STATE OF TEXAS §

March 13, 2013

COUNTY OF GRAYSON §

BE IT REMEMBERED THAT A Called Meeting of the Sherman City Council was begun and held in the City Council Chambers on March 13, 2013.

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

COUNCIL MEMBERS ABSENT: None.

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

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

FINANCIAL UPDATE WITH OVERVIEW OF SERVICES AND PLANNING EFFORTS

OTHER BUSINESS
CONSIDER APPROVAL OF THE BUDGET CALENDAR FOR FISCAL YEAR 2013-2014

EXECUTIVE SESSION
IN ACCORDANCE WITH CHAPTER 551, GOVERNMENT CODE, V.T.C.S. (OPEN MEETINGS LAW), "THE CITY COUNCIL WILL NOW HOLD A CLOSED EXECUTIVE MEETING PURSUANT TO THE PROVISION OF THE OPEN MEETINGS LAW, CHAPTER 551, GOVERNMENT CODE, VERNON'S TEXAS CODES ANNOTATED, IN ACCORDANCE WITH THE AUTHORITY CONTAINED IN THE FOLLOWING SECTIONS"
SECTION 551.074 – PERSONNEL MATTERS:
DELIBERATING THE APPOINTMENT, EMPLOYMENT, EVALUATION, REASSIGNMENT, DUTIES, DISCIPLINE OR DISMISSAL OF A PUBLIC OFFICER OR EMPLOYEE:
POLICE CHIEF

OPEN MEETING
RECONVENE INTO OPEN MEETING AND CONSIDER ACTION, IF ANY, ON ITEMS DISCUSSED IN EXECUTIVE SESSION

ADJOURNMENT

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Wacker called the meeting to order at 12:01 p.m., declared a quorum present, and opened the City Council Meeting. She explained that this meeting is a budget overview and is the staff setting the stage for Council Member's upcoming budget planning. It will include a financial picture for the coming year and the near future.

George Olson, City Manager, said the staff will not be asking for budget approvals today but will be presenting a financial overview to begin the budget process. The staff has expanded on the process since there are some new Council Members. The agenda does include the approval of a proposed budget calendar which will set a budget work session for late in April 2013.

He explained that the presentation will begin with an operations overview of the services offered by the City and how these are funded. It will address the three major funds, the General Fund, the Utility Fund, and the Solid Waste Fund. The $0.32 tax rate is designed to fund the basic services, including police, fire, utilities, and general services. The tax rate is low, but the City's job is to provide basic services to citizens. They must reach as many people as they can with the money they have.

The second part of the presentation will be a financial update. Mr. Olson said the last few years have been tough and currently the City is looking at a $1 million deficit in the General Fund versus the budget, for the coming year. Sales tax has been flat and fines and fees are down considerably.

The third part of the presentation will cover planning and include the Comprehensive Master Plan. In 2009 the City updated the Master Plan and there are some things coming up on which the Council will have to make decisions. There has been significant progress on the priorities, but the Council will need to consider updating the Plan. Also he recommended setting a Strategic Planning Session for 2014 to update that Plan.

FINANCIAL UPDATE WITH OVERVIEW OF SERVICES AND PLANNING EFFORTS
Robby Hefton, Assistant City Manager/CFO, said there is nothing out of the ordinary about this year's expenditures. Local governments provide services that benefit the overall public such as public safety, parks, and streets. Generally these services are funded by taxes. Private goods and services are also provided by the City and include water, sewer, and trash. These services are funded through user fees.

He outlined the various functions of the City and how they were funded, as well as how they compared with the Federal government. Personnel costs are generally the biggest cost for the City. He cited the 80% - 20% rule saying there might be 30 departments that are funded, but if you take the top three or four items, that is the majority of what drives the cost. On a $60 million budget, public safety and utilities account for about two-thirds of the total budget cost.

Mr. Hefton said that is also true for the type of expenditure. The City provides service so the biggest cost is "people" costs. When you look at balancing the budget you will look at the items that drive the budget. For Sherman, this is people costs and capital costs. In the General Fund, 70% of the costs are people costs. In the Utility Fund, capital costs are the higher amount because of the investment in the Water Treatment Plant, the Wastewater Treatment Plant, and the distribution infrastructure. This cost is reflected through debt service.

Mr. Hefton explained that the City is funded through taxes and rates. The General Fund is mainly funded through sales taxes, property taxes, and franchise taxes. The other funds are funded by water sales and solid waste sales. Approximately 80% of the budget is accounted for in those few items. He added this is important because there are a few ways that the City raises funds and a few ways that the City spends funds. Funds are raised through taxes and user fees and they are spent on people and capital. Going into the budget preparation, Mr. Hefton said they must always review those categories.

