000.

The net effect for the Utility Fund is an ending fund balance of 83 days, with revenues under expenditures by about $1.6 million.

The Solid Waste Fund has some positive one-time revenues primarily from Panda Energy. They have used a lot of commercial solid waste services. There are also another couple of industries that have "ramped up" and had some impact. The expenses of the Solid Waste Fund are tracking where projected and the staff expects to end the year with a fund balance of about $1.7 million, or 109/110 days. Normally the fund would be in the $1.2 million range so that is about $400,000 or $500,000 more than projected.

Critical Issues Recap
Mr. Hefton said beginning in January 2014, the staff and Council began discussing several critical issues. Mr. Olson had originally asked the directors to think about their operations over the next three to seven years, and outline the critical needs they would have that, if not taken care of, would be major problems for the City. From that exercise, a list of 30 to 40 different items, both large and small,

expensive and not so expensive, and some operational, was developed. That list was then prioritized to delineate what the most critical issues were that needed to be addressed now to avoid interruptions in service or other adverse impacts.

These issues were recently discussed in the budget meetings with the City Council. The first issue was stormwater management projects and a related fee. A study was completed a year or two ago from the stormwater consultants. They developed a plan of projects and policies that might help the City manage their stormwater issues. The focus is on the "reasonable" things that can be done to help mitigate some of the damage. A list of $55 million of projects was identified, and even though those can't be done now, the City can take "baby steps."

The first step that was identified that might be reasonable for the City was to consider a Stormwater Fee Study, which would cost $150,000 to $200,000. This is required by the State prior to the City levying any fee, to assure that it is equitable and has a reasonable bases for distributing the costs.

The need was also discussed for another fire station and/or relocating one or more current fire stations. Sherman's concentration of people is now to the north with the retail base at U.S. Hwy 75 and U.S. Hwy 82, and that is also where the call volumes have increased. Coverage is also missing in this area because of the proximity of the current stations. The next location for a fire station might be closer to that corridor so those needs could be addressed.

An additional station would also need to be staffed with three officers, at a minimum. Three positions actually means nine people because they work three shifts. Nine people would cost $700,000 just for the cost of the employees. Utilities, insurance, trucks, apparatus, and equipment would be an additional cost. An additional station would need to be staffed and funded. A first smaller step would be site location, which might be possible during the next year.

A project for the Utility Fund would be the Water Treatment Plant expansion. In an earlier presentation, ground water and surface water were discussed. The ground water is increasingly more regulated by the State. Currently the Water Treatment Plant capacity is 10 million gallons per day, and on hot days the City is reaching 8 and 9 mgd.

The issue is more critical because the City has a dual system with ground and surface water. If one of the supplies is down in the summer when the demand is 14 to 16 mgd, there is no way to supply everyone with water from one system. The well system currently has 24 wells.

Another reason this is critical is that Panda Energy will be coming online. The City is currently providing them with raw water, but in the next month or two the contract for a redundant supply of treated water will end. The contract guarantees them 4.5 mgd of water. Because of these risks, it is time to begin thinking about expansion of the Water Treatment Plant.

Mr. Hefton said expansion of the plant would be a three year process. If the engineers began the design work today, the City would not be generating water from the plant for three years. He added that the staff is looking at a reverse osmosis system, which is as efficient as the existing technology, but there are multiple providers of the equipment and maintenance. This system would allow for multiple vendors, which would help keep the costs down through competition.

Another critical issue is the capital, fleet, and CIP's, which have no ongoing source for funding. Fund balances have been reduced over the last several years to fund these items and now there is no dedicated funding source for future costs. This doesn't include just water lines and street improvements. It also includes replacing trucks, fire engines, garbage trucks, backhoes, and general equipment.

The last critical issue was staffing and compensation, especially the pressure in the Police Department entry and patrol ranks, and the need for an adjustment to make the job more attractive to recruits. Mr. Hefton said Sherman can't compete with McKinney or Allen on a monetary basis, but hopefully the community is close enough that someone in that market might consider Sherman.

This item also includes funding to keep up with inflation "across the board" in all jobs. A staff survey was completed, tracking every single position at the City and compared it with peer cities, and created a graph with the median, the low, and the high. The goal was to be in the center. There may be a few positions that need "tweaking."

