

STATE OF TEXAS

§

April 11, 2016

COUNTY OF GRAYSON

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BE IT REMEMBERED THAT A Joint Meeting of the Sherman City Council and the Sherman Independent School District Board of Trustees was begun and held in the City Council Chambers on April 11, 2016.

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

COUNCIL MEMBERS ABSENT: Council Member Davis.

SISD MEMBERS PRESENT: Tim Millerick, President; Rob Wilson, Vice-President; Kiki Osterman, Secretary.
Juston Dobbs, Kate Whitfield.

SISD MEMBERS ABSENT: Brad Morgan, Lynn Mitchusson.

CITY STAFF PRESENT: Robby Hefton, City Manager; 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; Danny Jones, Fire Chief; Stephen Dean, Assistant Police Chief; Mary Lawrence, Director of Finance; Jim Cross, Assistant Public Works Director; Clint Philpott, City Engineer; Kevin Winkler, Parks and Recreation Director; Tammy Davis, Controller; Nate Strauch, Communications Manager; Theresa Hutchinson, Recreation Manager; Matt Joseph, Systems Coordinator; Pam Cloer, Assistant to the City Manager; Linda Ashby, City Clerk.

SISD STAFF PRESENT: Dr. David Hicks, Superintendent; Dr. Tyson Bennett, Assistant Superintendent; Amanda Lewis, Interim Chief Financial Officer.

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

Invocation by Council Member Tom Watt

Welcome and Introductions

**Sherman Independent School District Board of Trustees
Discussion of Business and State of the SISD**

Sherman City Council Discussion of Business and State of the City

Discussion of Joint Projects and Action Items Moving Forward

Adjournment

WELCOME AND INTRODUCTIONS

Robby Hefton, City Manager, said there has been talk about a joint meeting between the City of Sherman and the Sherman Independent School District for many years. Representatives from the

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Sherman Economic Development Corporation and the Chamber of Commerce are also in attendance. He hoped this would be the first meeting of several where the entities work together.

Mr. Hefton said lunch was being provided by the Sherman High School Culinary Arts Class.

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Plyler called the meeting to order at 11:35 a.m., declared a quorum present, and opened the Called City Council Meeting. Tim Millerick, President of the Sherman Independent School District Board of Trustees, declared a quorum present, and opened the SISD Meeting.

INVOCATION BY COUNCIL MEMBER TOM WATT

SHERMAN INDEPENDENT SCHOOL DISTRICT BOARD OF TRUSTEES DISCUSSION OF BUSINESS AND STATE OF THE SISD

Dr. David Hicks, SISD Superintendent of Schools, thanked the City Council for meeting with the SISD and said the purpose of the meeting was to present some of the strategic decisions going forward and information about the state of the District and the state of the City, and to look at ways that the entities could partner together to use their resources to benefit both.

Last year the SISD met with staff and community members to determine several strategic goals. He emphasized goals such as to evaluate their facilities and plan for future needs, to provide students with relevant and meaningful career and technology experiences, and to build partnerships with parents and community members that will enhance students' experiences. He referenced partnerships with the City, SEDCO, and the Chamber for career and technology experiences and to benefit the students.

Dr. Hicks said there are 12 campuses in the SISD including the Fred Douglass Early Childhood Center, the only one of its kind in Grayson County that is specifically focused on early childhood, and also the Perrin Learning Center, that serves as an alternative academic opportunity for high school students. Services are also provided to students that are incarcerated through Grayson County, as well as 50 other Texas counties.

Sherman is a diverse City and the SISD reflects this diversity. Twenty eight languages are spoken in the School District and they serve all those children and 60% of the students qualify for the Federal Nutrition Program. The largest ethnicity breakdown is 38.25% White, 37.99% Hispanic/Latino, and 13.53% Black.

Dr. Hicks said total enrollment hovers just above 7,200 with an annual growth of between 1% and 1.5%. The classes of elementary students are larger than the classes of older students so the numbers will increase in future years and they must accommodate this future growth. Council Member Steele said the pre-kindergarten level lists 300 students, and he asked if that was the maximum that the program can hold. Dr. Hicks said 300 was the actual enrollment, however they can accommodate more students at that level.

