

STATE OF TEXAS

§

March 26, 2014

COUNTY OF GRAYSON

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BE IT REMEMBERED THAT A Called Meeting of the Sherman City Council was begun and held in the City Council Chambers on March 26, 2014.

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

COUNCIL MEMBERS ABSENT: Council Member Johnson.

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; 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; Angie Gurley, Customer Service Manager; Tammy Davis, Support Services Manager; Jim Cross, Assistant Public Works Director; Craig Long, Budget Analyst; Shawn Hackworth, IT Manager; Joe Gandillon, Systems Coordinator; Pam Cloer, Assistant to the City Manager; Linda Ashby, City Clerk.

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

Receive Presentation on the City of Sherman's Personnel and Compensation

Receive Presentation on the City of Sherman's Fleet and Capital Improvement Programs

Receive Financial Update

Discuss and Consider Approval of the Budget Calendar for Fiscal Year (FY) 2014-2015

Adjournment

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Wacker called the meeting to order at 12:03 p.m., declared a quorum present, and opened the Called City Council Meeting. This is the fourth discussion on budget topics in preparation for FY 2014-2015.

She said, at its heart, City government is a service industry. Therefore we depend on great people to deliver the level of service that our citizens expect. She thanked all City staff members who keep the water turned on, the streets repaired, keep us safe, and provide the many services that the citizens expect in their everyday lives. It is of great value and this is an important subject to keep great people.

RECEIVE PRESENTATION ON THE CITY OF SHERMAN'S PERSONNEL AND COMPENSATION

Robby Hefton, Assistant City Manager/CFO, said the three most critical aspects of the City of Sherman are the people, equipment, and the infrastructure. We are a service organization, so people drive the cost more than any other piece of the operation. Equipment is giving those people the stuff they need to do their job and infrastructure is how we deliver the services to our citizens.

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He recognized Craig Long, Budget Analyst, for months of work that he and the Finance Department did to pull the information together for the presentation. Mr. Long was asked to look at the staffing and compensation in comparison with Sherman's peer cities, such as Denison, Gainesville, Cleburne, Waxahachie, Weatherford, and Greenville. For the most part, Mr. Hefton said the study showed that Sherman was in line with the peer cities, usually at the midpoint or slightly above.

There were a few exceptions and some "tweaks" are needed for pay and staffing in public safety and succession and staffing in certain areas.

Mr. Hefton said a few months ago, department heads were asked to review their operations and identify areas of critical needs. Out of that exercise came the items that the staff has presented at these pre budget meetings. There were some other things related to staffing, compensation, and personnel that also came out of that exercise. These subjects, such as training, maintaining a stable workforce, succession planning, staffing levels, and recruitment, will be discussed at a later time.

He addressed succession planning as it applies to management and directors. Eligibility for the City's retirement system, Texas Municipal Retirement System, is 20 years of service, or 60 years of age with five years of service. Today, over 60% of the current department heads are eligible for retirement. The median tenure for those department heads is 30 years of service. That is a lot of institutional knowledge that is eligible for retirement today.

From the cost center managers, over 50% are eligible today for retirement. In the utility operations, every director or manager is eligible for retirement. From a management standpoint, over the next few years the City must protect itself from that loss of institutional knowledge and make sure it is transferred.

Mr. Hefton said the current "pressure point" in compensation and staffing, is public safety, especially the recruitment of qualified entry and patrol officers. Currently there are seven patrol positions open and that is causing "pain" in the operation. Police Chief Otis Henry presented a report to the City Council in February about some of the things being done internally to help with recruitment. Without these entry level officers, other personnel must be shuffled around to put officers on the street for patrol.

The ripple effect causes several things, one of which is a decrease in projected revenue in court fines and traffic citations. Doing more with less and doing more with not enough can be a morale or motivational issue across the City.

Since 2000, Sherman's population has increased 13%, with 16% growth in square miles through annexation, with growth to the north and the west. It's hard to quantify the daytime and evening population, but since Sherman is now the retail hub for Grayson and surrounding counties, it is safe to say that tens of thousands of shoppers come to Sherman to shop. All of these things have increased, but the police and fire staffing, as well as the overall City staffing, hasn't increased to keep up. In 2000, the City had 405 employees, and today there are 412 or 413 employees.

Other issues that need to be considered include additional fire stations. With these fire stations, additional employees will be needed. With the larger area to cover, additional police officers will also be needed. Do to the "shift effect" if you want an additional police officer on the street, you must hire four new officers. If you want an additional firefighter, you must hire three new officers. The need to add the personnel to each shift increases the personnel costs.

For 2015, Mr. Hefton said a plan has been developed that would cost approximately \$150,000 and would help compress some of the patrol level officers and be more competitive with other

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communities. He added that, as the retail hub and the County seat, Sherman should be the clear leader of police, fire, and other employees, for the area. As a staff and as a City, Sherman should have a professional, well-trained staff, compensated accordingly, so they can compete with other cities.