FY2015 Budget Planning and Sustainability Discussion
Mr. Hefton said the departments are already working on the detailed line items for their budget, and the input should be complete by May 5, 2014. The Public Works departments are already thinking about the Five-Year CIP plan, such as street improvements, street expansions, or water line replacements.

Several years ago, the Council made the decision to use the available fund balance to draw down before any other significant changes were made, and to look at the City "as a whole." The three major funds are the General Fund, the Utility Fund, and the Solid Waste Fund. Those funds stand alone. The Utility Fund is funded through rates to the water and sewer users and the Solid Waste Fund is funded through rates to the commercial, residential and recycling solid waste customers. The General Fund isn't funded by user fees but by taxes, and includes general services that benefit the entire population, such as parks, libraries, senior citizen centers, and fire and police protection.

Over the last few years, where there is extra money or good budget performance in one fund, that additional has been used to help "prop up" other funds. Since about 2010 it has been the Utility Fund helping to prop up the General Fund. The Utility Fund has had a temporary good budget performance because the debt service on several things has been down versus what is typically expected.

Mr. Hefton said they also want to get the Council's direction on the critical issues that were previously discussed. He said there were some challenges on the General Fund, which has been propped up by transfers from the Utility Fund since about 2011. There will always be transfers from the Utility Fund to the General Fund because that fund provides services to the Utility Fund just like it does to other utility services. Utilities such as Atmos, Verizon, and Oncor all pay a franchise fee to the City. Therefore the City of Sherman Utilities pay a franchise fee to the City too, and it's called a transfer. The transfer is from the Utility Fund to the General Fund.

Transfers are normal and there will always be transfers, said Mr. Hefton. But during the last few years there have been extra transfers that have really propped up the General Fund. The ability to transfer these additional funds is really about done. Debt Service in the Utility Fund is projected to increase. If the City Council authorizes the staff to begin the process for the Water Treatment Plant expansion that is about a $15 million to $17 million project. On a 20 year debt, that is about $1.1 million to $1.2 million per year in additional debt service. There are also some other known improvements that will be required by the State.

The largest future project is probably the Nutrient Removal Process at the Wastewater Treatment Plant. The State has already said that it will be required, but they haven't specified what the required levels of nutrients will be. He estimated that the Nutrient Removal Process project will be a "multi-million dollar" project.

Currently the Utility Fund debt service is at $4 million to $4.5 million, but with the addition of these projects, it will increase to the $5.5 million to $6 million plus range, where it normally is.

Beginning in 2016, the projected deficits in the General Fund will be in the $1.5 million to $1.6 million range. On the tax rate, this equates to needing a little over $0.06, or increasing the tax rate to about $0.41 per $100 valuation. Mr. Hefton said these projections do include the Panda Energy effect.

He added that the staff will need direction on several decisions so they can prepare a plan based on the Council's thoughts and taking into consideration the departmental input. He reiterated the funds available and sources of the funds that are one-time in nature, such as the Panda extra money and the good budget performance in 2013. There is about $1.6 million in the General Fund that should be transferred out for one-time uses. It is non-recurring.

From a financial standpoint, Mr. Hefton said a good use is to transfer that money to fund items such as the General Fund CIP and complete the street program. Currently 2015 will be the last full year of the "second round" of the street program. There is about $1.2 million in street projects that the City Council committed too when the Street Sales Tax passed. There should also be several other smaller projects that could be completed. The fund balances should return to normal levels.

Mr. Hefton said one of the tools that the City has to help balance the General Fund budget includes using the Utility Fund or other funds to help prop up the General Fund. To do this, the City would have to increase rates, using utility rates to help fund General Fund things.

The second tool is property taxes. Each year the City relies on tax growth from new property added to the tax rolls, an increase in valuation, or a tax rate increase. Last year there was a decrease in the overall valuations. The only one of these that the Council has control over is the property tax rate.

The third tool is cuts in expenses or services. Mr. Hefton said the City staff is looking every year at ways to do things more efficiently. He added that sometimes things are "cut to the bone" and it becomes hard to do the job. The City is "in that place" in several areas. By service cuts, he meant cuts in service that would actually be felt by the citizens.