Mr. Hefton said the City's purpose is to provide the greatest good for the greatest number of people. The City needs to make sure they are providing the right services, efficiently, to the right people in the right way. This includes not only the 40,000 Sherman citizens, but also 80,000 to 90,000 people that live in the surrounding areas.

Sometimes it's said that people living outside the City don't pay taxes, however sales tax dollars are actually generated more from people outside the City rather than residents. Sales tax is also double what the property taxes are. He felt Sherman citizens are the first priority, however Sherman is also a regional hub for economic activity. Therefore the streets need to be in good shape, we should provide for public safety, and responsiveness to those in the region.

Mr. Hefton said the Council will have decisions to make on items such as the airport, parks, hotel/motel tax funds, and utility expansions, as the 2013 budget process moves forward. The current year is the last year to use the extra fund balance from the Hotel/Motel Tax Fund. The City is now in the position where they are spending $100,000 more annually than they receive. There are some significant upcoming decisions. He reiterated that these services are funded through taxes and user fees.

Mr. Hefton reminded Council Members that an increase of $0.01 on the property tax rate equals $225,000 annually. The sales tax rate is currently at the maximum allowed. One percent is used for general operating purposes, .5% is used in lieu of property tax, .375% is used for the Sherman Economic Development Corporation, and .125% is used for street maintenance. Utility and Solid Waste rates are set by Council and a 1% increase in water/sewer rates would amount to $190,000 annually. A 1% increase in solid waste rates would amount to $50,000 annually.

Mr. Hefton summed up saying the sales tax rates are capped, the franchise tax rates are capped, and the transfers in are just moving money from one fund to another. That leaves property taxes and about 4% of the other revenue sources as a way to make up lost revenue. On a $30 million budget in the General Fund, Mr. Hefton said 4% is a little over $1 million. To make up the lost revenue and balance the budget, almost all the other fees would need to double, including building fees and cemetery lots.

Sherman's property tax rate is at $0.32 per $100 valuation. Mr. Hefton showed comparable property tax rates for other local and peer cities. He also presented the number of full time positions for the last 10 years. It generally averages around 400 employees.

General Fund

Mr. Hefton discussed the General Fund and the departments included. This area is funded by taxes. Public safety amounts to 60% of the total cost of the General Fund. In this fund, personnel is 70% of the total cost. Sales tax, property tax, and franchise tax account for 75% of the budget for the General Fund. Transfers add another 12%. About 85% of the General Fund's total revenue comes from those few sources.

Utility Fund

In the Utility Fund, Mr. Hefton said debt service is the same as capital. This expense is to the Greater Texoma Utility Authority for the Water Treatment Plant and the Wastewater Treatment Plant improvements and expansions, and the pipes in the ground. In the Utility Fund, debt service and personnel costs are nearly equal. Another expense is for utilities. It costs a lot to keep the Water Treatment Plant and the Wastewater Treatment Plant operating. The City spends about $2 million annually just to power the Water Treatment Plant.

In the Utility Fund and the Solid Waste Fund, 95% of the revenue is from user fees.

Solid Waste Fund

In the Solid Waste Fund there are three major programs, residential solid waste, commercial solid waste, and curbside recycling. Services are being provided to the citizens, but it is being provided with expensive equipment. Fuel and maintenance are two big expenses in this fund. Personnel and disposal costs each represent about 27% of the expense. The Solid Waste Fund is funded by user fees.

Financial Update

Mr. Hefton said the City's fund balances are okay. Even with the deficit, the General Fund has a fund balance of about 70 days. The range is 60 to 90 days. The Utility Fund and Solid Waste Fund have fund balances in the 90 day range.

The property tax base has shown some slight growth over the past year and there are positive things in line for the next two or three years. Panda Energy will be coming on line in 2015, but even before that, the City will receive some value on the rolls from the work that began as of January 2013. Tyson Fresh Meats continues to invest and expand and Texas Instruments is proposing to be a depot for equipment and reinvestment in the community. These are positive things for the property tax base.

Mr. Hefton said the Utility Fund and Solid Waste rates are "holding" as expected. Sales tax is "flat" but not "down." However sales tax is down $300,000 from the budget. There are leading indicators that say people are saving less, and therefore spending more. Money is being "dumped" into the stock market which indicates they are feeling better about investing. Normally sales tax receipts would also show this spending increase, but that is not being seen yet. An increase in 1% of sales tax is an increase of about $120,000. This year the staff budgeted for a 2.5% increase in sales tax.

He added that group health is always an issue and they are reviewing some items to help control the costs. Mr. Hefton said there are some decisions to be made in 2014 about the Hotel/Motel tax. The Council budgeted to spend down the fund balance to the appropriate level so things are okay for 2013. There will be some decisions to be considered for 2014.