Mr. Hefton said it is not just a money issue and the steps that have already been taken address how the City recruits, who is recruited, the location of recruiting efforts, and how jobs are advertised.

RECEIVE PRESENTATION ON THE CITY OF SHERMAN'S FLEET AND CAPITAL IMPROVEMENT PROGRAMS

Mr. Hefton briefed the City Council on the City's fleet maintenance and replacement program. Each year there should be approximately \$800,000 spent from the General Fund on fleet and equipment. This is based on the estimated useful life of all the fleet and equipment owned by the City, dividing its value by the estimated useful life. He displayed a graph of the actual purchases in regards to this average \$800,000 line. During the last couple of years, the City has been well below this average and has been trying to "catch up."

The City has over 250 units of fleet that are actually driven on the street. Maintenance must be provided for the backup vehicles as well as the front-line vehicles. Cost of the 250 units is about \$15 million.

In the past there was no plan to consistently fund fleet purchases at a constant level. Up to 2008, the City paid for fleet each year based on what was actually needed for that year. In 2009 the staff decided to set up a special fund and deposit money into the fund annually for any fleet purchases. This would alleviate the "up and down effect" and set aside the same amount of money each year for the fund.

Unfortunately in 2008 the economy "fell off the table" and the City was forced to make do and didn't have the luxury to set aside this \$800,000 annually for the fleet fund. Fleet purchase requests were cut and the City did the best they could. The ladder truck was purchased in 2010 for \$1 million, but the money was financed. Financing costs for that truck were \$190,000, which would equate to about 10 pick-up trucks.

Going forward, the staff would like to try and return to the plan to put money aside in a fund each year for financing the fleet purchases and maintenance.

Mr. Hefton addressed the City's fund balance history. In 2009, the balances of the General Fund, Utility Fund, Solid Waste Fund, General CIP Fund, and Utility CIP Fund were in the \$27 or \$28 million range. The City Council intentionally decided to pull-down that fund balance before they ever discussed increasing utility rates, tax rates, or fees.

Since 2009, the excess fund balance was used for operating transfers between funds, to purchase fleet and equipment, for the group health fund, to delay utility and tax rate increases, and for other one-time projects, such as the website. Those fund balances have now been reduced to a manageable level and there is no ability to use fund balances anymore for fleet, for capital expenditures, or for other one-time expenditures.

Mr. Hefton displayed the actual budget history for the General Fund from 2009 to the present, as opposed to what it could have been with the actual inflationary cost of the Consumer Price Index. Because of cuts and operating efficiencies, the actual budget was well under the CPI. He felt the City had done a good job of managing the budget even with inflationary pressures and the gap is nearly \$3 million between where the City would have been and where they are today.

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Mr. Hefton addressed CIP funding, saying that funding for the General and Utility CIP projects has been depleted through fund balance drawdown. Capital maintenance was also deferred over the past several years and the City maintained a “fix what’s broken” attitude. Currently there is no ongoing funding mechanism for fleet and CIP projects. They are funded as money is available. He said the City should have some type of ongoing funding source to be able to fund these projects as they come up.

The Fleet Maintenance Department has been working for almost a year on a Fleet Management Plan. It is a detailed analysis of the age, use, maintenance costs, the life, and the mileage on the fleet. The idea is to manage the fleet up front, so the cost can be reduced in the long run. As a part of this plan, funds must be set aside so when the time comes for maintenance or replacement, funding will be available. The Fleet Management Plan assumes a constant funding source.

The Funding Policy is arranged in order of useful life of these assets. Fleet and large recurring items are replaced every year and should be built into the annual budget, knowing you will need to replace them. These would probably be three, five, or seven year pieces of equipment and would be funded by cash on hand.

The intermediate infrastructure might have a seven to ten year life. For example, intermediate infrastructure would include the meter replacement project, which has been done in-house over several years. Depending on the cost, short-term debt might be okay for an intermediate infrastructure project.

Long-term infrastructure would include streets, the Water Treatment Plant expansion, or water and sewer main extensions. The life of this infrastructure would be from 20 to 50 years. These projects should be bonded, such as utility projects through the Greater Texoma Utility Authority or projects for which the City issues debt.

Sources of funding for these projects would be different. Non-recurring sources might include money saved from other projects or good budget performance. Tax rates and utility rates are another source that should be used to fund these projects. None of the projects should be funded with cash, but should be bonded out for payment over the life of the asset. Another funding source is the Street Sales Tax, which must be approved by voters every four years. Those funds are set aside to fund specific improvements or infrastructure.

Mr. Hefton outlined categories of General Fund CIP’s for 2015 through 2018, adding that only the current year projects are funded.

RECEIVE FINANCIAL UPDATE

Mr. Hefton presented a Financial Update, beginning with sales tax. Sales tax for the last 12 months and for this fiscal year is up about \$1 million over what was budgeted. This increase is primarily from Panda Energy. It not only includes their direct spending on construction of the plant, but also includes the 600 to 900 construction employees that spend their money here too. Both of those effects can probably be attributed to the sales tax jump in 2014. Mr. Hefton said this increase will be great one-time money for projects that might be considered for the next budget year.

