

STATE OF TEXAS §

April 30, 2010

COUNTY OF GRAYSON §

BE IT REMEMBERED THAT A Called Meeting of the Sherman City Council was begun and held in the Council Chambers of City Hall, 220 West Mulberry, Sherman, Texas, on April 30, 2010.

COUNCIL MEMBERS PRESENT: Mayor Bill Magers; Deputy Mayor Joe Smith.
Council Members Adami, Howeth, Softly, Steele, Wacker.

COUNCIL MEMBERS ABSENT: None.

CITY STAFF PRESENT: George Olson, City Manager; Robby Hefton, Assistant City Manager/CFO; Brandon Shelby, City Attorney; Scott Shadden, Director of Developmental Services; Mark Gibson, Director of Engineering/Public Works; Don Keene, Executive Director of Planning/Public Works; Jeff Miller, Director of Public Works; Tom Watt, Police Chief; Jeff Jones, Fire Chief; Mary Lawrence, Controller; Lisa Whitfield, Development Coordinator; Jacqueline Banfield, Library Services Administrator; Kevin Winkler, Parks and Recreation Administrator; Pam Cloer, Assistant to the City Manager; Linda Ashby, City Clerk.

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

INTRODUCTION
Introduction to Budget Planning Meeting

FINANCIAL UPDATE
Summary Financial Information

Estimated Financial Operating Results for 2009-2010

Capital Improvement Funds for 2009-2010

BUDGET PLANNING PROCESS
Discussion of Fiscal Year 2010 Budget Planning Process

LONG-TERM PLAN
Revenue Projection for 2011-2015

Debt Service Schedule

COUNCIL INPUT
Council Input for 2010-2011 Budget Year

Approved Budget Calendar

Adjournment

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Magers called the meeting to order at 12:00 p.m., declared a quorum present, and opened the City Council Meeting.

INTRODUCTION TO BUDGET PLANNING MEETING

Mayor Magers reminded the City Council that, just like last year, this year's Budget will be an extremely tight Budget. The City has lost some employers and some of the revenue stream. Today's meeting will include a financial update and overview. Historically this has been the meeting where Council Members get to express their initiatives or their "wish list" and those initiatives usually equal dollars. This year, initiatives cannot mean dollars, because there is no surplus.

He felt this year's challenge for the Council is to look for ways to drive progress without raising taxes and without it costing money. He complimented the staff for focusing on necessities and for expanding that into a timely overall review of City resources. The staff is in the process of defining what complimentary and essential services mean to the City of Sherman. He asked the Council to keep in mind that it is a tight Budget as they consider projects.

George Olson, City Manager, emphasized that Sherman continues to operate in a very challenging economy, but the staff has tried to "stay on top" of the situation. This year the staff started the Budget process six weeks earlier and they are analyzing the essential core functions, how we do our job, are we being efficient, and identifying the organizational needs.

He added that a conditional hiring freeze has already been implemented and the staff is evaluating each job that comes open before considering hiring someone to fill the position. They are also evaluating the capital projects, capital expenditures, and the Capital Improvement Program, to determine the various options that might be implemented. He thanked the Council for their support adding that he was proud of the staff for their understanding of the difficult times that the City faces and their work to meet the challenges.

Robby Hefton, Assistant City Manager/CFO, said the staff is more interested in looking at the process for the Budget this year rather than looking at the "raw" numbers. Last year the staff began the process by taking a five year look at the financials. He outlined the process for the current Budget review.

This year the staff is spending a lot of time and energy on the Comprehensive Master Plan activities which encompass many different departments. These include development ordinances, drainage management, GIS, and downtown projects.

The current capital improvement projects in progress or completed include Pecan Grove Park Phase II, Washington Street, Lamberth Road, the Highway 75 North Sewer, and Brockett Street. The grand opening of Pecan Grove Park, Phase II is planned for the July 4, 2010 weekend. Deputy Mayor Smith verified that the Washington Street project and the Lamberth Road project will begin in the next 30 to 45 days and construction should continue for approximately 300 days, depending on weather. All right-of-way has been completed on Washington Street. Mayor Magers confirmed that the City had agreements with everyone on Washington Street and eminent domain was not used.

Mr. Hefton said the Brockett Street project is essentially complete. The City is looking to finalize the purchase of 10,700 acre feet additional Lake Texoma water storage which is being completed through the Greater Texoma Utility Authority.

There are challenges for the Budget in the General Fund and the Utility Fund. In the General Fund the sales taxes and franchise taxes aren't performing as budgeted, although the financial projects are flat versus last year, which is better than many Texas cities. Franchise taxes are down.

