STATE OF TEXAS §

April 15, 2016

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 15, 2016.

COUNCIL MEMBERS PRESENT: Mayor David Plyler; Deputy Mayor Jason Sofey. Council Members Couch, Davis, Johnson, Steele, Watt.

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 Community and Support Services; Clay Barnett, Director of Public Works and Engineering; Mary Lawrence, Director of Finance; Danny Jones, Fire Chief; Stephen Dean, Assistant Police Chief; Bob Fair, Assistant Police Chief; Tammy Davis, Controller; Kevin Winkler, Parks and Recreation Director; Jim Cross, Assistant Public Works Director; Clint Philpott, City Engineer; Nate Strauch, Communications Manager; 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 Lawrence Davis

Financial Update and Council Input for 2016-2017 Budget Year

Adjournment

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Plyler called the meeting to order at 12:04 p.m., declared a quorum present, and opened the Called City Council Meeting.

INVOCATION BY COUNCIL MEMBER LAWRENCE DAVIS

FINANCIAL UPDATE AND COUNCIL INPUT FOR 2016-2017 BUDGET YEAR

Robby Hefton, City Manager, introduced the budget work session saying it would start with an update on the plan of work and projects for this year and continue with financial updates. And finally, Mr. Hefton will present what it looks like moving forward. He said the staff would ask for "head nods" on some of the budget items and on some other questions that would be presented.

Council Initiatives

Don Keene, Assistant City Manager, presented the status on the 2016 Council initiatives, as well as some projects that came up after the budget, but are now a priority. He said this has been an exciting and challenging time for the City of Sherman.

He outlined the status of several projects, including the Water Treatment Plant Expansion. The pilot testing has been completed and the engineering and design work is 60% complete. Bids will be taken this summer and construction should begin around September 2016 and reach completion during the first quarter of 2018.

A number of compensation and staffing issues have been implemented and a number of people have been hired to help with the growing work load. Additional needs will be addressed in the upcoming budget.

Another project is the management and planning for storm water, and the staff is looking at various options of what can be done in the floodplain. A Flood Protection Study was completed several years ago that identified a number of projects that the City could undertake to minimize the impact of flooding. Total cost of the projects was over $50 million, but the question is how does the City start on that list and how do they pay for the projects. One way to pay for the projects is through a storm water utility fund. Before that would be enacted, a study would need to be completed to determine how it would work.

Mr. Keene said, as for the development of FM 1417, the transportation planning study has been completed and the Taylor Street alignment has been approved. The preliminary engineering for Taylor Street is scheduled for this summer and the right-of-way should be purchased by winter.

The staff has been working on substandard structures and has had eight demolitions, seven of substandard houses and one of a commercial property. The staff is working to optimize the money available and reduce the backlog of substandard structures, thereby reducing the blight.

The staff has also identified and prioritized the downtown sidewalks that need repair. The bid process and repairs are scheduled for the next six months.

Mr. Keene said the engineering is complete on the Loy Lake Road rebuild project and the bid process is ongoing, with bids scheduled to be opened in mid-May. Hopefully construction will begin this summer, however there are challenges, and construction will be dependent on the relocation of Verizon's utilities. The project should be completed in the summer of 2017.

The City has been working to optimize space and several departments have reconfigured or repurposed their office space to make it more efficient and usable.

A new utility crew and some major equipment have been added in order to be able to complete many of the water and wastewater improvements in-house. The staff expects to save millions of dollars by completing these major projects instead of hiring contractors to complete them.

Another project is the Southwest Elevated Water Storage Tank. Engineering has been completed, the State has approved the project, and the bid has been awarded. Construction has already begun and the project should be completed by the summer of 2017.

The Council has also implemented a solid waste rate adjustment.

Phase two of the downtown streetscape is underway and the engineering and design are in process. Bids should be taken this summer and construction should begin in September 2016. The project is scheduled for completion in February 2017. Mr. Keene said the downtown streetscape project and the Grand Avenue safety project will be "worked in tandem" because they have some similarities that could provide a cost savings to the taxpayers.

The staff has "stepped up" code enforcement with some clean-up along Lamar and Houston Streets to enhance both the safety and the appearance of the area. Renovations and improvements have also been completed in the Municipal Ballroom and kitchen to help optimize the facilities.