Over the last few years fleet replacement has been an issue, but there are now some items that must be dealt with. The City can't continue to put off improvements, repairs, and replacement of things that wear out. Mr. Hefton said these items will be "challenges" for the budget.

As the Council begins the 2014 budget process, Mr. Hefton said the City has adequate reserves and it's not "doomsday," but they must proceed cautiously. There are some basic services that are provided by the City and they must focus on those and make sure those are adequately funded at the correct level, for the appropriate people.

Mr. Hefton reminded Council Members about debt that was issued several years ago. In 2008, the Council and staff developed a plan to do some major capital renovations that were needed. One of which was the street thoroughfare plan where over 25 miles of streets were milled and overlaid. The project was "packaged" together and short-term bonds were issued and the City was able to complete more than the 16 miles that was originally planned. That project was paid for with the street sales tax dollars. There was also some expansions and rebuilds of several other streets such as Lamberth Road, west of F.M. 1417; Washington Street; Loy Lake Road; and Brockett Street. There is still some money left for the City's part of the Loy Lake Road – U.S. Hwy 75 Bridge. The $16 million bond package also included Pecan Grove East and West and Center Street Park.

Mr. Hefton said the City of Sherman has always been prudent about issuing debt and said the average City the size of Sherman has about $80 million in debt. Even with the utility debt through the Greater

Texoma Utility Authority, Mr. Hefton said Sherman only has about $45 million to $50 million in debt. He added that the debt service costs the City about $1 million annually.

At the time when the debt was issued, the City saw growth in property taxes and sales taxes each year. The plan was to lower the property tax from $0.40 per $100 valuation to $0.32 per $100 valuation, with about half of that being paid by shifting the burden from property taxes to sales taxes. One-eighth of the quarter cent increase in sales tax at that time, was for sales tax in lieu of property tax. The idea was that half of that amount would be paid through the growth of these two taxes.

In 2008, things changed and there was a “flattening” of the revenue bases in both property and sales taxes. So the impact of that decrease was that in 2008, adjusted for the effects of debt service, the staff projected that by the end of 2013 the City would have about $20 million in property and sales tax revenues. However it’s only at a little over $18 million, or $2 million short of where the City was expected to be.

Mr. Hefton said the City accomplished great projects through the bond issues and there is nothing that he would change, however the staff needs to be creative and judicious about how the General Fund is funded going forward.

General Fund

Mr. Hefton said there are no real stories with the expenditures of the General Fund. Things are tracking as budgeted. Sales taxes are down about $300,000 and are flat. The staff originally projected a 2.5% growth rate. Franchise taxes are down about $300,000, primarily the gas and electric franchises. This is the result of a decrease in consumption. Fines and forfeitures are also down about $200,000, primarily court and traffic fines. Those rates are set by the State of Texas and the City can’t alter the amounts. Therefore the numbers of tickets issued and paid are down. Mr. Hefton said this amounts to a net effect of $1 million down from the budgeted amount.

Mr. Hefton showed a chart of the taxable value adding that the City has had a good steady growth in the tax base. It has flattened off in fiscal year 2012 where the biggest “hit” was taken from MEMC leaving. Generally there has been a good, steady growth. However, the property tax collections are down. Mr. Hefton said, by law, the City must separate the dollars required to pay the debt service from the collections for the General Fund. Therefore there is about $900,000 to $1 million in property taxes each year that is never considered in the General Fund.

Sales tax is projected as “flat” and Mr. Hefton said he would probably project flat sales tax for the next fiscal year’s budget too. He outlined the effect of Sherman Town Center adding that there was a $2 million “swing” in sales tax from 2004 through 2007 because of the Sherman Town Center and Woodmont Developments. There was an increase in sales tax in 2012 of about 5%. He did not project major growth in the immediate future.

Utility Fund

The fund balance for the Utility Fund is about 100 days and is adequate. Water revenues are tracking a little higher than expected but sewer revenues are tracking lower than thought due to some industrial surcharges. The net effect is that water and sewer revenues are very flat.

Solid Waste Fund

There are no stories in the Solid Waste Fund either. The residential growth is about 1% annually so predictions are very close to the budget. Residential and recycling revenues are very stable. The commercial service is less stable and is driven by the industrial/commercial customers.

Hotel/Motel Tax Fund
Mr. Hefton said the Hotel/Motel Tax Fund is balanced and where it needs to be at $100,000 in reserves. The plan was to spend down the fund balance in this fund and that has been done. The Council will need to make some decisions about the fund this year.

5-Year Dashboard
Mr. Hefton presented the tool that allows the staff to make changes in the proposed budget to see the effect in other areas of the budget. The 5-Year Dashboard allows different scenarios to be tried to determine their effect on the other parts of the budget. In building the budget, Mr. Hefton said even though the budget is built one year at a time, the staff must consider the impact of those decisions at least five years in the future.

