

STATE OF TEXAS § **June 13, 2019**
COUNTY OF GRAYSON §

BE IT REMEMBERED THAT A Called Meeting of the City Council of the City of Sherman, Grayson County, Texas was begun and held at Schulman’s Movie Bowl Grille, 110 East F.M. 1417 and U.S. Highway 75, Sherman, Texas, on June 13, 2019.

MEMBERS PRESENT: Mayor David Plyler; Deputy Mayor Shawn Teamann.
Council Members Holland, Howeth, Melton, Steele, Stevenson.

MEMBERS ABSENT: None.

STAFF PRESENT: Robby Hefton, City Manager; Steve Ayers, Assistant City Manager; Terrence Steele, Assistant City Manager; Brandon Shelby, City Attorney; Mark Gibson, Director of Utilities; Scott Shadden, Director of Development Services; Danny Jones, Fire Chief; Leah Campbell, Human Resources/OD Administrator; Cathy Perkins, Human Resources Manager; Zach Flores, Police Chief; Bob Fair, Assistant Police Chief; Jason Jeffcoat, Assistant Police Chief; Bruce Dawsey, Assistant Police Chief; Chris Olson, Assistant Fire Chief; Clint Philpott, Director of Engineering; Mary Lawrence, Director of Finance; Kevin Winkler, Public Works Manager; Tammy Davis, Controller; Theresa Hutchinson, Parks and Recreation Manager; Karen Wolff, Administrative Secretary; Jim Cross, Water Systems Manager; Nate Strauch, Community and Support Services Manager; Shawn Hackworth, IT Manager; Melissa Eason, Library Services Manager; Tom Pruitt, Assistant City Engineer; Jimmy Mrozinski, Parks and Cemetery Maintenance Superintendent; Eric Sandberg, Street Superintendent; Ty Coleman, Animal Services Manager; Mike Grant, Facilities Superintendent; Sarah McRae, Tourism/Main Street Manager; Junior Jaimes, Computer Support Technician; Chad Martin, Fireman; Colby Rich, Fireman; Pam Cloer, Assistant to the City Manager; and Linda Ashby, City Clerk.

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

INVOCATION BY DEPUTY MAYOR SHAWN TEAMANN

2019-2020 BUDGET REVIEW

ADJOURNMENT

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Plyler called the meeting to order at 8:15 a.m., declared a quorum present, and opened the meeting.

INVOCATION BY DEPUTY MAYOR SHAWN TEAMANN

2019-2020 BUDGET REVIEW

Robby Hefton, City Manager, thanked Mark Schulman and Richard Higgins, from Schulman’s Movie Bowl Grille, for allowing the City to use their facility for the Annual Budget Workshop.

City Council Members took a break from 8:17 a.m. to 8:23 a.m.

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Workplan Update

Mr. Hefton updated the City Council on the progress made from their direction at last year's Budget Workshop for the 2019 Workplan. Staff has completed the vast majority of the workplan. They are still waiting on the purchase of one piece of equipment. He added that there is really no start or end to the General and Utility CIP projects. That is an ongoing process, but great progress has been made on individual projects. This year the Council adjusted solid waste rates and Mr. Hefton said they would be talking about rates again for next year.

He added that there is also an agenda item on the next Council Meeting to discuss moving the Pecan Grove walking trail from Phase II to the present budget year, in order to save money. Cost of the project will be about \$180,000, but while the concrete work is being done now, the contractor can install the walking trail and save the City money. Most of the cost will be paid for by the contingency that is already included for the project.

Mr. Hefton said there was no change in the property tax rate for FY 2019, but bonds were issued to support the CIP general projects.

Mr. Hefton also addressed prior initiatives and presented an update on those projects. These prior initiatives are either from 2018 or before, or projects that came up after the 2019 workplan was adopted. These projects include Legacy Village (Schulman Movie Bowl Grille), Sherman Crossroads, Pecan Grove Ballfields (Phase II), Sherman Landing, Legacy Boulevard, Bel Air Planned Development, Planned Developments, Munson Planned Development, FM 1417 and Travis Land, and the Hwy 75 Ramp Reversal. He said there are currently two planned developments in the process and a third that is in the early stages.

Council Member Steele asked about the City's property at FM 1417 and Travis Street, and if the staff was considering a ground lease or the sale of the property. Mr. Hefton said the City is "open to all things, right now" concerning the property. Some retailers want to own their own property and some prefer ground leases. One challenge is how to dispose of the land, since it's City property. The land could be included in a reinvestment zone, so the income from the sale could be used to build roads in that zone, instead of issuing debt.

CIP/Projects Update/Economic Impacts

At 8:44 a.m., Mr. Hefton dismissed everyone to the movie theater to view a video flyover for the Capital Improvement Plan Projects Update. The update included the following projects:

- Water Treatment Plant
- Fallon Drive Extension
- Pecan Grove West Athletic Complex
- Lamberth Road Extension
- Friendship Road Extension
- Lamberth Road Drainage Improvements
- McGee Street Extension
- FM 1417 Expansion (US 82 to SH 56)
- Swan Ridge Street Extension
- FM 1417 & West Travis Street Intersection
- West Travis Street (US 75 to FM 1417)
- Main Street and Munson Avenue
- Sewer Line North to High School
- Moore Street Extension (Phase 1)
- Moore Street Extension (Phase 2)
- Moore Street Extension (Phase 3) - Progress Drive Extension
- Fire Station No. 4 EMS Building
- US 75 Ramp Reversal
- Legacy Boulevard
- Bel Air Planned Development
- South Travis Street Bridge
- Park Street Extension
- US 75 GAP Project
- TIRZ #7 Legacy Village

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- TIRZ #5 Crossroads
- TIRZ #6 Sherman Landing/
Sherman Corners

City Council Members took a break from 9:56 a.m. to 10:09 a.m.

