STATE OF TEXAS §

March 3, 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 March 3, 2011.

COUNCIL MEMBERS PRESENT:	Mayor Bill Magers. Council Members Adami, Howeth, Smith, Softly, Wacker.
COUNCIL MEMBERS ABSENT:	Deputy Mayor Willie Steele.
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; Mary Lawrence, Controller; Scott Taylor, Assistant Director of Engineering and Public Works; Jacqueline Banfield, Library Services Administrator; Kevin Winkler, Parks and Recreation Administrator; Lisa Whitfield, Engineering and Development Coordinator; 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 AND LONG-TERM PLANNING DISCUSSION

OTHER BUSINESS
Consider Approval of the Budget Calendar for Fiscal Year 2011-2012

ADJOURNMENT

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN
Mayor Magers called the meeting to order at 12:07 p.m., declared a quorum present, and opened the City Council Meeting.

FINANCIAL UPDATE AND LONG-TERM PLANNING DISCUSSION
George Olson, City Manager, said this Long-Term Planning Session will be a continuation of the last planning session. At the end of the meeting, the staff will be asking for some direction.

Robby Hefton, Assistant City Manager/CFO, said the staff will be asking for direction at the end of the meeting and will discuss the Budget Calendar for 2012. He said the City is in an economic downturn that started about 2½ years ago and has been one of the longest lasting downturns in several decades. Most experts indicate the economy is still, at a minimum, 12 months out in a recovery period. He estimated it would be longer than that.

For 2012, the staff has some ideas to help balance the budget, which are really "carry-overs" of things the Council has directed in the past, such as use one-time available excess reserves to help balance the budget. After 2012 the City will be out of those options. Therefore, Mr. Hefton said some of the discussion will be about 2012 and some will be about the years after 2012. There will also need to be some additional meetings in mid to late Fall on the 2013 Budget.

In the General Fund the majority of the revenues are from taxes (75%), with transfers from the Solid Waste Fund and the Utility Fund (9%), and Ambulance Fees (5%), accounting for 90% of the revenue for that fund. Sales tax is the biggest revenue item in the General Fund. The sales tax results for February 2011, which includes the December 2010 Christmas sales, are flat. The good news is that Sherman did not have to “dig out of a 10% or 15% hole” with their sales tax like many cities did. Sherman’s sales tax was not down, but it didn’t grow either. Historically there is a 3% growth each year in sales tax, which amounts to about $1 million for three years.

He explained a sales tax audit adjustment last year from the Comptroller which included a $250,000 adjustment in sales tax for December 2009. Because of this large collection for the City, it appears that this year’s sales tax was down compared to the previous year, which is not really the case. In 2008 the staff projected a 2.5% growth in sales tax and in 2010 they projected a 1% growth, which is a difference of over $1 million per year. Mr. Hefton reiterated that sales tax revenue in Sherman is flat, but across the State there is some rebound, which indicates that consumer confidence and consumer spending are growing a little.

Other major General Fund revenue sources are holding where projected. Franchise taxes and property taxes are coming in where projected. Ambulance fees and court fines are slightly higher than expected, however this represents only 8% or 9% of the total budget, which is maybe $100,000 additional. The other revenue items are coming in as projected.

There are no major stories with expenditures in the General Fund. He added that group health claims were normal last year, but they are always “a wild card.” Fiscal Year 2011 started out a little higher but not as high as four years ago.

There are also no major stories in the Utility Fund and in the Solid Waste Fund. Everything is coming in very close to what was budgeted.

Without any other changes, Mr. Hefton said the City would be starting the 2012 Budget with an expected deficit of $2.2 million. That scenario assumes no Sales Tax Election, no salary adjustments, flat sales tax, and no increase in property tax rates.

The staff does believe there are some one-time sources for balancing the 2012 Budget. Two years ago the Council asked the staff to review fund balances to help “plug this gap.” There is one more source to use the Solid Waste Fund balance of $1.2 million to $1.4 million to help balance the 2012 Budget. A transfer of that fund balance would leave healthy reserves at 60 to 70 days.

The staff has already curtailed capital spending and could do so for another year. This year there have been no fleet replacements and the City is spending money to repair the fleet instead of replace it. This could also be done next year, but eventually this will cause problems and all the fleet will be old. Mayor Magers confirmed that this money is from ongoing expenses from the operating account and not on the balance sheet.

Mayor Magers asked if the substantial changes from GlobiTech will affect the 2012 property taxes or future tax years. Mr. Hefton said the staff is including items such as this in the budget discussions, to the extend they are aware of them. For example, 2012 will be the first year that Wilson N. Jones Hospital is taxable. He added that Panda Energy can be included in the five year projections, however at this point they have not been included.

