

STATE OF TEXAS § **June 17, 2011**
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 in the City Council Chambers, City Hall, 220 West Mulberry, Sherman, Texas, on June 17, 2011.

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

MEMBERS ABSENT: None.

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

PURPOSE: **CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN**
2011-2012 BUDGET REVIEW AND LONG-RANGE PLANNING

ADJOURNMENT

CALL TO ORDER, QUORUM DETERMINED, MEETING DECLARED OPEN

Mayor Magers called the meeting to order at 8:40 a.m., declared a quorum present, and opened the meeting. He welcomed Brett Huntsman, who will be serving as an Intern with the City this summer.

OPENING COMMENTS

George Olson, City Manager, said the staff is presenting a balanced budget for 2012. The staff has asked for no additional employees and has curtailed capital spending for the third year in a row. There is pressure on the capital spending because things are wearing out. Mr. Olson added that the Sales Tax Election is very critical and this proposed budget is built on the passage of that initiative. Its passage will also impact the next four years. The staff is completing the capital projects that were initiated in 2008. These projects should be completed by the end of this year.

Mr. Olson addressed the schedule for the current meeting and added that the draft budget will be presented to the Council on July 18, 2011.

2011-2012 BUDGET REVIEW AND LONG-RANGE PLANNING

Mayor Magers announced that Kathy Williams, Herald Democrat Reporter, will be leaving the newspaper to work for a local attorney.

He explained that this is a critical budget for the City because it sets the stage for the Sales Tax Election. The most important thing the Council can do for the budget is to encourage passage of

COUNCIL MINUTES – JUNE 17, 2011

the sales tax initiative, which means \$1 million annually to the City of Sherman. Fifty percent of this money comes from citizens outside the community. The sales tax initiative passed the first time in excess of 70% and he felt it passed because there was also a property tax cut.

At that time the Council promised to do certain things. The taxpayers trusted them and they did it. Mayor Magers said he felt the sales tax initiative would pass this second time, with an equally large margin because of the Council's credibility. The Council focused on necessities and continues to be transparent and honest with the taxpayers. There will be tough decisions to make next year and the most important thing will be to pass the sales tax initiative.

Mayor Magers added that the City has a balanced budget and an AA credit rating. The proposed budget does not include any cuts in service, but there is a proposed water rate increase. He felt it was important to maintain a balanced budget, maintain rates, and maintain services.

Brush Pickup Program

Scott Taylor, Assistant Director of Engineering and Public Works, presented information on the City's Brush Pickup Program. The program began in October 2009 and has been in operation for two years. It replaced the Spring Clean-Up Program and serves 12,000 residential customers. The City provides once a month pick-up in the four City quadrants and takes an average of three to four days to complete. These employees also have other solid waste duties when they are not involved in the pick-ups.

Mr. Taylor addressed the number of pick-ups under the old Spring Clean-Up/Special Pick-Up Program as compared with the Brush/Bulk Waste Program, as well as the equipment and personnel that were used under each program. Because the goal for the Spring Clean-Up was to get everything picked up in two weeks, employees and equipment had to be borrowed from other City departments. Currently only two employees and two trucks are needed for the Brush/Bulk Waste Program.

He also discussed the amount of material collected under each program and the amount deposited in the landfill. Under the new program, brush is not taken to the landfill, but is stockpiled and ground annually.

Costs for the program have been reduced both in disposal costs and in labor and equipment costs. In 2009, under the Spring Clean-Up/Special Pick-Up Program, the cost per stop was \$56.95. In 2010, under the Brush/Bulk Waste Program, the cost per stop was \$10.51.

Mr. Taylor said it is hard to judge the impact of the program, however the number of junk trash and debris violation notices have been reduced from 816 in 2008 to 350 in 2010. These violations are driven by citizen complaints.

Benefits of the program include more efficient operations, a safer work environment for employees, and a cleaner City. Mr. Taylor added that continued education of the rules is needed so citizens don't put their trash out weeks before their pick-up date. There might also need to be some type of violation that could be issued after an adequate warning. This would give employees the opportunity to educate citizens through contact. Regulations also require that the bulk waste and the brush be separated.

Robby Hefton, Assistant City Manager/CFO, added that the equipment drivers are the "first line" of enforcement for the program and the City relies on the drivers for their "gut feeling" about how much debris is too much for a pick-up. Each household is limited to five cubic yards of bulk waste and 10 cubic yards of brush each month. The staff doesn't actually measure the debris, it is a

COUNCIL MINUTES – JUNE 17, 2011

judgment call. If the pile is too large, the driver can call for a special pick-up and the citizen would be charged, or a violation notice can be issued.