Mr. Hefton discussed the financial impact of the CIP projects and outlined the debt issued over the past four or five years, approximately \$65 million. He outlined the project cost for each project, how much the debt for the project is costing the City, its relative impact on the tax rate, and the benefit that the City receives from the project.

In total, the CIP projects will cost about \$65 million, which equates to nearly \$0.16 on the tax rate. He also estimated the property tax and the sales tax that is expected to be generated from these projects. He said these are conservative numbers because there will be some additional value for businesses once Hwy 75 is completed and some new development once West Travis Street is completed. New thoroughfares don't necessarily generate a lot of incremental revenue, but they are necessary for development, which spurs other things. Reinvestment zones do generate incremental revenue, both property tax and sales tax.

Mr. Hefton also presented the same economic impact information on future bonded projects for the next few years. He said there will be some savings, about \$2 million to \$2.5 million, in the West Travis Street project that can be used for other projects. Mr. Hefton said these projects will cost about \$3 million in debt service and generate about \$7 million in property and sales tax.

Mr. Hefton reiterated that street and thoroughfare projects do not directly pay for themselves, unless they are part of a TIRZ or planned development. Commercial, retail, and industrial development always subsidize residential development. A residential development that is a high density, planned development might pay for the streets in the development.

Police and Fire

Zach Flores, Police Chief, explained that the Council has gone through four options for Police Department reconfiguration and have removed Option B and Option C. Option A is the renovation of the current Police Department, which would increase the staff capacity to 94 sworn officers. Option D includes renovation of the Police Department plus a new facility.

Chief Flores said parking is an issue and the current building has four parking spaces in front of the building. There is parking on the street, but without easy access, and there are security concerns for parking underneath the front part of the building. He said a solution to the parking issue is not an option with Option A. They don't have enough employee parking and it needs to be secured parking.

The proposed new facility would require a 5.4 acre site, and would feature 50 public parking spaces, 124 secure parking spaces, and 24,381 square feet. Aaron Babcock, Architect, with Hidell & Associates Consultants, added that enclosing the open area of the current Police Department would increase the square footage of the current building to 19,000. The new facility would support 128 sworn officers, and would have a multi-purpose room for public and staff use. The proposed plan would also allow for future expansion.

Chief Flores said Option A, the renovation only, would cost about \$4.6 million and would give them 19,823 square feet of space, to support 94 sworn officers. He said the longer term solution would be Option D.

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Option D includes renovating the existing Police Department and Central Fire Station, and new construction of a Police Headquarters. With this proposal, the current Police Department would house Communications, Fire Administration, a Fire Training Room, Fire Investigation, Parking Enforcement, Patrol Substations, Environmental Code, the EOC, IT, and 11 future offices or workstations, for an increase of 41 personnel.

Central Fire Station would include Restrooms and a Shower, a Day Room, Kitchen, and Dorms, and would become a full-fledged fire station again, with an increase of six personnel. The new Police Headquarters would include Administration, Communications, Criminal Investigation, Patrol, Property and Evidence, Records, and Support and Training, with an increase of 59 sworn officers. Total cost of all three of the projects is \$15.8 million.

Mr. Babcock said with Option D, they looked at the appropriate number of personnel and the space needed for each area, and designed the facility around that. With Option A, they were just trying to fit what they could into 19,000 square feet. He added that Option A is really at a minimum operational standpoint.

Mr. Hefton said the staff has not really considered a particular site for a new facility and verified that they would need about five acres for the Police Headquarters. He asked what type of “footprint” would be needed if a location was found in the downtown area. Mr. Babcock said for a facility of that type, they would consider a multi-story building, to reduce the footprint. He said it would probably be in the 15,000 or 16,000 square foot range. He said there are many different ways to construct parking.

Mr. Babcock said there would not be a huge impact on the cost of a multi-story building versus a single-story building. The multi-story building would need two sets of stairs and an elevator, but the functionality of the building would not be impacted. He discussed the setup of the building including the requirements needed for evidence and records.

Deputy Mayor Teamann asked if a study had been completed to determine the correct number of police officers that would be needed. Chief Flores said generally, the standard is two officers for every 1,000 citizens. They are also reassessing the process to make an accurate determination as to the number of officers that are needed.

Council Member Howeth asked, with the two upcoming planned developments, would the City outgrow the number of officers needed very quickly. Mr. Hefton said those developments won't happen in two years, but felt that an average seven year buildout might be more realistic. Every service provided by the City would be affected by this growth, and there will be a more direct impact on police, fire, and their support services. He added that Option A was always considered to be a five to ten year plan, and would not prepare the City for 20 years in the future.

Deputy Mayor Teamann asked if the Council decided to remodel the existing Police Department and then later decided to build a new facility, could the remodeled Police Department be used for civilian work in other City departments. Mr. Babcock said it could be, but it would not be set up as efficiently and would still need some significant modifications. For example, evidence needs a different ventilation system, different types of storage shelving, intake, and freezers. Once that has been created, there is a significant cost to come back and renovate that.

Mr. Hefton said it's not “if the City grows that much” it's “when the City grows that much” and the impact will be from how quickly Sherman grows. The speed of growth brings its own challenges. He added that the current Police Department facility would be useful in the future for other City departmental uses. The staff is not recommending demolition of the facility. It is structurally

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sound and is actually built to be a bomb shelter, and the current Police Department is useful now and in the future.