The SISD is growing at about 1.4% or 1.5% annually and the City's water accounts are growing at a different rate. The City is currently annexing land in the County and a lot of this growth is not within the boundaries of the SISD.

Recently the SISD completed a facility study to prepare for the future and also to determine how the facilities were serving the students. Questions asked were how the current enrollment was expected to change and what was the general condition of the current facilities. Current enrollment is 7,232 with a projected growth of 1% to 1.5%.

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The study determined that the SISD has made the best use of its facilities and have adapted over the years. The useful life of a school is generally 50 years. Currently eight campuses range in age from 45 to 83 years old and six campuses are more than 60 years old. Mid-life refurbishment is needed at the 20 to 25 year mark. Four of the schools have been built or had major renovations and many of the schools had partial to significant renovations 20 years ago. Even the newest campuses are nearing their mid-life mark and would benefit from renovations.

Dr. Hicks said 11 schools exceed the recommended capacity, which doesn't mean they won't take additional children. It just means that the classrooms are short on space and instructionally small. As additional students are added, they must account for the infrastructure. Shared space such as gyms, kitchens, hallways, or cafeteria space, which accommodate all the students, must be considered.

Recommendations that came out of the facility study are critical to moving forward. The strategic plan is to create and adopt planning guidelines, including classroom space, traffic patterns, and how to increase the space for individualized and differentiated instruction; convene a citizens committee to review a Master Plan using community and staff input; and make decisions as a community about how to ensure that the facilities are best-suited for instructional programming and the resources are used wisely.

Dr. Hicks said the SISD is about making sure that the children are well prepared academically and with career and technical certification to enter the workforce and be productive citizens in the community. The State ranks schools to assure that they are meeting standards. All Sherman ISD campuses met these standards. The number of Distinction Designations more than doubled from 13 in 2014 to 27 in 2015. He said that is not common in other communities and the SISD has "set the bar very high." He outlined several recognitions that the School District has received as well as Sherman High School itself. He also outlined the college preparation and AP classes available.

Dr. Hicks added that it's not about academic preparation or career and technology. It can be both. More than 1,500 students are taking at least one career and technology course, which is a 42% increase annually. He outlined the "career clusters" and the certifications that are available to students in those programs.

The manufacturing certification is a partnership with SEDCO, the Chamber of Commerce, and the City in identifying manufacturing companies that will work with, and train the students. Then with the classroom skills at the High School and at Grayson College, when they graduate, they are immediately employable. This is a new partnership and is just now coming together.

Dr. Hicks said there are some important decisions in both the School District and in the community that are coming up and one of those is a potential Tax Ratification Election, that will leverage increased State resources to allow the SISD to do these things. The other is a potential Bond Election to help with new facilities and future plans. He introduced Josh McLaughlin, Financial Advisor, BOSC, Inc.

Overview of Tax Ratification Elections

Mr. McLaughlin explained that each year the SISD has to adopt two separate tax rates. One is the Maintenance and Operations Tax Rate, which is used for the day-to-day operational expenses, including teacher salaries, educational programs, and supplies. The other is the Interest and Sinking Fund Tax Rate, which is used for annual debt service requirements of bonds that were approved by voters. For FY 2015-2016, the M&O tax rate is \$1.04 and the I&S tax rate is \$0.40, for a total tax rate of \$1.44.

Under State law, a School District's highest allowable M&O tax rate is \$1.04, unless a Tax Ratification Election (TRE), is held, at which point an additional 13 cents could be added to the M&O tax rate for a

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total of \$1.17. He outlined where the SISD's revenues come from. One hundred percent of the property tax revenue for I&S goes to support bond payments. No additional State funding is received for bond payments. Property tax revenue accounts for just less than 50% of the M&O revenues, with just over 50% coming from State assistance. A small portion, approximately 1.28%, comes from Federal programs. Dollars generated on the M&O side are "enriched" by additional State funding.