Mr. Olson asked how the situation would be handled if someone put out too much trash for the pick-up. Mr. Taylor said the employee would advise the citizen that the amount of trash left curbside exceeds the allowable limit and they can call for a special pick-up. Mr. Olson felt this should be handled with education and maybe the leniency period should be near its end. Mr. Taylor agreed that more education and stronger enforcement may be needed.

Deputy Mayor Steele expressed concern about commercial trash being set out for pick-up at a residence. He has seen rent houses and commercial businesses that put trash out for the residential pick-up. See also reported that some brush has been curbside in his neighborhood since May 14, 2011. He asked if anyone had ever been billed for a violation. Mr. Taylor said the City hasn't been aggressive in enforcing the violations, however a procedure is needed.

Mr. Olson asked how many special pick-ups have been provided over the past year. Mr. Taylor said the staff has been lax in how special pick-ups were recorded. This program was not intended for commercial property or commercial waste. Deputy Mayor Steele also was concerned that if trash is put out the day after the pick-up, it will probably set there until the next month. Mr. Olson agreed that the program should be tightened with penalties. Deputy Mayor Steele verified that the intent of the program is to cut down on waste and illegal dumping, and to make the City cleaner.

Mayor Magers said the key reason the program was initiated was to make the City cleaner and to allow more frequent bulk pick-ups. He added that the City needs to start enforcing the rules now and he asked how a system could be initiated whereby the citizen using the program can be effectively billed for abusing the program.

Mr. Hefton said there is a balance, and someone that places debris from a small remodeling project might be acceptable where a complete house remodeling might be too much debris for the residential pick-up. He said the staff is still trying to strike that balance.

Mr. Olson said the bottom line is to make Sherman a cleaner City and if someone has something at the curb, they can be fined or taken to municipal court. The staff needs to be more efficient at identifying the violations. Mayor Magers added that as a taxpayer, if he pays someone for a service that generates trash, and the amount of trash fits into the criteria for pick-up, it should be okay for the City to pick it up. He did not feel that the issue was who put the trash out, it was how much trash is put out. He asked if there was a system in place to bill citizens for these pick-ups.

Mr. Hefton said there was a system to bill already in place. If there is a special pick-up, the customer receives an estimate from the Solid Waste Department. Solid Waste calls the Finance Department and they contact the citizen, requiring the citizen to come to the Finance Department to pay for the pick-up prior to the service being rendered. The process is there and the service is paid for in advance. As for the enforcement, the City's new website has the capability for customer interaction. Citizens will be able to photograph violations and attach them to an email which will be routed to the appropriate department for processing. The system should be online by the Fall of 2011. Don Keene, Executive Director of Planning and Public Works, said citizens should be reminded that they have other options, such as the drop-off center.

Mr. Taylor said the staff has discussed being more aggressive with enforcement to help with education of the program. Council Member Adami asked if the staff could use a mobile credit

COUNCIL MINUTES – JUNE 17, 2011

card system to scan in the field for immediate payment. Mr. Hefton said that hasn't been pursued because of equipment being "beat up" in the field.

Deputy Mayor Steele said there needs to be a simple plan with a formula that gives a specific cost for every cubic yard over the allowable amount. Mr. Hefton said currently the staff doesn't measure every single pile of trash that's put out for pick-up. Mr. Olson said the staff needs to develop a policy. Mr. Keene added that the City also needs to educate the citizens and identify and determine what the policy and procedure will be. Council Member Softly suggested painting the measurement on the side of the truck.

Capital Projects Update

Mr. Keene presented an update on the City's capital projects for the past two years, both what was done and looking into the future. Taxpayer dollars are being spent on new facilities, but over half of the money is being spent to maintain and upgrade existing facilities. A significant portion of Sherman's infrastructure is between 100 to 150 years old. So the balance between new infrastructure and maintaining existing infrastructure will continue to be important. Tax dollars are also balanced between the various departments. Most capital improvement money is spent for street, sewer, and water projects.

Council Member Adami asked what types of projects would be considered capital street projects. Mr. Keene explained that street projects would basically be the rebuild projects like the Travis Street mill and overlay, Lamberth Road, Washington Street, and Brockett Street. It would include larger projects that are not regular maintenance type activities. It would also not include equipment.