In the Water and Sewer Fund, the City is projecting the effects of MEMC and Folger's downsizing. If there is a wet summer, it will cost the City about \$1 million in water and sewer revenues. The

projection is for a normal "Texas summer." Deputy Mayor Smith asked if the staff has discussed marketing the water. Mr. Hefton felt that the City or any of its entities should not be saying we are trying to conserve the water. The City doesn't need to waste it, but there is plenty water to market, including raw water, effluent, and treated water. Mr. Olson said the staff has discussed developing a system to better market the water and are moving in that direction.

Mayor Magers said it is the Sherman Economic Development Corporation's job to develop the Sherman economy and he expected they would utilize this asset. Mr. Hefton reiterated that Sherman has plenty of water.

Mr. Hefton said the staff will also be looking at alternatives that the City might have in the group health plan. Today things are looking a lot better.

The City is also ramping up to increased debt service and the challenges of the increasing maintenance and overhead costs for the newest parks, Pecan Grove Phase II and Center Street Park.

Mayor Magers asked if the problem was on the expense side or is it primarily revenue. Mr. Hefton said it is both, but primarily today it's revenue. The staff does believe that by taking some of the approaches to the Budget that are being taken, the City will recognize some efficiencies on the expense side too. The expenses aren't occurring differently than projected, but the revenues aren't meeting projections.

FINANCIAL UPDATE **SUMMARY FINANCIAL INFORMATION**

Mr. Hefton said the City currently employs ten more people than last year but all were hired in an effort to be more efficient. Three additional firemen were hired to reduce the cost of overtime, two Street Department employees were hired to handle street cuts in-house, and one employee was hired to manage Capital Improvement Projects and minimize the cost of these projects.

ESTIMATED FINANCIAL OPERATING RESULTS FOR 2009-2010

In the General Fund, the main revenue source is sales tax and franchise tax. Sales tax is flat from last year and behind the projected amount. Franchise taxes are down mainly because gas prices are down. Natural gas now costs about half of what it cost last year.

Mayor Magers asked how much of the franchise tax was attributed to the payback for Oncor. Mr. Hefton said about \$200,000 is electric franchise. The City budgeted \$2.1 million but it should have been \$1.9 million. That's the \$200,000 in revenue that the City is off. Mayor Magers confirmed that \$200,000 of the shortfall is a payback to Oncor. The first payment was made during the first physical quarter of 2010 and the last payment will be made in the first quarter of 2011. Mr. Hefton said each payment is approximately \$80,000.

Mr. Hefton said net revenues are down about \$1.1 million. Deputy Mayor Smith confirmed that the City has experienced a downturn in building permits too. However, construction could pick-up in the spring. The staff is projecting building permits to be down slightly.

Mr. Hefton said one positive area that has a net effect of zero is grants. The City has received several grants that weren't budgeted for and that mainly offsets the extra \$200,000 in personnel.

Projected expenditures are expected to be \$300,000 below what was budgeted, mainly from conditional hirings and conditional purchases that are being evaluated on a case by case basis. The staff is "pulling back."

Mr. Hefton said if things happen as projected, the City will have about \$900,000 more in expenses than revenues which means the fund balance will be about \$4.3 million or 55 days by the end of the year. The City will need to make plans for that.

Mayor Magers expressed concern that there are a lot of classifications on the revenue line that don't show up on the expense line. For example, Cemetery Services shows \$186,000 in revenue but no specific expenses. He asked how that would be reconciled with the essential and complimentary classifications.

Mr. Hefton said the staff will look at all departments to make sure the complimentary services break even. Typically departments are not set-up to be self-sufficient and departments in the General Fund are generally essential services that are funded by taxes. Council Member Adami asked what was done differently from FY 2008-2009 to FY 2009-2010 that caused an increase in revenue. Are there things that have been done in the past to increase revenue that aren't being done now?

In the Utility Fund, Mr. Hefton said the staff projects that expenses will be \$875,719 greater than revenue for the current fiscal year. If water and sewer revenues perform like a normal year, then the Budget will be fine. It just depends on whether or not Sherman has a wet summer or a normal summer. The debt service is about \$200,000 more than projected because the Greater Texoma Utility Authority issued more debt. This debt is not on the City's books, but is issued by GTUA in the City's behalf. A five-year projection has been completed on debt service.