Mayor Magers verified that the sales tax for streets amounts to a little less than $1 million annually. If the Election passes, June 2012 would be the first month collected, so only four months of collections would fall under the 2011 Budget. The effect of the Sales Tax Election for streets would be approximately $315,000 in 2012.

In past years, Mr. Hefton said the City would see between 3% and 5% annual growth in the property tax base, based on both value and on new property. That would amount to between $200,000 to $300,000 annually. After losing that increase for three years, the gap becomes larger. The City is also off $1 million in sales tax and several hundred thousand dollars annually in the gas franchise tax. Therefore the City has a $2.2 million shortfall in revenue based on what was originally projected.

The meeting today is to advise the Council of things that are expected for the 2012 Budget and that will probably need to be addressed by 2013. In 2013, it is expected that the City will start off with a $2.4 million expected annual deficit. This also assumes no Sales Tax Election, no salary adjustments, and no Panda Energy.

Mr. Hefton presented two scenarios, one if the Sales Tax Election passed (deficit of $1.5 million) and one if it did not pass (deficit of $2.4 million). He gave examples of the various combinations of tax increases or service cuts that would be required to balance those deficits. If the sales tax passes, it would offset the current expenses for street maintenance and allow the City to continue doing the maintenance it is already doing.

Mr. Hefton said that 1% in sales tax amounts to $100,000 per year and one cent on the property tax rate equals $200,000 per year. The staff's mindset is to continue to focus on providing essential services and to look at the most important complimentary services and then to balance any adjustments that are needed.

The ending fund balance for 2010 was about $5 million in reserves, which equates to about 66 days. He felt 75 days would be a better situation. Currently the projection for the 2011 fund balance is 69 days. Mr. Hefton plugged in different scenarios of things that would affect the budget to show the changes that each would make to the fund balance. He added that one cent in property tax equals about $200,000 per year; a 1% cost of living increase equals about $170,000 per year; and a 1% sales tax increase equals $120,000 per year. These amounts are cumulative and begin to add up quickly.

Mayor Magers emphasized that a combination of things would probably be needed to balance the budget. Some of the things are not in the City's control and he asked when these trend lines would be available. Currently the City is paying the bills and no employees have been laid off, so Sherman is in better shape than many cities. However if something doesn't change, the Council will need to make some hard decisions.

Mr. Hefton said regardless of what happens with the Sales Tax Election, the Council will need to meet in the Fall to discuss the plan. Mayor Magers said the Sales Tax Election is the most critical piece that the City Council can do this year. It passed by 70% last time and he felt the way the City Council handled the funds was very important. Travis Street will be completed. The City pays $0.50 for every $1 received on the initiative. He felt education of the public was very important. Mr. Hefton added that even if the Sales Tax Election passes, there will still be decisions that must be made. He did not expect a huge change in the economy for more than a year.

Mr. Hefton explained that in the Utility Fund the big questions are the debt service and the cost of the nutrient removal process project. There will be a significant decrease in the Greater Texoma Utility Authority debt service, however there are other major projects that might be very expensive and will increase that debt. The nutrient removal process is still two years out but may cost between $4 million and $8 million. The debt on this project will really affect the bottom line on the budget. A $1 million project equates to about $70,000 a year in debt service.

In the five year look at the Capital Improvement Projects, Mr. Hefton said the staff tried to list items that are known needs for the future. Some are internally driven and some are driven by State or Federal regulations. The Utility Fund debt service will decrease, however it depends on what projects will be scheduled over that time period and how much the projects will cost. One of the long-term projects to be considered is what to do with the remaining biosolids. The fine screens are in place which may make it cheaper for the City to dispose of the biosolids in the future.

Mr. Hefton said the Solid Waste Fund is also in good shape and is bringing in more money than it is spending. Fees at the Texoma Area Solid Waste Authority and fuel costs are the two main items that drive the variable costs in this fund. Today these items are holding their own, but if the costs increase, that could change. Fuel costs were originally budgeted at $2.50 per gallon and costs are already over $3 per gallon. Mr. Hefton said these two items could “wipe out” the excess reserves in the Solid Waste Fund.

For the 2012 Budget, a transfer out of $1.4 million could come from the Solid Waste Fund for this one year. For a normal year, this would equate to about 65 or 67 days of reserves left in this fund. If the TASWA fees and fuel costs don’t increase, there will be some additional fund balance for other things. There is some capital built in for fleet, but the trucks used are very expensive. Mayor Magers did not feel that the TASWA rates should increase this year. TASWA is paying their bills now and if nothing changes and the volumes don’t decrease, the rates should stay the same.

Mr. Hefton presented peer City data concerning property tax rates, tax revenues, and City statistics for 26 cities with populations similar to Sherman. Sherman has the lowest tax rate at $0.32 per $1,000 valuation, with the average of the peer cities at $0.61. Denison’s rate is $0.59. The average City Sherman’s size collects about $14 million in property tax revenues per year, while Sherman collects about $7 million per year. He also compared Sherman’s statistics on street miles, park acres, tax rate and General Fund Budget for four other similar communities.