Twenty-six CIP projects have been completed in the last two years at a total budgeted cost of \$25.2 million. Actual cost of the projects was \$22.1 million, for an approximate savings of \$3.1 million. Mr. Keene presented slides of various CIP projects completed over the past two years including Pecan Grove Park; replacement of the shade structure at Old Settlers Park; installation of the fine screen, replacement of the digester roof, the biological clarifier and the clarifier covers, and the biosolids removal at the Waste Water Treatment Plant.

The sewer project along U.S. Highway 75 is almost complete. The main will be from Sherman Town Center north to F.M. 691. Three of the four phases of the project are basically complete. The fourth phase is almost complete but includes a lift station. Mayor Magers said this project is a big deal and will be very good for commercial development between U.S. Highway 82 and F.M. 691.

Mr. Keene said another significant project is the purchase of an additional 10 mgd of storage capacity for raw water in Lake Texoma. The City has also completed drainage projects such as culvert replacements and bridge repairs. Street projects include Brockett Street, Lamberth Road, and Washington Street. Mr. Keene said the Washington Street project has been challenging, especially the bridge over Sand Creek, and has taken longer than originally planned. He thanked the citizens for their cooperation and patience during the project.

Mayor Magers added that Grayson County Commissioner Jackie Crisp has said they will complete the paving of Washington Street to S.H. 289, including the two miles of gravel that currently exists. The City has financed the project but Grayson County will also add their money as well to make Washington Street a very nice road from Heritage Parkway to S.H. 289.

COUNCIL MINUTES – JUNE 17, 2011

Mr. Keene addressed the completion of the enhanced thoroughfare network which was approved in 2007 in the last sales tax initiative. The original four year plan was to complete 16 miles of streets. Because of some favorable cost savings, 25 miles were actually completed.

The staff will be asking for guidance from the City Council concerning an additional Sales Tax Election in the future. Mayor Magers explained that in 2007, the citizens were asked to shift the revenue from property taxes to sales taxes. For that shift, the Council agreed to reduce property taxes. That was done, and allowed the City to complete 25 miles of new roads.

If the Council comes back in 2011 proposing an extension of the sale tax initiative, by shifting the sales tax it becomes a part of the ongoing revenue stream. This time the money from the sales tax initiative would be used for 40 miles of sealcoating and maintenance on City streets. The plan also includes three miles of mill and overlay. Every segment of the City will be impacted by the street maintenance plans. He reminded everyone that from every dollar generated by sales tax, fifty cents is paid by people that don't live in Sherman.

The streets that will be milled and overlaid will be Meadows Circle, Throckmorton, and Willow Streets. Mayor Magers added that this plan will include maintenance of 40 miles of streets. The last sales tax initiative included 25 miles.

Council Member Adami asked that the City Council have input and review of the plan and which streets will be included, prior to it being publicized. Mr. Hefton said a list of proposed streets will be sent to the City Council. Besides the reduction in property taxes, Council Member Adami said the primary reason the sales tax passed the first time was that the Council publicized what streets would be included. Not only were those streets completed, but because of cost savings the City was able to do more. He agreed that the plan should be publicized, but he felt the Council should have more input. Mr. Hefton said a list of streets and a map will be send to Council Members.

Mr. Hefton added that the City issued debt for the first time in 30 years and received great rates. He said he is proud to be completing this capital program. One upcoming challenge for the City is the Wastewater Treatment Plant. The facility is very old and there are additional State regulations that will be coming soon. The State has not set a time frame or specifics of the regulations but "sometime in the future" the City will have to remove "some level of some nutrients" out of the stream that is released into the creek. The staff expects that it will be a very large project, and will cost in the multi-million dollar range. There are two or three programs of this nature within the next five years.

Miscellaneous Utility Issues

Mr. Hefton addressed a couple of utility projects that are included in the 2012 budget. The first relates to the automated meter reading system. In 2003 the City began a program to replace all the commercial and residential water meters in Sherman. At that time it was a very labor intensive process to gather the data to do the water billing. It took four employees an entire month to read water meters by hand for the entire City. In 2004 the automated system was instigated where it takes one employee two days to read the City. Besides reducing costs, another selling point of the new system was that it would increase revenue because the meters were old and were not registering at 100%.

That program has now been in effect for eight years. Even though the life of the system was estimated at 10 years, the City is beginning to see an increased failure rate in the devices in the ground. This year the staff is proposing to begin replacing the water meters in-house. The current system is RF based and the new system will be RF based. Currently the meter reader must drive around the City to read the meters. The new system will allow that but will also be

COUNCIL MINUTES – JUNE 17, 2011

outfitted for a fixed-base network that would allow readings for the entire City to be picked up at one location without anyone driving around town. It would also allow additional data specific to even one residence. There would be no extra cost to go to that, but it is next generation.