He explained the several years of savings to the debt service that was used to fund projects by transfers out into other funds. The debt service is now increasing and that additional money is not available for other projects.

Mr. Hefton presented the general services hierarchy and outlined the most essential services that were offered by the City. The most important service is public safety, followed by streets, administration, and finally community services. Any service cuts would come from the bottom of the hierarchy and move up.

He addressed several potential cuts as examples if that was the Council's direction. An annual net savings of $200,000 could be realized if The Splash was closed; $100,000 could be saved if there was less mowing or grounds maintenance at the parks and cemetery; approximately $50,000 could be saved with the reduction of one administrative person; $150,000 could be saved with reduced Library hours; and money could be saved with reduced Senior Center hours. These items would be noticed by users and the public.

Mr. Hefton presented a statewide survey by the Texas Municipal League that gives a tax rate comparison for cities with a population between 30,000 and 50,000. The average and the median of the peer group is about $0.59. Sherman offers as many or more amenities as compared to the other cities in the peer group. Sherman's tax rate is currently $0.348. The average tax rate is currently about 70% higher than Sherman, and Mr. Hefton said we lack about $0.24 to get to the peer rate.

Mr. Hefton said every year the City is required by law to calculate the effective tax rate, which is the rate that would be needed to generate the same revenue as the previous year. This takes into effect changes in the valuations, however new property is excluded from the calculations. From this calculation they also generate a rollback rate. With the rollback rate, the State says they recognize that property taxes are one of the only mechanisms that cities have to regulate revenue, but there is a cap on the amount that revenues can be increased from one year to the next. This cap is set at 8%. Therefore, the effective rate plus 8% is about all a City can do without generating a Rollback Election. A Rollback Election allows the citizens to decide if they want to adopt a higher property tax rate. Mr. Hefton said the 8% would equate to about $550,000 in revenue, based on the current tax base.

He continued to explain that property tax revenue is affected in three ways. The first is through valuations, including new property. The second is sales tax in lieu of property tax. In Sherman, one-half of the $0.02 of sales tax, or $0.01, goes to sales tax in lieu of property tax, and when the effective rate is figured, it includes the effect of sales tax in lieu of property tax. Normally, sales tax usually tracks at 1% or 2% growth and the impact on the effective rate and rollback rate is very minimal.

This year it is very pronounced because of the "huge bubble" the City has had from Panda Energy. Of the bump in sales tax, about $300,000 relates to sales tax in lieu of property tax. The staff is using their own internal numbers, since the official numbers are not available from the Grayson Appraisal District this early. Mr. Hefton said based on everything that is known, including the "Panda Effect" of the property value that is coming on line, the effect of the sales tax in lieu of property tax will lower the $550,000 that the City would normally get from property taxes and sales tax in lieu of property tax by about half. Where normally a rollback rate for the $0.34 tax rate would be about $0.045 to $0.05, for the City that number will probably be about $0.025.

Mr. Hefton presented a "what-if" scenario, if tax rates were increased close to the maximum of about $0.024, before a rollback, or $0.062 over three years.

He asked for Council input for items that had been discussed for the 2015 Budget, and how they felt about service cuts, a tax rate increase, and an increase in Utility Fund rates to continue propping up the General Fund.

Council Member Davis asked about the General Fund history and verified that the $1.2 million increase in revenue from 2012 to 2013 was mainly from Panda Energy. Mr. Hefton said the front end of the Panda Effect was in 2013 and the back end in 2014. They have already started to trail off on the sales tax. They started moving dirt in November or December of 2012, but most sales tax revenue was seen in 2013. There was also some additional revenue growth in 2012-2013 from traffic fines, the normal 1% to 2% annual sales tax growth, and an increase from property tax valuations.

Council Member Davis confirmed that there was another $1 million increase in revenue from 2013 to 2014, mostly due to Panda Energy. He asked why the projected growth from 2014 to 2015 was negative. Mr. Hefton said you "back out" the one-time direct and indirect growth from Panda Energy. The Panda Effect was discussed in more detail and Mr. Hefton explained how the assumptions were made.