He added that the GTUA debt service has been going down since older bonds are being paid off, and there will be a short window of relief through 2016 or 2017. As new projects or expansions are scheduled, the cost of debt service will be affected.

Planning Update
Mr. Hefton said during the Comprehensive Master Plan process, the consultant developed a list of the top 20 priorities for Sherman. He addressed the top nine priorities, which received the most votes from citizens. Mr. Hefton said the Master Plan has not been "put on the shelf." The staff has made progress on all the top priorities except one, and that one has been put aside because it really "doesn't fit." He added that specific item will probably be reconsidered when the plan is updated in 2014 to assure that it really makes sense for Sherman. Significant progress has been made and continues to be made with the Plan.

The Comprehensive Master Plan calls for major updates every five years and the plan was adopted in 2009. This would mean that the first major update would be in 2014. This could affect the 2013 budget with some items which might need to be budgeted now, such as aerial photography. Mayor Wacker added that there should also be a Council appointed citizens review committee in place to consider the plan. This would be a seven member board and she asked Council Members to consider names of citizens they would want to serve on the committee.

Mr. Hefton also discussed the Strategic Plan that was last updated in 2005-2006. He felt it might be prudent for the Strategic Plan to be reconsidered at the same time as the Comprehensive Master Plan. The two plans have a different approach but complement each other. The Strategic Plan mainly addresses how services are delivered and the quality of those services. It also includes the staff's intentions on how services are provided. The Comprehensive Master Plan is a more objective look at the things that are done. The two items do go hand-in-hand. He felt the Council might also want to consider an update to the Strategic Plan at the same time.

Mr. Hefton said there are several near-term issues that must be considered by the City. These include expansion of the Water Treatment Plant and the increasing industrial usage from companies such as Panda Energy. There are also issues with growth in South Grayson County and the fact that Sherman is a regional purveyor of water. This will put a demand on Sherman's water resources and whether or not Sherman is treating the water and delivering it to the region.

Another issue is the enhancements at the Wastewater Treatment Plant. Discussions have been ongoing about the nutrient removal process and the City must have something in place by the State's deadline in two years. There have also been discussions about the use of effluent for industrial uses.

Mr. Hefton said the Stormwater Management Plan will be released this summer and will include a list of recommended projects that will impact the City's planning effort. There are also some improvements that will become necessary in the next couple of years at the Municipal Airport. Runway improvements as well as alternative uses for the Airport must be considered. During the budget process last year the City Council asked the staff to develop some possible alternative uses for the Airport and that has been done. Other near-term issues include how to balance the Hotel/Motel Tax Fund and Group Health Insurance.

Mr. Hefton said there are also several issues that have been "put on the shelf" because of the limited budget. These include succession planning; capital spending; programs for training, fleet replacement, and alleys and ROW maintenance; and strategic planning.

OTHER BUSINESS
CONSIDER APPROVAL OF THE BUDGET CALENDAR FOR FISCAL YEAR 2013-2014
Mr. Hefton presented a proposed budget calendar for fiscal year 2013-2014, listing key dates for specific tasks. Council Members discussed their availability for the specific items. They decided to move the budget planning meeting with the City Council from April 25 to April 26, 2013. There were no conflicts with the other dates.

ACTION TAKEN.
> **Motion by Deputy Mayor Howeth to set the Called Budget Planning Meeting with the City Council on April 26, 2013 and the Budget Workshop on June 20-21, 2013, as presented. Second by Council Member Smith.**

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

EXECUTIVE SESSION
IN ACCORDANCE WITH CHAPTER 551, GOVERNMENT CODE, V.T.C.S. (OPEN MEETINGS LAW), "THE CITY COUNCIL WILL NOW HOLD A CLOSED EXECUTIVE MEETING PURSUANT TO THE PROVISIONS OF THE OPEN MEETING LAW, CHAPTER 551, GOVERNMENT CODE, VERNON'S TEXAS CODES ANNOTATED, IN ACCORDANCE WITH THE AUTHORITY CONTAINED IN THE FOLLOWING SECTIONS"

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POLICE CHIEF

On Motion duly made and carried, the Open Meeting recessed and reconvened in Executive Session at 1:08 p.m.

On Motion duly made and carried, the Executive Session recessed at 1:16 p.m. and reconvened in Open Meeting.

OPEN MEETING
RECONVENE IN OPEN MEETING AND CONSIDER ACTION, IF ANY, ON ITEMS DISCUSSED IN EXECUTIVE SESSION
There was no action resulting from the Executive Session.

ADJOURNMENT

There being no further business to come before the City Council, motion was duly made and approved to adjourn the Called Meeting at 1:17 p.m.

MAYOR

ATTEST

CITY CLERK