Mr. Hefton said through the last program, employees gained a lot of expertise and this time it will be completed in-house. The staff proposes to replace 2,400 units this year. The plan is for the renovation to be completed by 2014. There will be an increased cost of about \$200,000 to \$300,000 in the proposed budget for supplies and materials related to this project.

Mr. Hefton said the other project is that the staff is considering doing some smaller capital projects in-house. Larger projects, such as the water and sewer lines on U.S. Highway 75 North will continue to be outsourced because the City doesn't have the staff, equipment, or materials, and sometimes the expertise to do these jobs. Smaller jobs have always been done in-house, such as repairing leaks or repairing a small section of water line.

There are many "in-between" projects that in the past have been completed by local vendors. The staff is proposing to handle these projects in-house with existing staff. There will be some replacement of equipment that is already worn out. There are three or four projects in 2012 that will be handled in-house. Initially the budget for those projects was about \$430,000 and the staff believes they can be completed in-house for about half of that amount. To fund these projects, the proposed budget will include an increase of about \$200,000 more in expenses that would normally come from the CIP fund.

Deputy Mayor Steele asked if the sewer line across the creek at Hillcrest and Ricketts Street was a project completed by City employees. Mr. Hefton verified it was and Deputy Mayor Steele said it was done very well. Mr. Hefton said the proposal mostly includes projects in the \$100,000 to \$200,000 range that are less complex in scope.

Revenues and Rate Structures

Mr. Hefton addressed water and sewer rate structures. The staff is proposing a modification of what has been done in the past. The staff feels that the utility rates should always cover the expenses, and should also cover revenue losses that the City experiences.

The loss of MEMC and Folgers, as well as improvements in technology by Tyson Foods, have eliminated about \$2.3 million in Utility Fund revenue. These changes happened quickly and without much warning. MEMC has rescheduled their closing date a couple of times, but there was not much notice about the loss of revenue.

Mr. Hefton continued that the staff feels it is prudent to maintain stable rates within the area market. The rates should also provide for some portion of the CIP costs and a 70 to 75 day fund balance should be maintained. Rates should also allow for a reasonable return on investment. Mr. Hefton said moderate rate increases should be used annually to manage rates and a three to five year projection of costs should be considered to avoid the need for large single-year increases.

He explained that for at least 15 years, the City has used a set formula to determine the amount of money that would be transferred between funds, charging ourselves a franchise fee consistent with charges to other franchised utilities for use of the City's infrastructure and right-of-way.

Transfers are charged at the same percentage as to other companies, a 5% rate for water and sewer and an 8% rate for solid waste. A reimbursement of administrative costs is also based on the estimated allocation of General Fund resources used in the utility and solid waste operations.

COUNCIL MINUTES – JUNE 17, 2011

Typically transfers are approximately \$1.7 million from the Utility Fund to the General Fund and \$600,000 or \$700,000 from the Solid Waste Fund to the General Fund.

Council Member Adami asked what other cities did with franchise fees. Mr. Hefton said this is a pretty standard model for franchise fees and is a generally excepted process by cities.

Mr. Hefton said in the past the City has had reserves in funds and it doesn't make since to keep these on the books. He felt these reserves need to be used so there is less need for rate increases or tax increases.

For 2012, Mr. Hefton said the staff is proposing to make up the lost revenue in the Utility Fund from the closing of MEMC and Folgers and through improvements at Tyson Foods. This will be the second year of a three-year process to recoup the revenues. There was a 6% rate increase in 2011, the staff is proposing a 4% rate increase in 2012, and there will be a similar rate increase in 2013. He said the staff is proposing to use the residuals from both the Utility Fund and the Solid Waste Fund to transfer excess to the General Fund to reduce the need for a property tax rate increase and/or service cuts.

The proposed budget for 2012 assumes a 4% water and sewer rate increase. Considering the three industries, there was not a proportional revenue loss in solid waste so there will be no rate increase requested. The three industries are a much heavier water and sewer user than they are a solid waste user. Future costs for the nutrient removal process and other Wastewater Treatment Plant requirements need to be monitored and rate increases requested as needed instead of waiting.

Council Member Adami confirmed that there is no fund balance now. Mr. Hefton said money has been transferred from the Solid Waste Fund to the Utility Fund and the General Fund. Without the transfer, the Utility Fund would be in the 50 to 55 day fund balance range and the General Fund would be at about 60 days. Those funds have been kept stable for 2012 because of transfers from the Solid Waste Fund.