Development and ordinance improvements are being considered and will be presented to the City Council in the fall for consideration. The grant amount for the downtown incentive program has also been increased to $50,000, and the first grant was awarded in March 2016 for a barbershop in the old Travis Lunch Room facility. The Street Sales Tax was also reauthorized by voters for another four years.

Mr. Keene said the staff is also considering development ordinance updates, such as should there be some modifications on the large lot regulations, instead of a “one size fits all” approach. The Council will also consider the transportation plan for the community. FM 1417 overlay modifications and various zoning regulations have already been considered by the City Council.

Mr. Keene addressed several projects that have been added since last year’s budget process. These projects were not even “on the radar” last year. They include the relocation of Fire Station #4, the Carriage Estates water system, the Hwy 56 West annexation, Sherman Crossroads, and the Pecan Grove ball fields.

Other projects that are now being considered include the development of a new Kroger; the development of Lamberth Road West; development of The Preserve, including the right-of-way for the Swan Ridge extension; development of the Covenant, a mixed use development on the northwest corner of Hwy 82 and Travis Street; development of the southeast corner of FM 1417 and Hwy 75, using the proceeds of the sale to fund the new Fire Station #4; and an affordable housing policy.

Mr. Keene said the staff plans for growth, but with that comes challenges, and as the City works the plan for growth, they also try to be very efficient and responsible in using the resources available and the tax dollars needed.

Financial Update

Mary Lawrence, Director of Finance, presented an update on the City’s financials. She said the FY 2015 General Fund ending reserves were down by about $600,000 over FY 2014, but they were projected to be down even more. It was a very wet spring, there were Street Department projects that the City didn’t do, and there were open positions at the Police Department.

In FY 2016, the net reserves are projected to be up by about $700,000, mainly due to sales tax, which is up about 6% over budget. She said there are a couple of big audits from taxpayers, so the 6% increase won’t continue. General Fund expenses include the Panda agreement and hiring some fire inspectors, but there were also some fuel savings.

In the Utility Fund, the FY 2015 ending reserves were up about $800,000 over FY 2014, and the FY 2016 projected revenues are projected to be up $750,000 over budget. The budget had also included money for the debt service on the Water Treatment Plant for about half the year, but it didn’t come on line in 2015. It will be online in 2016 and is budgeted at about $1.5 million. Panda has performed better than expected and there were some unexpected revenues from the annexations.

In the Solid Waste Fund, the FY 2015 ending reserves are about where expected. There were some pretty good increases in the commercial side of Solid Waste, especially industrial and construction. She added that commercial solid waste revenue is very volatile. Because they are heavy fuel users, there were some substantial fuel savings this past year.

Ms. Lawrence presented an in-depth look at the General Fund financials, saying the main story was in sales tax proceeds In the Utility Fund there was an increase in water and sewer sales. The debt service, paid to the Greater Texoma Utility Authority and others, in 2015 was about $4.7 million. In 2016, with the full year of the Water Treatment Plant, debt service is $6 million. Additional money was added to the debt service budget for equipment that was purchased for the new crew to complete some of the larger utility projects that will be completed in-house.

In the Solid Waste Fund, disposal fees are budgeted in the “contractual services” line item. This fund is projected to be about $185,000 above where it was originally thought to be, mainly because of commercial solid waste performance.

Mr. Hefton said the ending reserves in each of the funds is projected to end in the 75 to 90 day optimum range. Therefore at the end of 2016, the ending fund balance is “hitting” the target.

Ms. Lawrence said sales tax is the big story this year and she said even without the sales tax from Panda Energy, it was performing very well.

In the General Improvement Fund, Ms. Lawrence addressed a number of projects that have no budget and were added after the budget was approved. She said the Council has been very supportive in giving the staff permission to go ahead and address the projects rather than getting behind because of the budget process. She added that these projects are “really expensive.”

She also presented a list of additional projects that have been submitted by the departments. She said the staff has not reviewed or “culled” these for the upcoming budget. A list of proposed projects will be submitted to the City Council at the budget workshop for their consideration to include in the budget.

Council Member Davis asked if there was any reason for the robust sales tax that could be identified. Ms. Lawrence said the staff just received the detailed information for April 2016, and the increases seem pretty broad-based. She said it is a lot of retail, construction, information, and wholesale trade, which are good indicators of growth. She added that Home Depot and Lowe’s are doing really well. Council Member Steele said he received a report today that there is less unemployment and people have more disposable income. Locally, unemployment is at 3.7%.