Council Member Steele asked Danny Jones, Fire Chief, if he was satisfied this proposal was also where he needed to be with his administration. Mr. Hefton said there are other parts tied to the Police Department plan, that will have an impact on the Fire Department as well. He said during the process for the police, the staff began looking at the Fire Department and their needs.

Mr. Hefton said it has been many years since Central Fire Station was operated as a full fire station, running EMS and an engine. He said call volumes and runs are increasing annually. When Station 1 (Central) and Station 2 (Dewey Avenue) were built, there was not much north of Hwy 82 and not much west of FM 1417. The City's geography looked different and the stations were located there because that's where the population was located and where the service area was.

The staff started looking at a division of labor and how they could be more efficient. Currently the Fire Department answers about 7,700 calls per year, with 80% being medical calls, and they operate four full stations and Central Fire Station. He said Stations 3, 4, and 5 carry about 75% of the calls, with Stations 1 and 2 carrying about 25% of calls. The question came up about combining Stations 1 and 2 at a different location, still providing for the 1.5 mile radius of coverage area. Sherman is growing north and west. A good location might be between Travis Street and Grand Avenue, on Houston or Lamar Streets.

City Council Members took a lunch break from 11:17 a.m. to 11:40 a.m.

Street Program/Street Sales Tax

Kevin Winkler, Public Works Manager, addressed operations, equipment, and staffing in the Street Department. He said last year they were preparing for growth, but this year they are adjusting to growth.

Over the past years, the City has added layers to the street and last year they purchased a milling machine to remove those layers. They are trying to get to the point where they can do the work themselves when it's cost effective. There is an initial equipment expense, but after that it's usually much cheaper for the City to do the project, sometimes even one-third of the cost of a contractor.

Mr. Winkler introduced Eric Sandberg, Street Superintendent, who was hired in January 2019 to head the Street Department.

He said in 2017, the City took over an additional 25 miles of streets from Grayson County. He also told them about the crushed concrete that is stored behind the Animal Shelter on Ida Road. Concrete is accepted from City projects as well as other companies or individuals. It is crushed and reused on City projects. This year, the City had 40,710 tons of concrete crushed by Big City Concrete.

Mr. Winkler said, over the last five years, the Street Department has performed maintenance on over 50 miles of streets, not including utility cuts. They have repaired 650 utility cuts in that time period, with an average of 135 cuts each year, and that increases by about 10% each year. They have repaired 1,935 pot holes over the last five years, and expect that number to reach 2,100 by the end of the year. He added there has been a significant increase in street repairs and maintenance over the last five years.

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Mayor Plyler asked if the City was installing sleeves for utility lines under the new streets in developments that have new concrete streets, so those streets don't have to be "cut" for utilities. Mr. Winkler said that typically utility lines are laid in advance of the street construction so no cuts are made to the new streets.

He discussed the new street maintenance equipment that has been purchased over the last few years so that more maintenance can be completed in house and on the City's own time schedule. He outlined the quality of the Caterpillar equipment that has been purchased. They also try to purchase equipment that could be used for multiple jobs.

He added that the asphalt that is milled up off streets is also reclaimed and reused on other street repairs where base is needed or for utility cuts. He discussed the new machine that lays Thermoplastic markings, such as stop bars and crosswalks. These Thermoplastic markings are used especially in high traffic areas and are more expensive than paint. In the past, they have used paint to designate street markings, but that lasts a maximum of one to two years. Thermoplastic markings can last as long as seven years.

Mr. Winkler discussed two new positions that were hired for storm water and have been used to provide some creek cleaning and cleaning under bridges, to help the flow of flood water. The crew is used to clean areas that fall under the City's responsibility. Money to fund these two positions came from the Storm Water Fee. In the last three months, they have addressed 21 separate locations.

Mr. Winkler displayed a map of street maintenance projects from 2015 until 2019, which is more than the 50 miles he mentioned earlier in his presentation. This map represents all streets they have worked on or spent money on, including those that were projects through the Texas Department of Transportation, but that also required a City funding match, or that required the purchase of right-of-way.

He also displayed a map with projected projects for the next five years, from 2020 through 2024. He said the map is "fluid" and changes as the needs change. Some areas deteriorate faster than others or may need emergency repairs, and those will move forward on the plan.

Deputy Mayor Teamann asked if they were able to repair more streets since they have purchased so much additional equipment. Mr. Winkler said they are repairing more streets, but they are also doing a higher level of repairs now, instead of contracting those out.

Mr. Hefton said Nate Strauch, Community and Support Services Manager, has been working with the City's IT Department to make the Budget Workshop presentation run smoothly. He thanked them for their hard work.

Street Sales Tax

Mr. Hefton presented the map of the Street Maintenance Plan for 2020-2024. Funding for a portion of this plan will come from the upcoming Street Sales Tax Election. He recognized the various projects, which are located in all parts of the City, adding that this is an aggressive plan. The Street Sales Tax from the FY 2015-2019 period was used to fund a portion of the Loy Lake Road project for \$1 million, purchase additional equipment for \$500,000, and provide additional street maintenance for \$2.8 million.

Through the Street Sales Tax, the City receives about \$1.2 million to \$1.3 million annually. This is the fourth round of the tax, which expires every four years. The tax can be renewed under the same manner as initially imposed, which is by Election. The money is being used in ways to

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stretch the dollars and that benefits the entire City. The Sales Tax for Streets Election will be held on November 5, 2019, and if approved, will take effect the first quarter after which the tax is adopted. The tax is 1/8 of 1%.

He explained that there are restrictions on what the money can be used for. The City cannot build new streets with the money. It must be used for maintenance and enhancements on existing streets and thoroughfares. They can widen an existing street, but they can't build a new road.