Mr. Hefton said the City is currently “maxed out” on the sales tax rate, but that will change in the Spring when the street sales tax sunsets. It was originally passed four years ago. Then 1/8% will be available and could be used for either economic development or streets. The additional sales tax would need to be enacted by an Election on one of the two uniform Election dates. The next available date would be the November 2011 Election. The ballot wording is specifically required by the State Comptroller and would be to retain or reapprove the existing sales tax. If any Sales Tax Election fails, a City cannot call another Sales Tax Election for a year.

Mayor Magers clarified that the original Sales Tax for Streets was approved in November but it actually started at the beginning of a quarter, 90 days after the Election. To prevent a “gap” in the collection of Sales Tax for Streets, the Election would be required to be held in November 2011.

The Sales Tax for Streets can be used for maintenance and repair of existing City streets, which is defined as the entire width, and therefore could include curb, gutter, and sidewalks. It cannot be used for new streets, Federal or State highways, or for County roads.

Mr. Hefton explained that the Tax Code and Election Code differ on the requirements for calling the Election, but per the Election Code the Election would need to be called no later than August 30, 2011. Ballot wording would need to be given to the County no later than September 1, 2011. The Election would be held on November 8, 2011. If the sales tax was approved, April 1, 2012 would be the first date that the new, reapproved sales tax would be collected. Mr. Hefton said at today’s dollars, the sales tax would provide about $950,000 annually. If passed this year, the effect for 2012 would be a little over $300,000.

Mr. Hefton asked for Council direction for preliminary budget planning. He asked if the Council wanted to continue using the fund balance to help “shore” things up, in this case using the Solid Waste Fund balance to help the General Fund for 2012. Mayor Magers said on the short end, yes, however the City can’t keep using fund balance to balance the budget. He thanked the staff for taking a pro-active look at the situation and not letting politics intrude on fiscal decision making. He added that small points do make a difference and he asked when the staff would have a better feel for where the trend lines are going.

Mr. Hefton said he didn’t need official action authorizing the actual movement of the money, he just wanted to know if the Council was in agreement to continue to use fund balance to help “shore things up.” Council Member Wacker verified that this is the last year the Council could use fund balance to balance the budget. Mayor Magers said that was a choice of the Council, instead of increasing taxes for the citizens. He felt the policy had been good and reiterated that the City reduced property taxes by 20% in 2007.

Mr. Hefton said if the Council decides to add the street sales tax to the November 2011 ballot, there will be some preliminary things that must be done by the staff. Mayor Magers said it is very important that the Council focuses on the Sales Tax Election and re-educates the citizens about what this sales tax will mean to them. It means that without this Sales Tax Election, there is no doubt that the Council will have to raise taxes. Under the Sales Tax Election, fifty cents of every dollar comes from people that don’t live in Sherman, and that’s what makes this initiative so important. It saves Sherman citizens money.

Minimizing capital spending, on both the operations and maintenance, is another way to help save money, and Mr. Hefton said the City is “out of funds” for doing major capital projects, except for funds in the utility area that would be funded through debt by GTUA. Council Member Wacker reiterated that there are “no new projects.”

Mr. Hefton asked if the City Council had any other direction or thoughts on the issues at hand or on the 2012 Budget. Council Member Softly asked if there were any old projects that the City might review. Mr. Hefton said the City will not stop any project where “dirt has already been moved.” Washington Street is underway and will be completed by this summer and Lamberth Road is underway and will be completed sooner than that. Mayor Magers added that the Council committed to the completion of Travis Street too. He felt very strongly that it is critical for the Council to complete the projects that they committed to do four years ago, when the street sales tax was passed. This is the only project remaining from that time frame.

<u>OTHER BUSINESS</u>

<u>CONSIDER APPROVAL OF THE BUDGET CALENDAR FOR FISCAL YEAR 2011-2012</u>

Council Members considered the proposed Budget Calendar for FY 2011-2012. Mr. Hefton said State law governs how many days the budget must be presented prior to approval, however the earlier meeting dates could be changed to accommodate Council Member’s schedules. The staff said the Budget Workshop will probably be only one day long. Council Members discussed their schedules and will advise the staff of their particular conflicts. Mr. Olson said the staff will present a revised Budget Calendar at the March 21 City Council Meeting for their consideration.

Mayor Magers thanked the staff for staying on top of these tough decisions for the City Council.

ADJOURNMENT

There being no further business to come before the City Council, motion was duly made and approved to adjourn the Called Meeting at 1:06 p.m.

MAYOR

ATTEST

CITY CLERK