For FY 2013, the General Fund reserves ended up about \$900,000 better than was originally expected. The net revenues for FY 2014 appear to be up about \$800,000 with the vast majority attributed to sales tax, but with a loss from decreased fines and court fees.

For FY 2015 ongoing, it appears that the valuation for Panda Energy will be larger than was originally thought. The plant was originally going to be about half the size, so the value will be higher than the

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original \$300 million estimate. Mr. Hefton felt it might now be in the \$400 million or \$500 million range. They do have a tax abatement, but in the first year the City should receive 36% or 38% of the increase. The City's amount will increase annually as the tax abatement decreases. Mr. Hefton said the project should have a positive annual impact of about \$250,000 more than originally thought. That should begin in either 2015 or 2016.

Mr. Hefton said at the end of FY 2014, the staff projects that the ending reserves in the General Fund will be about 94 days.

For FY 2013, the Utility Fund ending reserves were slightly below the projected amount. FY 2014 reserves are slightly above what was projected and the net effect is about what was projected. Reserves at the end of FY 2014 are projected to be at 79 days.

For FY 2013, the Solid Waste Fund ending reserves were close to what was projected. FY 2014 revenues are expected to be higher than expected, mainly from Panda Energy. Ending reserves should be at 103 days.

Mr. Hefton said the CIP fund balances at September 30, 2014 are expected to be \$400,000 in the General CIP Fund and \$900,000 in the Utility CIP Fund.

Mr. Hefton gave an update on the Panda Energy Project and its financial impacts on the City. The direct effect of the construction on the sales tax has been \$600,000 to \$700,000, but it is beginning to "trail off." The indirect effect is hard to quantify, but has been there.

They also had an increase in their estimated assessed property values from \$300 million originally to a projected \$500 million. The estimated impact will be an annual increase of \$250,000 over the initial amount.

Panda Energy was originally expected to "go live" during the fourth quarter of 2014, but is now expected to "go live" during the second quarter of 2014. Therefore their water revenue is expected to be about \$300,000 more than originally budgeted and the property tax revenue should be \$100,000 more than FY 2013. This additional revenue should help fund a few projects.

Mr. Hefton highlighted several items in the various fund budgets. The General Fund receives transfers in from the Utility Fund and the Solid Waste Fund. The intention was, as the Utility Fund has a break from their debt service for 2013, 2014, 2015, and 2016, that money could be used to help fund other things. That can be seen in the transfers in. The General Fund is about \$1.5 million to \$2 million "to the good" due to these transfers in that are normally not possible. The debt for the Utility Fund will increase and the transfers in will not be possible.

He added that there are no other "real stories" in the Utility Fund other than the debt service. Revenues are holding strong and will increase as Panda Energy comes online and begins to use water. Their water use is expected to be in the \$700,000 to \$800,000 per year range, which will help stabilize the Utility Fund.

In the Solid Waste Fund, there has been a temporary "bump" for fees, which has increased the fund balance to over 100 days.

In the General Improvement Fund and the Utility Improvement Fund the question will be how much money is available to complete some of the projects.

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Upcoming challenges for 2015 and beyond include establishing an ongoing funding source for CIP's, both short term like fleet and equipment, and long term like water treatment plants, park maintenance and development, and streets; personnel and compensation, not from a dollars and cents standpoint, but from a staffing standpoint; unfunded CIP's for FY 2015 that are critical, such as mill and overlay of streets; critical needs that have been discussed the past few weeks; Utility Fund transfers to the General Fund are diminishing, for 2015 the debt will still be lower, but will begin to increase in future years; over \$1 million annually for street sales tax which must be approved by the voters every four years, will expire in 2015 if not re-approved; and revenue growth in property taxes and sales taxes to keep up with inflation and the cost of doing business.

DISCUSS AND CONSIDER APPROVAL OF THE BUDGET CALENDAR FOR FISCAL YEAR (FY) 2014-2015

Mr. Hefton presented the proposed Budget Calendar for FY 2014-2015. Council Members discussed the meeting dates. A Budget Planning Meeting was scheduled for April 18, 2014 and the Budget Workshop was scheduled for June 18 and 19, 2014.

ACTION TAKEN.

**Motion by Council Member Watt to approve the FY 2014-2015 Budget Calendar, as presented. Second by Deputy Mayor Softly.
VOTING AYE: Davis, Plyler, Sofey, Softly, Watt.
VOTING NAY: None.
MOTION CARRIED.**

Mayor Wacker thanked the staff for their excellent presentations. They have presented critical information that will help the City Council make good decisions for the Budget.

ADJOURNMENT

There being no further business to come before the City Council, motion was duly made and approved to adjourn the Called Meeting at 12:54 p.m.

MAYOR

ATTEST

CITY CLERK