Staffing/Compensation/Benefits

Terrence Steele, Assistant City Manager, said since he has been employed at the City, he has seen the staff asked to do more with less, with little griping, and it seems to be a reflection of management. Little gestures for employees like showing up at a 7:00 a.m. meeting with pigs in a blanket, sending popsicles to the Parks or Street Department employees that are out working. These gestures show employees that management really appreciates the work they are doing for the City.

The staff has also started leadership training for succession planning. As tenured employees consider retirement, the staff is making sure that the next generation of employees are prepared to take on the leadership roles.

Currently the City has 457 employees, and in the last decade, only 52 new positions have been added. With all the growth during this time frame, the employees are being asked to do more with less. Resources are limited, but management is trying to provide, as resources become available.

Mr. Steele said this year the departments requested an additional 24 employees, and each was a legitimate request for needed personnel. However, because of the budget, he said only five new positions were being recommended, including two employees to maintain the new Pecan Grove Park.

The staff is requesting a 2.5% across-the-board pay increase for employees, 3% for the Police and Fire Departments. They are also asking for box pay for EMS personnel. Mr. Steele said the staff is proposing various market adjustments, with the pay goal for every position to meet the peer average plus, considering job duties and internal pay parity.

Council Member Melton asked how those peer averages would be determined. The question arose about the recently announced 20% pay increase for firefighters at the City of Denison. Mr. Hefton explained that Denison pay was "way below" the peer market. The 20% increase basically brings them to about where Sherman is currently paying.

He explained that Sherman's police and fire salary structures are very complicated and there are multiple ranks with various steps. Because of these various levels, the proposed 3% increase is an overall average, and not every position in every rank will receive a 3% increase. The box pay will equate to between 5% and 7% of their annual salary. Not all firefighters will receive the box pay.

Mr. Hefton said one of the requested employee positions that was being recommended was for an additional dispatcher. It is a high stress position that serves both police and fire, and they were already understaffed. The two positions hired for Parks Ground Maintenance will be used for ballfield maintenance, not just general grounds maintenance.

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Mr. Hefton discussed the Annual Compensation Survey that is used each year to determine the market rate of each position, based on the nine peer cities. He explained how this is used to help determine salaries for each job duty. They also consider competition for jobs. The goal is for Sherman's pay to be in the middle of the peer cities.

Group Health Plan

Mr. Hefton said the group health plan is the second single largest expenditure in the City, and it costs in the \$4 million to \$5 million range. Two years ago, it was costing in the \$8 million to \$9 million range. Adjustments were made because it was bankrupting the plan and about to cause employee layoffs.

He presented a comparison of peer cities group health deductibles, adding that most cities had a similar "high deductible" plan. On most high deductible plans, after the deductible is met, it pays 100% of the remaining charges. Sherman has one deductible for the local facilities and a higher deductible for out of network facilities. At Texoma Medical Center, Wilson N. Jones, and Baylor Scott and White Surgical Center, the City has the lowest deductible allowed by IRS regulations. With this plan, he said Sherman tries to support the local health facilities, and keep the deductibles lower for employees than at other cities.

Mr. Hefton said almost every peer City has a two-to-one match for their retirement systems, at Texas Municipal Retirement System, at 7%. The third largest expenditure is the retirement plan, and Sherman is on par with the other peer cities.

Council Member Melton asked how the retiree health insurance compared to other cities. Mr. Hefton said there are many variations across the board on retiree health insurance. A survey was performed to see what other cities did for their retirees. Some cities pay 100% of the health insurance for their retirees, some cities don't offer retiree health insurance, and some offer health insurance to the retiree at the City's actual cost. This last option is what the City of Sherman does now.

There are still some employees that were told 20 years ago that they could "buy into" health care and those are still being honored. There are also some firefighters that are still covered by the insurance. He said there is "no normal" for retirees.

City Holidays

Mr. Hefton mentioned peer City holidays and said this is an area in which Sherman is probably a little behind. If the Council wanted to bring the employees up to what is average, six of the eight peer cities give at least 11 days, including the personal "floating" holiday. The additional holiday that is most often given is Good Friday. Currently employees can use their personal floating holiday for Good Friday.

As for vacation days, Mr. Hefton said Sherman is right in the middle, with the vast majority of the cities doing the same thing Sherman does. There are some cities that, after an employee reaches five years, they add a day for every year they've worked. At year six, an employee would get 11 vacation days, at year seven they would get 12 days, and so on. He felt the City is on par with other peer cities for vacation days.

City Council Members took a break from 12:57 p.m. to 1:12 p.m.

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Financing and Development Tools

Mr. Hefton discussed development tools that enhanced the City, including Tax Increment Reinvestment Zones, Property Tax Abatements, Chapter 380 Agreements, Public/Private Partnerships, and CIP Programs. The newest tool is the Public Improvement District.

Tax Increment Reinvestment Zones are allowed through the Texas Tax Code and allows the City to establish a geographic area that also allows the City to set aside the increment property tax or sales tax created through development. This allows the City to participate in the construction of public improvements within the boundaries. They are predominantly commercial and retail in nature. He added that the residential component is limited by statute.

Mr. Hefton discussed the procedure for designating a TIRZ and the types of projects that can be funded through the program. Authorized improvements include sidewalks, pedestrian/bike trails, street and storm drainage, storm drainage systems and storage, water and sewer infrastructure, signage, parking lots, and parks and other necessary public improvements. They can also be combined with Chapter 380 Agreement improvements.

There are currently six TIRZ in Sherman, numbered one through seven (there is no number 4). The TIRZ include Sherman Town Center, Downtown, Sherman Commons, Sherman Crossroads, Sherman Landing, and Legacy Village.