Under State law, there are two ways a School District can increase revenue for operations. The first is to increase student enrollment and the second it through a TRE. An increase in student enrollment also comes with additional operational costs, such as teachers and supplies. Current State funding rules say the State will provide additional "equalization" funding for each penny the District increases its M&O tax rate above \$1.00. Therefore, a Tax Ratification Election would increase their M&O tax rate by 13 cents, and would generate about \$3.4 million in property tax revenue and \$1.1 million in additional State funds. Mr. McLaughlin said an M&O tax penny gets you more than an I&S tax penny.

He outlined two alternatives to increase the tax rate by 13 cents. The first is to increase the M&O tax rate to \$1.17, keep the I&S tax rate at \$0.40 for a total tax rate increase from \$1.44 to \$1.57. The second alternative is a "tax swap" to increase the M&O tax rate to \$1.17, but to decrease the I&S tax rate from \$0.40 to \$0.27, for a total tax rate of \$1.44, no increase. The first alternative would generate additional property tax revenue of \$3.4 million and additional State funding of \$1.1 million for a total of \$4.5 million. The second alternative would generate \$3.4 million for the M&O and additional State funding of \$1.1 million, however to pay the debt service on the bonds, a portion of the M&O money would be used for I&S purposes. This would make the net increase about \$1.1 million.

Mr. Millerick asked how the SISD's tax rate of \$1.04 compares to other School Districts in Grayson County. Dr. Hicks said tax rates across the State were rolled back in 2007, so the SISD has been at \$1.04 tax rate since that time. There are 13 School Districts in Grayson County and eight of those have a total tax rate higher than Sherman's current rate.

Mr. McLaughlin said the way that the SISD has managed their debt portfolio over the last decade is unique. Once they passed the bond election and sold all their debt in 2005 and 2006, they elected to maintain the I&S tax rate of \$0.40. Each year they maintain that rate, they have the ability to repay bonds prior to final maturity. They have also implemented several refunding programs that have saved money. Essentially they have created a window, where they have not only lowered bond payments, but have shortened the amortization. Because of this, next year there is a decline in the District's bond requirements by about \$3.4 million.

One of the options the SISD has, is to use the tax swap where they would get the additional \$4.5 million, but will not have to transfer the money to the debt service side because there is a built in drop in those requirements. Therefore, the SISD could do a tax swap and retain \$4.5 million for operations purposes.

Mr. Millerick asked Mr. McLaughlin for his comments about the SISD's management of their resources in this regard. Mr. McLaughlin said it has been "absolutely unbelievable."

Mr. McLaughlin said since 2007 when the rollback elections began, there have been 559 total rollback elections, and 421 have passed, while 138 have failed. Under State law, a Tax Ratification Election can either be held on a Uniform Election Date or a Non-Uniform Election Date. Almost 82% pass on a Non-Uniform Election Date, whereas 68% pass on a Uniform Election Date. Generally, when the TRE is held on a Non-Uniform Election Date, it is the only issue on the ballot and provides a better percentage rate for passage. He outlined the calendar requirements for a TRE that would be held on a Uniform Election Date, which would be November 8, 2016. He also presented a calendar if the Election was held on September 17, 2016, a Non-Uniform Election Date.

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Mr. McLaughlin addressed how the SISD has managed their debt portfolio. Over the last eight years, the SISD has implemented programs annually that have saved the taxpayers over \$28.1 million. Since 2012 they have refinanced existing bonds on four separate occasions, saving over \$17.7 million in interest costs.

As part of the 2005 Bond Program, the District also implemented some variable rate bonds. The benefit of variable rate bonds was a lower interest rate. The bonds were sold as 30 year debt and the average interest rate on the debt was 1.39%. In addition, the District was able to maintain its tax rate at \$0.40 and repay \$7 million of the bonds off annually, saving additional interest costs. By incorporating the variable rate bonds, the SISD was able to save an additional \$10.4 million for taxpayers.

Dr. Hicks summarized saying, the SISD started with their strategic goals, evaluating the current state of the District and the facilities, and strategically planning for the future, providing meaningful learning experiences academically and through career and technology education to make sure Sherman students are well-prepared for the workforce, and then identifying ways that the entities can partner together.