Council Member Adami addressed percentage changes in the water and sewer rates over the past few years, saying as a consumer, it is hard to budget for the increases. He asked if there was a way to smooth out the cycle by keeping the increases the same each year. He asked if the proposed increases would give the City the ability to cover the cost of future CIP projects.

Mayor Magers addressed the 21.3% increase right after he was elected. The following year it was found that there was over \$2 million in the fund balance and the large increase was due to an error in accounting.

Council Member Adami was still concerned about increasing rates now and said the fund balance is gone. He asked if the increase was enough to cover future projects. He felt there should be a way to "smooth out" the rate increases for the consumer. He asked if the staff felt comfortable with the 4% rate increase, given the future projects they need to fund.

Mr. Hefton said for 2012, the proposed rates are at the level that the staff feels is needed for this year. If it was not known that the debt service in the Utility Fund will be reduced in 2013, then the 4% proposed increase might not be enough because there are some upcoming costs that are unknown. Since the staff is aware of the debt service reduction and when it will occur, then the 4% rate increase will be enough.

COUNCIL MINUTES – JUNE 17, 2011

Mr. Hefton did not feel the staff can budget for losing 14% of revenue in one year. They can ensure that the fund balances are adequate so that if there is a 14% decrease in one year, the impact can be smoothed with the available fund balances and a small rate increase. He felt this process should allow the City to build fund balances to 70 or 75 days, instead of 60 days, which gives another million dollars in fund balance. He felt that after 2012, with the larger fund balances, the City should be able to absorb losses in revenue. He added that for 2012, the proposed rate increase gives the City the flexibility needed in all three funds and with the decrease in debt service, he felt comfortable with the proposed rate increase.

Council Member Adami wanted to be sure that the City builds adequate reserves to cover costs for future projects and for State mandates. Mr. Hefton said for what is known today and building in some for what might come in the next three to five years, he felt the proposed rate increase was adequate. However, if the sales tax initiative does not pass, that's a "different ballgame" in terms of using water, sewer, and solid waste revenues to help smooth things out. If the initiative doesn't pass, the City will have bigger issues, and it could have an effect on these utility rates this year.

Mr. Hefton presented comparisons of utility rates with other comparable cities in Texas. Sherman is within market in their utility rates, even with the 4% increase. Council Member Adami confirmed that a 1% increase on the water/sewer bill would amount to about \$0.50 per month on both residential and commercial bills and would amount to \$170,000 in revenue annually for the City. A 1% increase in the residential solid waste bill would be \$0.14 per month and amount to \$20,000 in revenue annually. A 1% increase in the commercial solid waste rate would amount to \$30,000 in revenue annually.

City Council Members took a break from 10:23 a.m. to 10:38 a.m.

Financial Presentation – FY 2012 (Operating and Capital Programs)

Mr. Hefton said that the General Fund, Utility Fund, and Solid Waste Fund are generally balanced. The Utility Fund has expenses over revenue of \$40,000, which is generally balanced. The proposed budget includes no property tax rate increase, assumes a 4% increase in utility rates, and includes transfers moving excess reserves to other funds.

General Fund

For 2012, the General Fund has a \$5.3 million to \$5.4 million ending fund balance, which is about 70 days of reserves. Property tax revenues appear to be reduced by \$700,000 but this reflects how the debt service is being paid. The property tax base is down slightly because of decreases in personal property for the industrial sector. The proposed budget does include the four-month impact of the passage of the proposed Sales Tax Election. If it doesn't pass, revenues will be \$300,000 lower than are projected.

Mayor Magers asked about the reduction in property tax revenue. Mr. Hefton reminded the Council that in 2011 the City used part of the savings from good budget performance on bonds. The City was able to use those savings to reduce the amount of property taxes needed to pay the debt service.

Mr. Hefton said franchise taxes are flat. In 2011 there were two grants that are non-reoccurring, so the revenue source appears to be going down.

The \$3.2 million transferred in includes a residual transfer from the Solid Waste Fund of about \$1 million. There is a similar transfer into the Utility Fund. The General Fund revenues are down

COUNCIL MINUTES – JUNE 17, 2011

about \$600,000 from what was projected, but expenses are down too. There were some expenses in 2011 that will not be in 2012, such as in supplies, which included a grant that was received to switch out street lights to help with the utility bills.

Mr. Hefton added that contractual services are down about \$100,000, which is due to bringing the ambulance billing in-house. Utilities have also been reduced due to changing the street lights and changing the retail electric provider for the street lights.