Council Member Steele asked if there was ever a scenario when a TIRZ is closed or shut down. Mr. Hefton said, to the extent that debt has been issued to fund those improvements, the TIRZ has to remain in place until the debt has been paid off. Most TIRZ are 20 year debts. However if the amount needed to pay the debt is less, the extra is used in the General Fund to fund other operations. TIRZ are generally used on major developments. Other potential TIRZs include the Bel Air Development, which could be an expansion of TIRZ #7, and the Munson Planned Development.

Mr. Hefton said the City already does residential and commercial Property Tax Abatements, which incentivize a company or residential development that is not already in existence. The abatement is capped by State law at 10 years, but their usefulness can be extended by Chapter 380 Agreements. They can be used on real property or personal property and for commercial or industrial purposes.

The residential Tax Abatement Program is for use in target areas, to encourage development in low-to-moderate income areas. Council Member Steele asked if multi-family units would qualify for residential Tax Abatements. Mr. Hefton said he thought they would, but didn't know if they needed to be in a target area. He did feel there were better tools to use for multi-family development.

Chapter 380 Agreements are very broad-based, and can be grants, loans, or services provided by the City. They are for commercial or retail development, and it has been used for industrial purposes. It can also be used to "extend" a Tax Abatement Agreement. A Property Tax Abatement is capped at 10 years, but a Chapter 380 Agreement can cover years 11 through 15. A Chapter 380 Agreement is not a Tax Abatement, it's a Tax Rebate.

Current 380 Agreements that are in force in Sherman include Schulman Movie Bowl Grille and Sherman Bobcat, which rebate a portion of sales tax revenues, and Panda Energy and Finisar, which rebate a portion of property taxes.

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Mr. Hefton explained that Public Improvement Districts are not as widely used, but also cover a designated geographical area, and can be used in the City's ETJ. It can either be used as a financing tool or a development tool, and is used to "enhance" a development.

Public Improvement Districts are usually created for quality of life amenities that are above the normal level of services or amenities, such as water features, enhanced maintenance, parks, or additional security.

A PID is initiated by a petition of at least 50% of the landowners, and the two proposed for Sherman, the Munson property and Bel Air, are owned by one person. It creates its own tax and those ultimately purchasing the property will be subject to the assessment. A Service and Assessment Plan is determined and must cover at least five years. The plan is reviewed annually. It determines the geographic boundaries, the improvements, cost of the improvements, how that cost will be assessed, and the source of funding. Once the assessments are set, no changes can be made.

Mr. Hefton said assessments can be made to individual property owners through the tax rate, per lot, or per building square footage, but that through the tax rate is the most common way. PIDs can also be used for safety and security. Therefore, Mr. Hefton said, it is possible, that the City could use a PID to build all or part of a new police station. The police station would have to be located in the geographic area, but the Munson development has discussed reserving a portion of land for a civic-related amenity.

He explained that PID bonds are not a good financing vehicle because they are very expensive and not easily sold. The City can, however, back the PID bonds with a tax pledge, which would basically make them a "tax supported" debt, such as Certificates of Obligation or General Obligation Bonds. This would bring the rates down and make them more marketable. He said the City should be leery of using PIDs as a financing tool, but they could be a positive development tool.

The City can do a PID and a TIRZ together. TIRZ are for infrastructure development such as for roads, water, sewer, and drainage, while PIDs are for aesthetic and maintenance enhancements such as water features, parks, cultural amenities, and public safety amenities.

Mr. Hefton said Development Agreements are partnerships with the landowner or developer to provide for infrastructure or other improvements, such as roads, water, sewer, parks, and other amenities. He presented examples of some recent Development Agreements. Sometimes the City proactively plans and constructs infrastructure improvements to help spur growth and development.

City Council Members took a break from 1:57 p.m. to 2:10 p.m.

Solid Waste Discussion – Including TASWA

Mr. Hefton said there are some issues with the Texoma Area Solid Waste Authority that will have a great impact on the City's budget. As of October 2019, TASWA will have enough cash on hand to pay for their next cell and to fund the gas mitigation project. They will also continue putting back \$1.2 million per year for future cell development in FY 2025, and at current volumes, will be generating about \$2.6 million per year more than is needed to fund operations and reserves.

They are able to do this because their volumes are much greater than they projected. They are processing over 200,000 tons of waste per year. When they built the performance for TASWA, they were counting on somewhere between 130,000 and 150,000 tons. That is about 40% plus

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higher volume than they expected. They also set their gate rate at \$35 per ton, based on this lower expected volume. There is a risk if the economy “tanks” and development goes down, their volumes could also go down, and they wouldn’t be generating \$2.5 million per year more than is needed.

He said the question becomes, what do you do with the excess cash. According to the by-laws, they can do two things with the excess cash. They could lower their rate, which would lower the rate for everyone using TASWA. Or they can make a distribution to the members, which would be the City of Sherman, the City of Denison, the City of Gainesville, Grayson County, and Cooke County.

Each of these member entities has a voting seat on the TASWA Board. The two counties did not put in any money when TASWA was originally formed and they don’t haul trash, so changing the gate rate does not help them. Originally the cities were the only ones that put in money to help fund TASWA, and they do offer trash service to their citizens. Since that time, TASWA issued debt and repaid the cities for their initial investment. Therefore only three of the member entities contribute to the success of TASWA.

So the only two options, according to the by-laws, are that they can lower rates or make a distribution to member cities. Should TASWA make a distribution of cash, and if so, at what amount? If they make a distribution, should they also lower the gate rate?