On the Radar

Mr. Hefton said up to this point, the presentation has addressed a look backward and where the City has been. He addressed the Stormwater Management saying the City is moving toward a regional detention policy, which is expensive and will include fewer but bigger projects. The Archer Street area has been identified as a good possible location for a regional detention site, which would affect the upstream development along FM 1417. He said budget money in 2017 might be used for the stormwater fee study to determine how the money would be distributed for the projects.

Utility projects included the elevated tower, the Water Treatment Plant expansion, and the Waste Water Treatment Plant renovations. There are several wastewater projects that have been on the radar for years and the biosolids project will be on the next Council Meeting agenda for a request to advertise. The City’s internal crews would be handling both the Preston Club water and the Carriage Estates water projects. Using City crews is better both monetarily and from a timing schedule.

Council Member Steele asked about the advantage of using City crews for these larger projects and if the projects were being completed in a more timely manner. Mr. Hefton said by using City crews, the City controls the projects, with timing, prioritization, and efficiency of the job. If a contractor is doing a job and hits a City line, they “shut the job down” and call the City to repair the line. If the City crews are doing the job, and they hit a City line, they repair it as they go.

Deputy Mayor Sofey agreed, saying the City is not loosing time, putting a job out to bid, receiving and awarding bids, and then trying to get on the contractor’s schedule. Mr. Keene added that, in the past, the City has had a number of projects that they couldn’t get anyone to bid on. If contractors are busy because of growth in the area, the City doesn't receive the benefit of competition from the bidding process. Mr. Hefton added that the crews are ready to start the projects, but there is still some administrative work to get easements that needs to be completed.

Mr. Hefton said the Preston Club water line and the Carriage Estates water line will be the first two projects that the City crew will be working on. Other projects for the crew will include the Sherman Crossroads water and sewer, Swan Ridge water, Hwy 56 west (Friendship) water, the Panda Energy effluent line, the Canyon Creek water and sewer, and the CGMA water line.

Looking Ahead
Mr. Hefton addressed operational critical issues for FY 2017 that will be addressed during the budget work session. In the General Fund, a replacement plan for the Self Contained Breathing Apparatus, SCBA, for the Fire Department will need to be initiated in the next few years as the equipment is nearing its life end. There will be various large fleet requests needed, especially in the Fire Department and the Street Department.

Another item that will continue to be an issue as Sherman continues to grow is the need for staff to keep up with this growth. The General Fund is heavily "people oriented." He also said with the growth, it is becoming hard to manage and store the fleet at Fleet Maintenance. The yard isn't big enough and there are some height limitations to the bays. The staff is reviewing other options pertaining to the Fleet Maintenance Department. Mr. Hefton said with all those items, balancing the budget will be a challenge this year.

He said, in the past, the City has been very judicious in the rate increases in the Utility Fund. If the staff does propose a utility rate increase this year, it will not be 10% or anything. He said all those utility projects will generate revenue in the future, but they also cost a lot of money. Keeping up with funding for the capital and for operations will be the key, he said.

Mr. Hefton said, as always, employee compensation and benefits will be an issue for review. He said they want to make sure they "stay in market" with all the employees and that they take care of the employees.

Mr. Hefton presented a preliminary revenue projection for the three major funds. He said they believe there will be a jump in revenue, approximately $800,000, for the General Fund, especially from property taxes. There will also probably be an increase in sales tax, but not 6%. The 6% increase this year includes some audit adjustments that can't be counted on for next year. The increase will help with balancing the fund.

Council Member Steele referenced the increased property taxes from Carriage Estates of $102,459, and asked what services they will be receiving from the City. Mr. Hefton said the City is offering Animal Control Services, Sanitation Services, and Police and Fire Services today. The exception is the water system, which the City is trying to take over, but is delayed at the State level. Mr. Hefton added that, depending when a property is annexed, it could be close to two years before a property owner ever starts paying City property taxes. However, they begin receiving many City services immediately. He added that right now, Carriage Estates residents are receiving all City services, except water, and are paying no City taxes.