Half of the transfer out to the Fleet Fund is for the ongoing debt service on fleet. The City has also not been replacing as many vehicles as usual and there are some police vehicles that will be replaced this year. Mr. Hefton said the City is also making a change in the type of patrol vehicle purchased. The Tahoe has a longer expected useful life than the Crown Victoria, as well as a higher profile. The other available police packages are either unproven or have downsized. The cost of the Tahoe versus the Crown Victoria is about \$2,000 annually. There is a \$2,000 to \$3,000 difference in the police package for the Tahoe versus the Crown Victoria. The lifespan is approximately 30% longer on the Tahoe. Council Member Adami asked about gas costs. Mr. Hefton said the Crown Victoria is a "gas guzzler."

Mr. Hefton said that leaves a fund balance of about 70 days in the General Fund.

Council Member Adami asked about personnel costs, saying that the number of employees was reduced by 1%. Mr. Hefton said there were 11 retirements in the Fire Department. During a normal year there are about three to four retirements. When they leave, these Civil Service employees receive a payout of 90 days worth of sick time. This caused a \$200,000 "hit" of paying out accrued sick time. This will be reduced in 2012, because the staff does not expect 11 retirements in one year.

Council Member Adami asked where the reduction in employees came from. Mr. Hefton said there was an additional full-time employee in the City Manager's Office that left and was not replaced.

Utility Fund

Mr. Hefton said the ending fund balance in the Utility Fund for 2012 is projected to be \$3.2 million, which is approximately 60 days. The City Charter only requires about 30 days, but he added that was too low since the expectation for bond holders is 60 plus days. He did expect to increase that fund balance over time.

There is a net loss effect for the entire year, from losing MEMC and Folgers versus the 4% rate increase that is proposed. MEMC originally said they would close in December 2010, but that was moved to the end of the first quarter of 2011, moved again to the end of the second quarter of 2011, and finally moved to the end of the year in 2011. He did not feel that the closure date would move again. Mayor Magers said there is a high demand for the Epi process at the current time. He felt the closing date might be extended one more time.

The intergovernmental revenue is the Sherman Economic Development Corporation's portion of paying for the water and sewer infrastructure north on U.S. Highway 75.

As for expenses, the maintenance and repair line item increased about \$200,000 or \$300,000 because of the new automated meter reading system that will be installed. The contractual and special services line item funds the biosolids project. There was originally \$2.2 million budgeted for the project over a couple of years. The project is going well, but some of the money may be moved to 2012 to complete the project.

COUNCIL MINUTES – JUNE 17, 2011

Fine screens were also installed to help with the cost of biosolids disposal and should reduce the future cost to process those biosolids. When that system is in place, the line item should be reduced to the \$300,000 to \$400,000 range annually.

The other line item includes utilities and materials for the CIP projects that will be completed in-house. This also includes equipment that will need to be replaced for the CIP projects. These are not additions to the fleet, but old equipment that will need to be replaced.

The Utility Fund will have a 60 day fund balance.

Council Member Adami asked about personnel costs. Mr. Hefton said for this fund, personnel costs will be about \$4.5 million due to open positions. The City budgets for a full staff. There are currently open positions and the staff assumes that every one of those positions will be filled for every day of the year. Even though the odds are that won't really happen. The additional money will go towards the fund balance.

Council Member Adami asked about the transfer in of \$650,000. Mr. Hefton explained that the majority of the transfer is from the Solid Waste Fund and the rest is from the CIP Fund to help offset the \$400,000 that the CIP Fund would normally spend on the projects if they weren't completed in-house.

Council Member Adami asked if the City has ever transferred money from the Utility Fund to the Solid Waste Fund. He asked future Councils to consider those funds as businesses and ask themselves if they want to transfer money back and forth with no payback. Mr. Hefton said if those two funds should stand alone as separate businesses then money flowing between them would be considered as borrowing. He said that can be done in 2012, and the City could charge itself for borrowing that money from itself. However, if it is truly a loan, it would appear as debt in the Utility Fund. There would be a set payment schedule and would be a liability on the books. It would also be a receivable on the Solid Waste side.

Council Member Adami felt the liability would offset the receivable and should have no impact on the bond rating. Mayor Magers was concerned about the effect it would have on bond purchases. Mr. Hefton said they would look primarily at the Utility Fund to stand on its own. They would generally look at the water rates and the revenues of that one fund to support itself. But it might raise questions.

Council Member Adami felt the Council should determine how to handle transfers between funds, either as loans or just transfers. Mayor Magers felt that it depended if it was done once or multiple times. If it becomes a policy of the City to transfer money between these two funds, then there should be a policy to track the dollars. He felt it was a one-time transfer this year. After the Sales Tax Election the Council will have a better idea of the financial situation.