Mr. Hefton outlined the current tonnage of waste that each City is contributing to TASWA. Of the member cities, Sherman represents about 50%, Denison about 23%, and Gainesville 27%. Of the total amount of trash that is sent to TASWA, Sherman has 27%, Denison 12%, and Gainesville 15%, with 46% coming from non-member entities.

All three entities that originally put money in to fund TASWA, have been paid back. But, as member cities, each is equally responsible for the debt that has been issued. The City pays debt service in proportion to how much trash they take to the landfill.

Mr. Hefton said if there is to be a distribution of cash, there are three basic lines of thought as to the payouts. Option 1 is an even split, so the cities of Sherman, Denison, and Gainesville would each receive 33.3% of the distribution. Option 2 is based on relative use or how much trash the entity takes to the landfill, and Option 3 is based on a combination of the equal split and relative use for a “blended” rate.

The five member board is comprised of the Mayors of Sherman, Denison, and Gainesville, and the County Judges of Grayson and Cooke Counties. Mr. Hefton said any money that has been generated in excess of what is needed, has been generated, not on an equal basis, but from relative use. He said he was also okay with TASWA lowering the rates, because the City would benefit greatly from that option.

Council Member Steele asked if the City of Sherman was bound to take their trash to TASWA. Mr. Hefton said there are three documents that pertain to TASWA, the Articles of Incorporation, the By-Laws, and the Contract that was signed with them. The only document dealing with that specifically is the contract. He addressed the debt being served through TASWA and the commitment by the member cities to make sure they have the revenue to pay the debt. Council Member Howeth asked about the length of the term of the contract. Mr. Hefton said he thought there was no ending date on the contract, but if it was a bad deal for Sherman, they needed to look at possible alternatives.

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Mr. Hefton said he did believe the City has an obligation to TASWA. However they need to see how the vote on the distribution goes, because it effects every Sherman citizen and every business, and is a key component to Sherman offsetting the impact of a tax rate increase. The staff will be proposing to increase solid waste rates to help balance things, and the rates are just low, compared to the peer cities.

Deputy Mayor Teamann asked if it would offset the proposed tax rate increase if the citizens were being charged the correct rate at TASWA, and not an inflated rate. Mr. Hefton said if TASWA was only covering their costs, and putting money back for future projects, Sherman's allocation, either through rates or distribution, would essentially pay for all the impact of a tax rate increase to the citizens. Deputy Mayor Teamann recommended that the City draw a "hard line" and demand that they charge our citizens what it costs them to operate, like an effective rate. Council Member Steele felt the City would also have a viable option with Hillside Landfill opening up again.

Mayor Plyler said the distribution comes from money that TASWA has already collected. If they go with an equal split, as proposed by the Denison Mayor, then Sherman residents will have paid more for the same services, than what Denison and Gainesville paid. Mayor Plyler said that is an unacceptable situation. He said the situation has caused a lot of controversy.

He felt the end solution would probably be Option 3, with a lowering of the gate rate. TASWA has benefited because they were the only area landfill, however with Hillside Landfill opening up, that changes things and TASWA could lose 20% to 30% of their volume overnight. He said there are also some new Texas Commission on Environmental Quality regulations coming up.

Deputy Mayor Teamann felt they need to lower the rates for the citizens of Sherman and get them paying what they should be paying. With a worst-case scenario, the City needs to look for another place to take their trash.

Mayor Plyler felt the City needed to "do what was right" and live up to their obligations, but they also need to make sure that Sherman citizens are being treated fairly, along with citizens of other counties.

Mr. Hefton said there are a lot of unknowns. Hillside has not opened yet and volumes have been greater than expected, both from member cities and from non-member cities. However, right now, there is the situation of excess accumulated cash, and that needs to be addressed. He said the staff has not built anything into the budget, for getting anything from TASWA, neither the gate rates being lowered or any distribution of cash. And to address Deputy Mayor Teamann's comment, that could be the difference in fully offsetting the impact of a tax rate increase for the citizens, or only offsetting about 40% of that through something else.

Mr. Hefton said TASWA's bond counsel also agrees that if there is a distribution, it should be based on a combination, not necessarily those same numbers. Based on the bylaws, a distribution should be based on considering two things, percentage of use and initial investment. He added that they just want recognition that, at current levels, rates are too high, and there should be some distribution of accumulated money, that helps offset the City's cost. He also hoped the distribution would come in FY 2020. Rates can be adjusted as needed, depending on the amount of trash collected.

Deputy Mayor Teamann asked if TASWA was allowed to change the rates only for member cities. Mr. Hefton said he wasn't sure, but he felt like they probably couldn't have a different rate for

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member cities than for non-member cities. With a distribution, there would be an “effective” rate that would be lower, and everyone else would be paying the gate rate.

Deputy Mayor Teamann verified that the disbursement, if received, could be used to lower solid waste rates for citizens, but it could also be placed in the Solid Waste Fund and used for other City purposes.

Property Tax Rate/FY 2020 Workplan

Mr. Hefton briefed the Council on the status of the proposed revenue cap by the State Legislature. From FY 2021 on, they have decided that the revenue cap will be 3.5%. For FY 2019, the current tax rate is \$0.32 for Maintenance and Operations; \$0.11 for Interest and Sinking; for a total of \$0.43.

He presented a 20 year history of Sherman’s property tax rates, and showed how the current rate compares to our peer cities. The staff is proposing a tax rate increase to \$0.34 for Maintenance and Operations; \$0.16 for Interest and Sinking; for a total of \$0.50.

Mr. Hefton said during the 20 year period, the staff expects the property tax base to nearly double. This projection takes into consideration the growth that is seen today and adds in the potential effects of the two planned developments that are being contemplated. The values of these planned developments wouldn’t come on the tax rolls until 2022 or 2023.