In the Solid Waste Fund, the fees are \$250,000 to \$300,000 greater than budgeted. Last year there was a rate increase in both the residential and commercial program to cover the Texoma Area Solid Waste Authority costs, and the staff intentionally reduced the excess fund balance.

The residential program generated the amount of money that was expected and the program is performing as expected. The commercial program ended 2009 with about \$200,000 more in revenue than was projected. There was a 9% rate increase for the commercial program. Therefore there is a \$250,000 to \$300,000 "positive swing" on the Budget.

Mr. Hefton added that the miscellaneous fees are up about \$100,000 because of the market for corrugated cardboard. Paper mills are out of raw materials so the price has increased greatly.

It appears the City will have a positive year in the Solid Waste Fund with about \$553,000 in excess receipts over expenditures. The City has already purchased a new automated truck for the residential program at about \$220,000, but it was budgeted in a different fund. Since there is so much in reserves the staff plans to pay for the new automated truck from the excess fund balance as an out-of-pocket expense instead of a lease-purchase. Fleet will probably also be purchased out of reserves next year too. Mayor Magers confirmed that a minimum of 60 days is kept in reserve.

Council Member Adami asked if a transfer could be made to the General Fund. Mr. Hefton said approximately \$60,000 was transferred to the General Improvement Fund for the repairs to the Solid Waste transfer area. He added that approximately \$500,000 to \$550,000 was transferred to the General Fund. A portion was also transferred to the Insurance Fund to help build those reserves.

Council Member Adami said a franchise fee used to be charged to other waste haulers operating in Sherman and he asked if there was a similar transfer fee for the City. Mr. Hefton explained that an 8% franchise fee used to be charged to other waste haulers so the City now charges the franchise fee to the Solid Waste Fund and transfers that amount to the General Fund. Council Member Adami asked if that fee should increase since revenues have increased. Mr. Hefton said the franchise fee should increase and would then increase the transfer amount.

Council Member Howeth asked where money would come from to replace the Solid Waste truck that was recently in a roll-over accident. Mr. Hefton said if the vehicle requires actual replacement, the insurance proceeds will be used and supplemented by the Budget as an unbudgeted amount. Cost of the truck was \$106,000.

Mr. Hefton said the Insurance Fund was performing as expected for the first time since 2006, and it was a normal year. Normally the fund balance is \$1 million to \$1.5 million. The question is should the City pursue an indemnity plan instead of being self-funded. The City would pay a premium and would guarantee the insurance costs by capping their exposure. The problem is, last time anyone would quote the City this type of plan it was going to cost \$4.5 million. Last year no insurance company would give the City a quote on the indemnity plan of insurance. It may take 12 to 18 months of good history before insurance companies want to cover the City. Mr. Hefton said the Insurance Fund is now back to positive.

CAPITAL IMPROVEMENT FUNDS FOR 2009-2010

Mr. Hefton said the City is projected to have an ending fund balance of \$1.3 million to \$1.4 million by the end of this year in the General Improvement Fund and a fund balance of \$1.6 million in the Utility Improvement Fund. Normally this fund balance is used for projects, but the staff will be proposing a different purpose for next year.

BUDGET PLANNING PROCESS

DISCUSSION OF FISCAL YEAR 2010 BUDGET PLANNING PROCESS

Mr. Hefton said that during the 2008 planning meeting the City Council determined their priorities which were public safety, streets, administrative, and community services. The Day Care Center has now been moved to the private sector.

This year the staff has reviewed the services and determined whether or not they are essential or complementary and what the desired outcomes are. The essential services should be the first focus and their outcomes must be determined versus their outputs. Mr. Hefton asked if the City was “doing the right thing.” If they are focusing on essential services the staff must make sure that all these essential services continue without interruption.

This is a process and is a change in the way the staff looks at things on an ongoing basis. The process is not finished but should be ongoing and a resetting of the way we think. He explained the difference between essential and complementary services and how the differentiation would be made. Other considerations are who delivers the service, the frequency of the service, the level of control, and who benefits and who pays.

The goal for essential versus complementary for the FY 2011 Budget is to identify the essential/complementary outcomes, to re-set thinking to make this an ongoing part of operations, to identify areas for efficiency gains, and to identify revenue enhancement opportunities. Mr. Hefton said some of the information gathered will be used for the FY 2011 Budget, but other things may be identified that will take longer to address.

The plan is to complete what was started with the essential/complementary analysis, to develop an “essential services” Budget and add “complementary services”, and to identify the gaps in service and funding.