Council Member Watt asked about the status of water service for Carriage Estates residents. Mr. Hefton said the PUC attorneys are trying to make sure that everything is the way it should be. The State is in favor of the City taking over the system, the owner and the operator of the system are also ready to complete the trade, the City is ready to take over the system, and the homeowners are also ready. The delay is that it is tied up with the attorneys trying to avoid any risk, but the snags have to do with the ownership of the system. Mr. Hefton added that it is a very high priority with the City of Sherman.

Mr. Hefton said the staff believes the Utility Fund revenues will be flat or up slightly, without a rate increase. If there is a need for a rate increase, the staff will present that at the time. If needed, he felt it would be reasonable, a percent or two. The same is true for the Solid Waste Fund. When the budget is being balanced, if a rate increase is needed, it will be submitted at that time. No rate increase is expected at this time.

Transportation Issues
Mr. Hefton said most of the money needed today and that will be discussed at the budget work session will be needed for thoroughfare enhancements. This includes Texas Department of Transportation projects, where the City can add funding to enhance the project and the timing of the project. By working with TxDOT to leverage local money, the City can take a more active role and have some more input about the design of the project as well as moving it up on the priority list.

He addressed the City thoroughfare development, including Canyon Creek Drive, Lamberth Road, Taylor and Washington Streets, Swan Ridge Drive, Travis Street (O.B. Groner) and Howe Drive, and Park and Lake Streets. Some of the projects have already begun and the others will be discussed during the budget work session. Development in the area will determine the timing of the actual construction, however engineering and right-of-way can be done now to assure a "clear path."

Mr. Hefton presented a list of the projects discussed, including ones where the engineering has already been started or is under negotiation. No dirt has been moved on the projects yet. The estimated cost of the projects, at least phase one of the projects, is about $20 million. A portion of the Sherman Crossroads project, extending Howe Drive, would be paid through Tax Increment Financing Bonds.

He said these projects are already underway and dirt will be moved on several of them within six months. Originally, Mr. Hefton expected to issue bonds in late 2016 or early 2017, which would have been next fiscal year. However, some of the money for the projects is needed today. He said he would like to consider issuing debt as early as this summer with the first payment due in 2017. He did not want to move dirt without the money. Mr. Hefton reminded Council Members that these projects have arisen since last year's budget work shop.

He proposed to issue $8 million in debt to capture the first part of all of the proposed projects. For financing reasons, the City can get preferential rates for a bond issue of $8 million or under. This is called "bank qualified financing." This would give the City about 35 basis points on the debt, which would be about a $400,000 savings over the life of the bonds.

Council Member Steele verified that Swan Ridge Drive was the extension that residents appeared before the City Council requesting to alleviate traffic on Seasons West Avenue. Mr. Hefton said as the City builds thoroughfares, that hastens when development occurs along those thoroughfares. Adding infrastructure in those areas has a huge impact of when housing and commercial development goes up.

He added that once the engineering is completed on the projects, they can be held until the Council decides to do them. However, right now there is some money for engineering on some of the projects, but not all of them. If the Council's decision is to move forward with these projects, then there also needs to be money to pay for the projects.

Mr. Hefton said the bond for the $20 million would be broken up into two pieces, probably $8 million and then $12 million. He added that, technically it might be an $8 million, a $10 million, and then a $2 million bond. Council Member Couch said that if Sherman is being proactive with infrastructure, then the bonds should be issued.

Mayor Plyler said the Council had talked once about liquidating some of the unused City property. Mr. Hefton said by breaking the bond issue up into two or three pieces, the impact of the full $20 million will not be felt immediately. This will defer the total impact on the bond payments, and thus the debt service. This would allow the City to get the money when it is needed and to minimize the effect to the taxpayers. He added that if the projects are “built out” as expected, the City could expect over $2 million in revenue per year.

He said that the sales tax revenue for Sherman Town Center alone, is about $2.5 million to $3 million per year. When Sherman Commons is built, even though it will be a mixed use complex, a third amount of that in sales tax will still be really big. That doesn’t take into account their property tax too. Mr. Keene said these projects would pay themselves off in 10 or 11 years, with a conservative tax rate. Mr. Hefton added that there are some water, sewer, and trash impacts that will “spill over” into the General Fund.