Mr. Hefton presented a worksheet that plugged in the 3.5% capped rate and possible scenarios spread over future years. He said millions of dollars of requests were cut from staff requests for the upcoming budget, just to get to this point today. He also compared the tax rates of peer cities. He said he could “make a strong case” for a tax rate of \$0.52, but was trying to be judicious, getting the debt rate only where it needs to be to pay the debt service that the City has already committed too, and getting the M&O rate back to almost \$0.35.

He said the City is capped at somewhere in the low \$0.50 range for the tax rate from here, long term. Some of that amount is allocated to debt and some to M&O rate. As the tax base grows, assuming no additional debt is issued after 2021, the debt rate goes down. He discussed possible future projects for which debt might be issued. Whatever tax rate is set, less the debt rate, is what the M&O rate is.

Financial, Tax Rate, Other Rates

Mr. Hefton said the staff presented what they need to make the budget work for FY 2020. At the planning meeting, the Council indicated that they wanted a way to offset the impact of the tax rate increase to the citizens. There is a suggestion, that doesn’t fully offset the impact, but gets us nearly half the way there for residents, and depending on what happens with TASWA, nearly all the way there. If that happens, there would be very little effect, as if there was no tax rate increase for residents.

Council Member Howeth said Mr. Hefton previously said the staff “cut back” this year from what the original departmental requests were, in order to reduce the possible rate increases. She asked if citizens would see a loss of services. He said citizens shouldn’t notice it. He said, on an ongoing basis, the City is “better than balanced” in the General Fund. There is a little cushion left in revenues over expenses, and there are reserves.

He said the City can’t do every year, what they are proposing to do in FY 2020. He said the staff is proposing to minimize the impact by giving some back on the residential side, that will be an offset to all residents. It won’t be on the tax bill, but it will be on their monthly rates. Mr. Hefton

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said the City is not in danger, in FY 2020, with the plan of cutting things too close where they can't deliver services. He added that the FY 2020 budget reflects the City's ability to deliver the current level of services that they are delivering today. It is a little more risky, because if there are unexpected expenses, the plan would be to use reserves and a little cushion.

Mr. Hefton said the group health costs have climbed by over \$500,000 more than the prior year, but it is still not as high as it was over the last two to three years. The City has also hired more employees to deal with the growth.

Council Member Holland expressed concern about the cost of things that were ordered from overseas and that required a tariff. He said these costs need to be built into the budget.

Council Direction

Mr. Hefton presented the proposals for the FY 2020 workplan. These include:

- Staff COLA increase of 2.5%
- Salary market adjustments – as needed
- Police and Fire adjustments – across-the-board, and specific adjustments
- Additional staffing
- Police and Fire Department renovations – some direction needed today
- Limited capital spending
- Growth and development – two possible planned developments
- Development tools – public improvement district, etc.
- Additional infrastructure needs
- Continuation of the retail recruitment program
- Street sales tax election – November 2019 – brings in \$1.3 million per year and is currently built into the budget – budget amendment needed if it doesn't pass
- Property tax rate of \$0.502
- No Utility Fund rate adjustment
- Increase commercial solid waste rates 20% to approximate average peer market

Mr. Hefton said the debt issuance for FY 2020 would be largely driven by the planned development activity and agreements. Other potential impacts would be the Fire Station consolidation and EMS Building, the Police Department, and Pecan Grove Park, Phase II.

He asked the Council for a discussion about how the staff should proceed on the Police Department. He said the current facility is not okay for long term and even with renovations, that would cover only a five to seven year plan. He said that might be what the Council wants to do with the other proposals for this year. He asked the Council, for FY 2020, how far out they wanted to look, as it relates to the Police Department.

Council Member Stevenson said he was not interested in Option A for the Police Department. Council Member Steele and Council Member Melton agreed. Council Member Stevenson said he would recommend moving forward with the new Police Department, but leave the renovations on the old facility and the Fire Department, until a later date.

Mr. Hefton said the City can move independently on those decisions, but one does affect the others. They aren't mutually exclusive. Council Member Stevenson said dispatch could be left in the old building without spending the \$1 million for the facelift, until they know whether or not they need to do the renovation on the Fire Department. Mr. Hefton said they should know more on the Fire Department needs by the end of the summer.

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Deputy Mayor Teamann said he liked the 20 year concept, but wants to know what's going on with the Fire Department first. He also felt that they should look at all possibilities of a phased implementation.

Mr. Hefton said it would take a year to get a construction-ready design for the Police Department. During that year, the staff could be moving in parallel to select a location, because that will have an impact on design. He said it could be that the Council's direction is to move forward with Option D, but not approve it and issue \$15 million in debt to build it.

They could decide to move forward with Option D, select a location, and prepare a timeline for when it would be constructed and debt would be issued. He did not anticipate construction starting in FY 2020, but they could be spending money on the purchase of a site. Money could also be spent on the design of the facility. Mr. Hefton said there are a number of scenarios that could possibly work for a new police headquarters. If the Council says to move forward with a new facility, the staff will take that and bring back those types of recommendations.

Council Member Steele recommended moving forward with a new Police Department, in the \$12 million range, and continue to explore the new combined Fire Station, located somewhere downtown. This will then lead to what needs to be done with the old Police Station and the old Fire Station. He also thought the City needed to move forward with the new EMS Building.

Mr. Hefton reiterated that the Council wanted to move forward with Option D for the Police Station and move ahead with the EMS Building, independent from the decisions to combine Fire Stations #1 and #2.