Solid Waste Fund

Mr. Hefton said revenues are flat in the Solid Waste Fund and the ending fund balance will be \$1 million, which is 70 days of reserves. Vehicle usage is up about \$100,000 and gas prices are also up.

There are transfers out of \$1.7 million from the Solid Waste Fund, with \$1 million going to the General Fund, \$600,000 to the Utility Fund, and \$100,000 to the Fleet Fund. These transfers are really to reduce the fund balance to an appropriate level.

Mr. Hefton presented a list of transfers in the proposed budget.

COUNCIL MINUTES – JUNE 17, 2011

Council Member Adami expressed concern that in the past, fund balance has been used as needed in the various funds and is now gone. The fund balances are now down to the bare bones and he asked if the budget included any provisions for how to build those fund balances back up or grow some “rainy day money” for future projects.

Mr. Hefton said this will be discussed during the long-term look at the budget. At the base level, there's not a huge need for increases now depending on what is done in the other funds. For existing costs, the City is where they need to be today, on the rates. Mr. Olson said going to the five-year look will help the City manage the budget better for the future rather than looking only one year ahead.

Mayor Magers said there are three items on maintenance and operations costs in the Solid Waste Fund, personnel, fuel, and Texoma Area Solid Waste Authority costs. TASWA originally borrowed money for 20 years to fund a cell that would last five years. As the economy changed, the amount of waste taken to TASWA decreased about 20% and their revenue also decreased. This was a huge drop in a fixed cost business.

TASWA is now funding cells through on-going cash and the City based their budget on a certain amount of tonnage per year. He said there might be a slight rate increase but he did not feel there would be a large increase in the future. The debt service is planned and flat.

Mr. Hefton added that disposal costs are funded in the contractual and sundry services line item. Ninety percent of the disposal costs include \$1.5 million in personnel, \$1 million in fuel, and \$1.3 million or \$1.4 million in disposal costs. Mayor Magers said that when the debt was restructured, TASWA received a better rate than expected. He said there was a \$2 rate increase in the 2012-2013 budget, which amounts to about \$0.17.

Council Member Adami said it appears that TASWA's operating revenue is expected to be down for the current fiscal year but their expenses are up. It looks like they are projecting a \$200,000 loss this year. Mayor Magers said that budget was completed prior to restructuring the debt. He felt that their budget is now on track, they have money in the bank, and now have reserves.

Mayor Magers explained that originally TASWA kept the rates artificially low by borrowing 20 year dollars to fund five year cells. The problem is 30 or 60 years from now there is this huge debt service. Some of the recent rate increases were because volume dropped and also because TASWA switched to a “pay-as-you-go” method. However this past debt had to be caught up because they had borrowed money on two cells. Mayor Magers said TASWA rates are projected to be \$33 this year, \$35 next year, \$38 in 2013 through 2025.

City Council Members took a lunch break from 11:21 a.m. to 11:42 a.m.

General Improvement Fund and Utility Improvement Fund

Mr. Hefton said both the General Improvement Fund and the Utility Improvement Fund are out of cash at the end of 2012.

Money from the General Improvement Fund is being used to fund the Watershed Management Study. The City received a grant for half of the cost of the study. The \$333,000 study is the engineering piece of the Watershed Management Plan. There is also money budgeted for drainage improvements, the GIS system, and some smaller projects.

The Utility Improvement Fund includes small projects such as a drain line at the Wastewater Treatment Plant and an evaluation of the interior of the Gallagher Water Tank. There is a

COUNCIL MINUTES – JUNE 17, 2011

\$400,000 transfer out to the Utility Fund to fund those projects that would normally be done through the CIP budget but are going to be handled in-house this year.

Insurance Fund

The Insurance Fund is okay for 2012 and will have a projected ending fund balance of \$400,000 at the end of 2012. The staff has no idea what claims will be for the year and the cost increased for 2011. There have been a couple of very large claims. Long-term agreements have also been completed with Texoma Medical Center and with Texas Health Presbyterian Hospital – WNJ. The agreement is for one year and is renewed as both parties agree.

Part of that agreement was to make good on some older claims that were in dispute, which increased this year's expenses. Mr. Hefton said the City is back in a \$3.3 million to \$3.6 million range, which is a normal year. The City is still self-insured and feels like the agreements are better than before. The majority of the costs were from claims that weren't happening in Sherman. He felt that these new agreements will help keep the costs lower.