Mr. Hefton said these projects aren’t speculative and are happening because of development. Some of these projects are before development actually happens, but today the plan isn’t to construct the project, but to obtain the right-of-way so there is a phased approach when development does occur. He did not want to incur debt or the cost of debt before it is time to do so. They would also like to pay for the cost, by selling off the excess property, such as the Youth Center, the Armory, or vacant lots, as Mayor Plyler suggested.

Mr. Hefton said the decision is not on the agenda for the Council’s approval, but he wanted to make sure that the staff is on the right path. He asked if Council wanted him to move forward quickly before the end of the fiscal year or to pull back instead of going forward.

Council Member Steele said the area is growing and the City must stay ahead of the growth. Mr. Hefton said from a financial standpoint it is unsettling. Normally the City plans 12 to 18 months in advance for what happens in a year. But today, there are more projects on the list than there were during the budget work shop. He said these projects are expensive to construct, but are necessary for growth. He added that a City pays for growth through debt, like a mortgage.

He presented a chart of the tax rate for local and peer cities that have seen a higher growth rate than Sherman in the past. Sherman is currently at $0.04 on the debt rate. The average on the debt rate is $0.17. He said if Sherman needs to issue debt for these projects, there is plenty of room to do so, in a smart way. He discussed Sherman’s previous property tax rates over the years. Sherman’s debt is currently at $13 million with the per capita debt at $332.

Council Member Couch asked, with all these projects and all the projected growth, and more people wanting services, does the City have enough staff to provide services for these additional people. He said more police cars, fire trucks, and street maintenance vehicles will be needed. He did not want to be reactionary instead of staffing ahead of the growth.

Mr. Hefton said the staff is considering that, for example, if a new fire station is planned for the next five years, there would need to be three shifts of five people each. So the staff would try to add two or three people per year and build up to the required staff incrementally. He said he knew that there had been some requests for additional personnel submitted for this upcoming budget. The staff will bring back a plan to add staff incrementally, as needed, to be good stewards of the tax dollars.

Mr. Keene said for a long time, the City has maintained a low tax rate and the mindset was to "run lean." The staff will continue to look at things that way, but we have to be realistic in that it's not just the sewer lines and the streets, but all the other things that it takes to sustain that.

Mr. Hefton said he would not request any additional money, supplies, or people from the Council until he was sure that the staff had "scrubbed the budget and operations" to make sure we are doing everything possible to save dollars. Whether that's selling properties that aren't of use to the City anymore or realigning how we do things to be more efficient. Council Member Watt said for years, the City has managed on defense, and now we have the chance to go on offense. He added that from a former employee standpoint, he really appreciated where the City was at.

Deputy Mayor Sofey said this is his fourth City budget. He said on the first one he was "all gung-ho" and the first thing was "we need to find $1 million." The City was also short seven police officers. He said today, knowing that public safety is in good shape and the City is growing is exciting. He said, a lot has changed in four years.

Mr. Hefton said today, he would like to know if the Council wants him to "pull back" on the plan that has been proposed. He was not asking for a vote, just a consensus that this was the direction the Council wants to go. He added that the issuance of that first $8 million bond package may be needed before the budget work shop, knowing that the first financial impact would be in 2017.

Council Members indicated that they were in favor of the plan. Council Member Davis said it is a good plan to save money and to "run lean" but in most businesses you don't have the power to regulate revenue. The City does have that power and it's tempting to do, but that is a debate that the Council should have every time.

Mr. Hefton said Council Member Couch wanted to be sure the staff planned for the "people side of things," but he asked if there were any other items that they would like to see included in the budget for the work shop, which will be held June 21, 2016.

Council Member Davis asked about the State project for the bridge over Hwy 82 at Travis Street. Mr. Hefton said the City is trying to leverage their dollars with TxDOT dollars for the Travis Street project from Hwy 82 north to Northcreek Drive, and ultimately to Hwy 691, which includes the Travis Street bridge over Hwy 82. The project has been approved by the MPO, and the City is working to make sure that they have input into the engineering design and right-of-way. He said the ultimate "build out" of Travis Street will be four lanes, undivided up to Lamberth Road. He said the project is on TxDOT's radar and is on the MPO plan for the next two or three years.

ADJOURNMENT

There being no further business to come before the City Council, motion was duly made and approved to adjourn the Called Meeting at 1:33 p.m.

MAYOR

ATTEST

CITY CLERK