City Council Members took a break from 3:55 p.m. to 4:05 p.m.

Financials and Capital

Ms. Lawrence outlined the FY 2020 budget financial highlights.

- Proposed property tax rate is \$0.502 per \$100 valuation
- Four additional staff personnel
- Utility Fund – put off capital spending and additional staff; debt service relief in 2021; no water or sewer rate increase; no additional staff
- Solid Waste Fund -- \$850,000 for fleet; additional driver
- Commercial Solid Waste – 20% rate increase; excess tonnage charge on roll-offs
- General Improvement Fund – no new projects; continuing projects
- Pay adjustments – market adjustments; 2.5% COLA; 3% for police and fire; Box pay for Fire Department

Ms. Lawrence said all fund balances are within the target of 60 to 90 days. The General Fund is at \$7.7 million, just below the FY 2019 budget, and the Utility Fund and Solid Waste Fund are also about where the FY 2019 budget was. She outlined the ongoing fund balancing and highlighted one-time, non-recurring items.

She said the Utility Fund is not balanced on an on-going basis, partly because the rate was not increased to cover updates to the Water Treatment Plant. She said a plan will be presented next year to the Council to get this fund balanced on-going. There is currently an acceptable fund balance level. Mr. Hefton reminded the Council that there is also relief to the debt service coming in FY 2021.

The Solid Waste Fund is balanced on-going, with the 20% increase in the Commercial Solid Waste rates. This also does not include any disbursement from TASWA.

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Ms. Lawrence outlined revenues and expenditures in the major funds. Sales tax is up 8% for the year, with a major part of that being from the Finisar remodel. She said construction has been the biggest industry sector contributing to sales tax so far this year. The staff is projecting a 3.5% increase in sales tax for next year. They are also projecting growth in new value for property taxes.

Ms. Lawrence showed a graph of the City's debt, with a large portion of that being debt through the Greater Texoma Utility Authority. Sherman's utility system is unique in that we have a laboratory, water wells, Water Treatment Plant, Lake Texoma water, a City owned collection system, and a water distribution system. Most other cities that have no revenue debt are purchasing their water from someone else. They are paying for their water, they just aren't operating their own system. Mr. Hefton added that those cities would be paying through their utility rates, not through debt.

Sherman is still on the low end of the property tax rate for peer cities, even with the proposed tax rate increase.

Mr. Hefton briefed the Council on some indirect tax relief. Over the past several years, Grayson County has lowered their rate by about \$0.05. One-third of the County's tax base comes from the City of Sherman. They have record reserves on hand, and the City of Sherman has taken over some maintenance from them. He said their costs are decreasing, as it relates to Sherman, and their revenues are increasing, as it relates to Sherman. Grayson County does expect to reduce their rate again in 2020. This helps provide some tax relief to Sherman citizens.

Mr. Hefton mentioned two alternatives to give citizens some residential property tax relief by reducing their monthly solid waste rate by \$4 per month. Their property tax rate would still be \$0.502, but they would have a lower monthly solid waste bill to help offset that increase. However, this would reduce the reserves in the Solid Waste Fund to about 50 days. This would not affect commercial accounts.

A second alternative would be to use the incremental income from the commercial rate increase for debt service needed from property taxes. All taxpayers would benefit from this alternative. Reserves in the Solid Waste Fund would be lowered to about 50 days.

Council Member Melton felt the proposed rate increase was too high, all at once for the commercial solid waste customers. Council Member Stevenson said people doing business in other cities are shocked at how low the commercial solid waste rates are in Sherman. Mr. Hefton said about 40% of the commercial revenue is for construction purposes, and about 60% is for other businesses, such as offices and restaurants. Council Members also discussed the possible rebate from TASWA.

Ms. Lawrence said some growth is predicted in the Utility Fund, mostly from growth. She also presented unfunded requests from the Utility Fund. These total \$711,018. She presented the General Improvement Fund and its projects. Sherman's total annual budget is \$94 million, with about \$17 million being capital items.

Reiteration of Council Direction

Mr. Hefton reiterated the Council's direction:

- Move forward with compensation
- Direction on police facilities; more discussion on particulars; location; timing; transition to actual design; Option D; west side of Sherman
- Move forward with EMS building; not training building

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- More information on combining two fire stations; timing; cost
- Move forward with Street Sales Tax Election
- No debt issuance planned for FY 2020; driven by planned development; timing of other projects
- Pecan Grove – walking trail moved to current year
- Property tax rate of \$0.502; residential relief at \$0.48; maybe more with TASWA disbursement

Mr. Hefton asked if there was anything else Council Members wanted to discuss. Council Member Melton said she felt all employees should be wearing City uniforms and should be driving City vehicles. Mr. Hefton verified that she wanted some way to identify employees. She felt it was important for both the safety of the citizens and the employees. Mr. Hefton said it probably wouldn't have a tremendous budget effect and was probably more of an operational issue. Vehicles would be a different issue. She expressed concern about an employee paying their own deductible for an accident.

Council Member Stevenson recommended adding Good Friday as a City holiday and giving veterans Veteran's Day off too. Council Member Melton suggested adding New Year's Eve as a City holiday too. Mr. Hefton asked what is the correct number of days off and then the staff will make a recommendation as to what day it should be. Council Members confirmed they wanted to add one additional holiday. Council Member Stevenson still wanted to give Veteran's Day off for veterans.

ADJOURNMENT

There being no further business to come before the City Council today, motion was duly made and approved to adjourn the Called Meeting at 4:48 p.m. Documentation for the Budget Work Session is held in the General File "Budget Work Session FY 2019-2020" in the City Clerk's Office.

ATTEST

MAYOR

CITY CLERK