Mr. Hefton said the City doesn't have to plan on growth, but that taxable goods and services increase at the rate of inflation. If that happens, the City will realize a 2% to 3% increase in sales tax every year. The staff believes the economy will eventually turn around. For FY 2011, the plan is to use reserves to bridge these gaps first. Next year there should be better data and a different plan may need to be considered, but this year the staff recommends using reserves to bridge gaps, especially in the General Fund. The staff may need to consider service cuts or tax increases in the future, but the City is not at that point yet.

Mr. Hefton asked the City Council to use the aforementioned approach to help balance the Budget so the \$1.3 million or \$1.4 million fund balance in the General Improvement Fund, the \$1.6 million fund balance in the Utility Improvement Fund, the excess fund balance in the Solid Waste Fund, and other fund balances that might be used to bridge the gaps.

Mayor Magers said regardless of how long the recession takes to pass, this is the right first step to take. There are some local things that have happened that have impacted the revenue. Water usage is down and inventory taxes will be down because of Folgers and MEMC. While influence is limited, he urged all Council Members and staff to help try and get things turned around.

LONG-TERM PLAN
REVENUE PROJECTION FOR 2011-2015

Mr. Hefton said the staff is trying to get a baseline to start from and then adjust that baseline to things that are known to be happening. For example, the effect of MEMC and Folgers on taxable property. The plant will still be there and will be taxable, but the equipment inside won't be taxable. Also, the plant closing will affect the Water and Sewer Fund.

He presented preliminary revenue estimates in each fund with known assumptions. Of course, these are assumptions and might be changed in the future. These revenue estimates are included for five years.

DEBT SERVICE SCHEDULE

Mr. Hefton presented a debt service schedule for FY 2010-2011, FY 2012-2013, and FY 2014-2015. The ongoing debt service is just short of \$900,000. He discussed changes in the debt service and the reasons for the drop. The debt service reduction is one offset to losing the water sales from MEMC and Folgers.

Mayor Magers said membranes were just replaced at the Water Treatment Plant and he asked if there were any significant upcoming debt needs for the Plant in the next five years. Mark Gibson, Director of Engineering and Public Works, said he was not aware of any upcoming needs. Mayor Magers did not include regular maintenance items in his question.

Council Member Steele asked, with the additional water that is being purchased, how much more water can the City treat. The City currently only uses about 30% of the capacity and the Plant was designed for expansion. Mayor Magers said the City can sell a lot of treated water with no additional infrastructure cost. Water is a "fixed cost" business. If the City loses capacity in industry usage, they lose revenue or profit. The cost of treating the water remains the same. Mayor Magers said the loss of industrial water users must be replaced with other water usage. Mr. Hefton said \$75,000 per year is the debt service on \$1 million borrowed.

COUNCIL INPUT
COUNCIL INPUT FOR 2010-2011 BUDGET YEAR

Mr. Hefton reminded Council Members about the Budget Calendar and that the Budget Workshop is currently set for June 17 and June 18, 2010.

Mayor Magers asked if there were any areas that the staff should follow-up on prior to the Budget Workshop.

- Deputy Mayor Smith wanted information on marketing the water.
- Mayor Magers wanted to look at expanding the Downtown TIF. Beautifying Downtown does not need to come from General Fund dollars. There are buildings east of Downtown that need attention. He asked if it complicates issues to expand the TIF boundary beyond the Central Business District. He felt the TIF was a way to put money into the Downtown area without increasing taxes and using General Fund money.
- Mayor Magers felt the City has many assets that are underutilized and he wanted to look at the highest and best use for these assets and any alternate revenue streams for those assets.

- Council Member Wacker asked if there was any market for recycling or reusing construction materials instead of putting them in the landfill. Could it potentially be a revenue stream instead of a landfill cost?
- Council Member Howeth asked about stopping private businesses from taking advantage of the monthly bulk and brush pick-up.
- Council Member Steele expressed concern that the monthly brush and bulk pick-up is really saving the City money. He also felt that some people took advantage of the program. He wants to be sure that is really the most efficient way to handle the pick-ups.
- Council Member Steele said he was glad to see that maintenance and operating costs for the new parks was included in the Budget and that the City will continue what was started and take care of those parks.
- Council Member Howeth asked if there is something else that Sherman needs to get businesses to come to Sherman. Maybe there is a service that is needed that will help draw new business to the community.

APPROVED BUDGET CALENDAR

Council Members did not make any changes to the Budget Calendar.

ADJOURNMENT

There being no further business to come before the City Council, motion was duly made and approved to adjourn the Called Meeting at 1:20 p.m.

MAYOR

ATTEST

CITY CLERK