Mr. Hefton said the City hopes and plans for sales tax revenue growth, and will probably have a 2% to 3% estimated growth in sales tax revenue for 2015. Retail is only about 60% to 65% of what makes up the sales tax revenue. Industries, utility companies, and construction companies also contribute to sales tax.

Mayor Wacker asked the Council to think about where they were going to go and the direction that was needed for the staff to help them accomplish what they wanted to accomplish for next year. She said they had talked about a very modest tax rate increase so they can move forward. Even though the budget is only planned for a year at a time in government, the infrastructure and major improvement needs take a long time for fulfillment. Over the last several years there have not been any big CIP projects and virtually nothing has been done on the five-year plan, except for some smaller critical projects. The big projects have not been completed for five or 10 years. Projects, such as the Water Treatment Plant are expensive and the City is at a point that if they don't move forward now, it will be very costly. She felt the City needed to begin moving forward in small increments to do what needed to be done.

Mr. Hefton said the projections are based on "what's on the ground today" and do not include an increase in the level of service, adding services, or even doing what we're doing better. Mayor Wacker said the proposed projects are not just a "wish list" but are real scenarios that are happening in the community that must be addressed.

Council Member Johnson asked what the total cost was for the CIPs that the staff was looking at. Mr. Hefton said it was still being developed, but last year, for the General Fund, over the next five years there was approximately $22 million to $25 million, and included two projected fire stations, other street projects, storm drainage items, and parks improvements. He said the staff feels little steps can be done on each project with the money they currently have. The staff expects to have about $1.5 million available to do the streets and some other projects, as well as a little money for the proposed critical needs.

Council Member Davis asked about the "one-time money." Mr. Hefton said if nothing new is done from the proposed critical needs, the staff estimates they would still need $1.5 million. From a finance standpoint, that $1.5 million should come from the General Fund because that's where the money is generated. The staff would propose $1.6 million to do the $1.5 million projects, even if they don't do any of the other critical needs projects. Council Member Davis confirmed that the $1.6 million would come from the additional fund balance that has built up in the General Fund over the last two years from Panda. This would bring the fun balance down into the 80s for days.

Mayor Wacker said the City normally has a 2% growth rate, but can't always depend on that. Mr. Hefton reiterated that the transfers are the big difference. Those have increased substantially, but will not happen anymore. Everything else held equal, the City is down by about $1.5 million, just on the transfers. Even if expenses are held flat, it is known that revenues will decrease by $1.5 million per year. Which is the problem that needs to be solved.

Mayor Wacker said these things need to be projected out each year and worked on incrementally, because otherwise the City will get big drops and need drastic measures to change. This way you can manage the issues and spread them out. Mr. Hefton said one of the main uses of fund balance is a smoothing effect. If it is known that there will be a need in the future to increase rates, then it is better to do a small increase each year rather than a large increase.

Mr. Olson said the staff is not saying what the tax rate needs to be, that will be discussed in June. But the staff needs to know how to build the budget, whether it will be from service cuts, through a tax rate increase, or through a utility rate increase. He said the General Fund is an ongoing cost. You can use the one-time money to balance but your aren't supporting your expenses, you're just putting off the inevitable.

In order to build the budget, the staff needs to know if it is one of the three tools, or a combination of the tools. Mr. Hefton said most of the critical needs projects are the one-time money items, however the staff still needs direction.

Council Member Sofey confirmed that the $200,000 stormwater study would not include updating the floodplain maps so they more accurately display the flood plain. If the money is spent on the study, they will give direction to the City on how to assess the fees to correct the stormwater problem. Clay Barnett, Director of Public Works and Engineering, said the consultant will give the City a work program with a series of projects that can be funded with the fees. Mr. Hefton said the study cost $350,000 to $400,000, but the City received a grant for 50% of the cost. From a CIP standpoint, the City has done some culvert work or small drainage improvements.

Council Member Sofey confirmed that the last fire station upgrade was a long time ago and that there will be no choice for expansion of the Water Treatment Plant. He said the City is "getting by" on a lot of things, and he is proud of what has been done. The City has done well to maintain what they have but a "band-aid" has been put on a lot of things.