The tax ratification process will leverage additional State funding above what they currently receive from the State. It is available to the SISD as a result of this Board, previous Boards and the previous Superintendent's conservative financial management of the resources of the District. It will allow the SISD to leverage funding to look at innovative programming that they are currently unable to provide. Also, to look at the employee compensation package, because they are competing with neighboring communities for teachers.

He asked the participants to consider not only ways to be innovative in the instructional programs, but how can the business community and the City work to partner together, as well as how the State funding can be leveraged to best serve the students.

Mr. Hefton said besides having better results with the TRE on Non-Uniform Election Dates, it also seems that the elections held in the last two or three years had a much higher success rate than the ones done prior to that. He said with the robust economy in Texas and in Grayson County, there is a better success rate for passage of the TRE. Mr. McLaughlin added that the TRE is a little hard to understand because there is nothing tangible for taxpayers to "see". With more School Districts conducting TREs there is more proven history and taxpayers realize that the emphasis is to get the State to provide additional funds for operations.

Mr. Hefton asked if a School District could hold multiple TREs or if only one was allowed. Mr. McLaughlin explained that more than one election could be held, but once voters approved the \$0.13, it is capped by statute. If the tax rate dropped, then another TRE could be held. He said it was much wiser to ask the voters to approve the TRE one time rather than asking for a smaller amount multiple times.

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Mr. Hefton addressed the idea of "financial health." From a bond rating standpoint, he said there are some key measurements that rating agencies look for. The first is liquidity, are the reserves adequate. As of June 30, 2015, the SISD reserve levels are at 92 days, which is very healthy. The City's policy is between 75 to 90 days, and at the end of 2015, the City is around 80 days of reserves.

Another key measure is stability, which relates to a willingness by the staff, the Board, and the community, to meet the financial policies and practices, and to make the hard decisions. He added that the SISD has demonstrated a high level of stability by being willing to talk about a TRE. He added that this is something the School District and the City can "tackle" together, because a healthy

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School District is a key to a growing and thriving City. Another key measure is being willing to consider a bond election to assure that the schools are in good shape and that we have new ones if needed. Rating agencies also consider a history of balanced budgets and the early payoff of debt. Growth capacity is important and is there room for debt in the financing cap set by the State. The economic outlook for the school and for the community is also important.

Mr. Hefton outlined several of the 2016 Council initiatives. The design work is almost complete for the 10 million gallon per day, state of the art, expansion of the Water Treatment Plant facility that will use reverse osmosis and microfiltration technologies. The City has plenty of water to treat, and the expansion will give them about 30 mgd that would be available to sell. Currently about 12 to 14 mgd is being used, even on the hottest day. The additional capacity will give the City a great competitive advantage over other communities.

Stormwater Management and Planning is also important and the City is moving from an on-site detention requirement to regional detention, like Dean Gilbert Lake and Pickens Lake at Baker Park. There is also a lot of development along FM 1417, and the Texas Department of Transportation plans to renovate FM 1417 from Hwy 11 to Hwy 691. Development is also moving forward along the FM 1417 corridor, such as the Wal-Mart Market that recently opened.

The Loy Lake Rebuild project should break ground in the next month and the portion from Sara Swamy Drive to Hwy 82 will look like the north part of the roadway. The City is also working to optimize the space for City offices.

Other initiatives include construction of a Southwest Elevated Water Storage Tank, the first new tank in 40 to 50 years. The concrete pedestal tank should be complete in the Summer of 2017. The staff and Council have also been working on improvements to the development ordinance to help clean-up the City and continue to be developer friendly. These initiatives were discussed during the last budget process.

Since that time, several other initiatives have come up that were not even “on the radar” at that time. These include relocation of the Fire Station, currently located at FM 1417 and Hwy 75, and working with SEDCO to sell that property and move the Fire Station farther west. Sherman Crossroads is a commercial, office, mixed-use development on the northwest corner of Hwy 75 and FM 1417, that is moving ahead.

Other initiatives include the expansion of ball fields near Pecan Grove Park; the Kroger development at Hwy 75 and Taylor Street; with the annexation of Carriage Estates, the City is working with the owners of the water system and the State to gain control of their water system for improvements; the Lamberth Road West Development, which is being driven by the annexation; development and expansion of The Preserve, near Country Ridge; and development near the Fire Station at FM 1417 and Hwy 75.