Council Member Sofey said he doesn't necessarily want to raise taxes, and he does think the economy will get better, but he doesn't want to cut any of the amenities either. Those are some of the things that make Sherman a "cool" place to be. He said, considering where Sherman is on the tax scale, the direction would be to move forward and look at a reasonable, marginable, less than rollback, tax increase.

Council Member Plyler agreed, adding the ultra low tax rate that Sherman has been carrying is getting to the point of being irresponsible with the citizens. They expect the City Council to do what's right for the City, and if we start closing The Splash and these other amenities, then the Council fails in their duty. Sometimes being responsible means increasing taxes modestly, and that's not unreasonable.

He said he doesn't see a lot of people coming to Sherman because of the low tax rates, but you hear of people leaving because Sherman doesn't have the amenities they want. We owe it to the citizens to look at a budget that is responsible, keeps the City from having deficits, and will allow the kind of amenities and services that the citizens expect.

Mr. Olson asked the Council if they wanted to move forward with the projects with the one-time money and build a budget around those projects. Council Member Johnson said he would like to see a budget with these one-time projects, and would like to see it with a tax increase and without a tax increase. He wanted to see options.

Council Member Davis said there was extra money in 2013 and in 2014, and he felt some of these projects could be done with that money. Taxes were increased last year by eight plus percent and the proposal is to do the same thing this year. He said that was "difficult to swallow." He felt a budget could be made, including these projects, and then see what the budget looks like next year. He didn't feel that "the world will end" if the Council doesn't increase taxes this year.

Council Member Plyler said that can be done, but then the following year, the City would be in a deeper hole. Council Member Davis said they are only projecting what the revenue will be. Council Member Sofey said the economy could go down. Council Member Plyler said they could then be looking at a rollback Election and if it doesn't pass, the City would have to cut services. Council Member Plyler said that would be a gamble and he didn't feel the citizens would want the Council to do that, and didn't feel it was a wise fiduciary policy.

Mayor Wacker said on a $100,000 house, a $0.01 tax increase would be $10 per year. Council Member Davis asked what about a $10 million business or a $100 million business. He felt a tax increase would be hard on businesses.

Council Member Sofey said it's not so much what the actual increase will cost, that is a factor, but those $10 million businesses won't be here if the City can't provide services to them.

Mayor Wacker said rather than talking about what the rate should be, the Council needs to look at what it takes to keep from going into a deficit budget situation and having to reduce reserves to an uncomfortable level. She felt the Council was in agreement to see what the budget would look like if the Council moved forward on the projects. It's the value of what is delivered to the citizens going forward. If the Council does nothing, it will either be more costly in the future or they will fail in some area. She added that Sherman wants to be a City that provides an excellent level of service and sets the stage for business success and for living in a safe and comfortable community. The Council wants to look at those options both with no tax increase and with incremental tax increases. They can then consider taking some of the critical steps to insure that they are successful.

Mr. Hefton said the proposed projects were staff driven, and he asked if the Council had any other items that should be discussed. Council Member Davis verified that these were the most pressing needs as determined by the staff. Mr. Olson said those projects were felt to be the most important from an operational perspective of the City. He said there are tough decisions to keep moving forward, and none of the projects will be completed in one year. He felt these had to be addressed before a point is reached of going backwards.

Council Member Plyler said they haven't really addressed the City-wide staffing and compensation. He asked to look at a cost of living adjustment or some market adjustments that might be needed for employees.

Mr. Hefton reminded Council Members that the Street Sales Tax Election, which has been a four year program, approved by voters, will be up for renewal in November 2015. It generates about $1 million a year that would otherwise come out of the General Fund, and increase the deficit. It is vital to the City from an operational standpoint. He added that the State has now made the term for eight years instead of four years. Council Member Sofey verified that the City would only have to wait one year to bring it back if it's not approved at that Election. Mr. Hefton said with the completion of the current program, the City will have completed almost 30 miles of mill and overlay on streets, with that process.

Budget Calendar

Mr. Hefton presented the budget calendar adding that the Budget Workshop is proposed for June 18 and 19, 2014. He also presented the other dates involved in the budget approval process. He said if the tax rate does increase, there will be additional public hearings and approvals related to the tax rate.

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