On the financial side, Mr. Hefton said there are four measures of financial health, liquidity, stability, growth capacity, and economic outlook. At the end of 2015, the City's reserves are at 90 days, which is healthy. In terms of the financial policy and the willingness of the Council, over the last three or four years, the Council has shown willingness to incrementally raise the tax rate, which has allowed the City to begin planning for future development. Sherman also has a history of balanced budgets.

Mr. Hefton said the City does have the capacity for additional debt. There is currently very little tax supported debt, only \$12 million or \$13 million. The economic outlook of the community is also growing and in 2015 utility accounts grew by 2%.

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Where the School District basically has two sources of funding, the City has multiple sources, including property taxes, sales taxes, franchise taxes, and utility and solid waste fees. The City has several operating funds with a total operating budget of \$63 million to \$65 million. A majority of the expenses are “people related”, just like the School District. However, in the Utility Fund, a majority of the operations are heavily capitalized, such as the Water Treatment Plant and the Wastewater Treatment Plant.

Mr. Hefton outlined the amount of debt that is serviced by Sherman and several peer cities. The average M&O rate for the peer cities is \$0.49 and the average debt rate is \$0.17, while Sherman’s M&O rate is \$0.33 and debt rate is \$0.04. He said this is important for Sherman because the City is about to expand their infrastructure, and this must be done through debt.

He explained that TxDOT has already announced plans to begin construction along FM 1417. The City is currently working to leverage local money with TxDOT money to get projects moved up on their list and completed early. If the City is willing to pay for some of the engineering and right-of-way work, then TxDOT is willing to enhance the project or to move it up on the timeline. This method is being used on the Travis Street corridor, from Hwy 75 to Austin Landing, and ultimately to Hwy 691, and on FM 1417, from Hwy 82 to Washington Street or Hwy 56. The City may also enhance the project for TxDOT and the City’s project for a Travis Street, O.B. Groner Road connection, to be completed sooner than later.

Mr. Hefton said these are “building blocks” to development. When a developer decides on a community, they look for several things. Is there water? Is there sewer? Is there drainage? Are the road systems there or will they be there soon? Are there other utilities available? If the City is proactive about the major east-west and north-south thoroughfares, then they can positively impact the timing, extent, and quality of the development.

This thoroughfare development includes Canyon Creek Drive, Lamberth Road, Taylor and Washington Streets, Swan Ridge Drive, and Travis (O.B. Groner) and Howe Drive. The goal is to obtain the right-of-way now, whether it is built today or not. Mr. Hefton discussed the specific projects.

DISCUSSION OF JOINT PROJECTS AND ACTION ITEMS MOVING FORWARD

Mr. Hefton addressed how site planning for the school and City business tie in. Four guiding principles were that the location of schools should benefit the entire community, should take advantage of existing resources such as infrastructure, should be easily and safely accessible by multiple modes of transportation, and should be a community focal point. Challenges to these principals include funding, land availability, transportation and accessibility, and coordinated planning between the School District and the City. He added that growth should also come with sustainability and be “smart” for the future.

With this in mind, Mr. Hefton said locating a school is not just a “school” decision. The impact of the City may help with locating the facility in a new or established neighborhood, capitalize on existing or planned infrastructure, share facilities with joint use or co-location, create safer environments for students, and make schools a focal point of neighborhoods.

He asked if there were opportunities for the joint use of facilities as the School District works on their plan for expansion. For example, what about the co-use of sports fields. The City is short on both practice and game fields. Mr. Hefton said in some of the “high growth” cities, the school system is very “forward thinking” in their planning and works in tandem with the City. He felt that the healthy, vibrant school system would be a boost to the City’s growth and that it was critical that both entities were working together and “on the same page.” He felt it was important to work together to minimize the impact on the taxpayers, both with facilities and operations.

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About the TRE, Mr. Hefton said it appears that the election might be held in September 2016, so it would need to be “called” in June or July. He felt this was a great step, but there should be a communication plan to inform the citizens, and felt the City’s Communications Manager might be able to help.

He also asked about a second meeting between the School Board and the City Council, and would it need to be a work session or a joint open meeting. He suggested a July or August time frame.

Council Member Couch asked about the boundaries of the SISD and what could be done to adjust them. He said Sherman is growing west and south, but that’s not in the Sherman District. Mr. Hefton said there is an agreement between Districts that boundaries can be moved, but in reality the chances are “slim and none” for that to happen. Kate Whitfield, SISD Board Member, said that has failed in the past when Carriage Estates tried to be removed from the S&S School District.

Council Member Couch said that Sherman is moving toward Hwy 289 and he felt that area should be included in the Sherman School District. Mr. Hefton said the City’s growth is going to be, for the most part, in an area that does not overlap SISD growth. He said inter-district transfers are now allowed without having to pay tuition. Council Member Couch asked if there was a package that could be offered, as Sherman grows to the west, to encourage those citizens to transfer to the SISD. He asked if that could be discussed during the work session.

Council Member Watt asked the School Board Members how they felt about that. Dr. Hicks said he felt the SISD had great educational opportunities and he would welcome families that are living in Sherman to come to the SISD. He added that it is a matter of marketing. For some it might not be the “right thing” but for many others, it would. He said locations, distance, and time would be leverage to encourage them to transfer to the SISD.

Rob Wilson, SISD Board Member, added that accessibility is important too. When the SISD looks at where to locate the new High School, if it’s closer to the S&S boundaries, that will encourage those families to send their students to Sherman instead of S&S. Mayor Plyler said it also shows the need for the City Council to support the TRE so they have those funds to market and improve those programs.

Mr. Hefton said there are several issues from both the SISD’s standpoint and from the City’s standpoint that are related, but separate. One is the TRE, which is priority one for the SISD. He said a robust, growing, healthy School District is one of Sherman’s biggest drivers of growth, and the City should be “on board” with that. Consequently, a declining, struggling School District is a huge barrier to City growth. The question is, how can the City legally help with the TRE, and does the Council want to help. He added that maybe the City’s communication staff could work with the School’s communication staff to inform citizens.

Mr. Hefton said the second issue is a bond election for facilities, probably in the next 12 months. He said this would clearly align with the City’s plans for infrastructure development. The question will be should the City be scheduling the second and third phase of those street projects that have already been identified. Will it be in the next year or two, or is it five years out. Mr. Millerick agreed that was important, as is the question to repurpose or build new facilities. He agreed that alignment with the City’s projects would be critical.

Council Member Steele felt that the City, the School District, SEDCO, and the Chamber should all work together because a good school system is extremely important to prospects and can be a determining factor on whether or not a company located in Sherman. This decision is important to everyone.

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Mr. Millerick said everyone was concerned about the TRE, but he urged them to “take a step back” and market everything good about the District, even before the TRE. Mr. Hefton said that will be something that the communication staff from both entities can work on. He felt this would be a good first step and the staff members can work together over the next few weeks to develop a communications plan.

They discussed the schedule for another meeting between the City Council and the School Board Members. Another joint meeting might be scheduled for late June or July 2016. They also discussed whether to have a work session or an executive session. Mr. Hefton said if they are starting to talk specifically about the location of schools, he felt an executive session would be better.

Juston Dobbs, SISD Board Member, said the energy and vision he is seeing today is long overdue and as the leaders of the community, they “own their own destiny.” He urged all entities to continue to work together.

Council Member Steele said the manufacturers are excited about the dual credit where a young person can graduate High School with a level two certification. He said prospects coming to Sherman want to have a “pipeline” of workers.

Kiki Osterman, SISD Board Member, said the career and technology center is a new program that is up and coming, but they are extremely expensive. She said the SISD almost needs to partner with other small School Districts to afford a first class, high quality career and technology center.

ADJOURNMENT

There being no further business to come before the City Council or the Sherman Independent School District Board of Trustees, motion was duly made and approved to adjourn the Called Meeting at 1:01 p.m.

MAYOR

ATTEST

CITY CLERK