Council Member Adami confirmed that claims in 2011 were a little higher than originally projected. He confirmed that the City had previously transferred \$1 million into the Insurance Fund from the three major operating funds to help cover those extremely high claim years. He asked what happens now if the City has an unusually high claim year.

Mr. Hefton said claims are generally between \$3.3 million and \$3.6 million annually, which allows for some higher claims. The City has the capability to have another \$4 million claim year before the fund is drained. If transfers are needed, there will be some money in the Utility Fund and the Solid Waste Fund that could be used in 2013. He did not expect this to be the case. The City also has stop/loss provisions on the policy which caps the City's exposure at \$125,000 per claim.

Mayor Magers verified that the City's policy has an individual specific loss and a comprehensive stop loss so it isn't a "bottomless pit." Mr. Hefton said the staff looks annually to see if there are other options rather than the self insurance. Those policies start at about \$4.5 million, which is significantly higher than the City's normal claim year.

Hotel/Motel Fund

Mr. Hefton said the staff has been drawing the fund balances down in the Hotel/Motel Fund for the last few years with some one-time purchases. These purchases include the redevelopment of the website and improvements in the Auditorium and the Ballroom. Revenues for the fund are holding steady thanks to the collection efforts of the Finance Department and the City Attorney. At the end of 2012, Mr. Hefton said the fund balance will be about where it needs to be.

Mayor Magers asked why the administration line item increased from 2009. Mr. Hefton said the City began paying for part-time help in the administrative area. Funding for a position is split several different ways.

Mr. Hefton said this fund is where the projects are paid for such as Hot Summer Nights, Lights on the Lake, and annual grants to various organizations. The Downtown Building Incentive Program is still included in the budget, but there are no applications for this year.

Financial Presentation – Long-Term

Mr. Hefton addressed the long-term projects scheduled in future years of the General Improvement and Utility Improvement Funds.

COUNCIL MINUTES – JUNE 17, 2011

He presented possible budget scenarios, including one if the sales tax initiative passes, and the impact these scenarios would have on the debt service and the fund balance. These scenarios affect the funding available for various projects.

Council Member Adami verified that Mr. Hefton's "comfort level" for fund balance is at 70 to 75 days. The City has been closer to the 60 day range for several years, but because the debt service is going down, they are in a good position to start building the fund balance back up and to start transferring it out. He added that, for the next three years or so, the City will have the ability through the Solid Waste Fund and the Utility Fund to provide some relief to the General Fund if necessary.

Sales tax seems to be trending slightly upward. There have been two months of positive sales tax activity and June sales tax increased 10% over last year. With sales tax, 1% equals \$120,000. Mr. Hefton said he was "cautiously optimistic."

Mayor Magers verified that the debt service will be reduced in the 2013 budget, which leaves a one-year issue with the budget. Mr. Hefton said the debt will creep back up, but for awhile it will be reduced. Besides the projects for the Wastewater Treatment Plant, the Water Treatment Plant is 20 years old and will probably need some upgrades soon. He was pleased with the relief for the budget through the proposed rates, the fund transfers, and using reserves from the Solid Waste Fund and the Utility Fund to help the General Fund.

Council Direction

Mr. Hefton asked for consideration from the Council on keeping the property tax rate at \$0.32 per \$100 valuation and the 4% utility rate increase. Mayor Magers told Council Members that they had been presented the budget and asked if they wanted to make any changes.

Council Member Adami asked Mr. Hefton if he felt comfortable with the proposed rate increases as presented and if he felt that the City would have available funding for general improvement projects, plus cover any unexpected issues. Mr. Hefton said he did. He added that for 2012 and for what is known through 2016, the City is "in the right ballpark." He said even with the Sales Tax Election, there will be challenges in 2013. You can't take into consideration things you don't know about. He added that the staff has things in-line the best they can with what is known. This budget was a 2012 process.

Mayor Magers said this was a staff-driven budget and he had concerns about 2013, but those will be addressed in the 2013 budget cycle. The staff has done an excellent job in fulfilling the Council direction to bring them a balanced budget, holding reserves to keep the AA bond rating, and being transparent in the deal.

Mr. Hefton asked if there were any changes Council Members would like to see when the draft budget is presented on July 18, 2011.

Council Member Adami said even though this is the 2012 budget, they still need to look past 2012 and consider whether the solid waste rate increase could have been leveled out better. Council Member Wacker said you plan for that with what you're given. There are reserves built in.

Mr. Hefton said the staff would rather increase rates in small incremental pieces and want to keep the rates stable within market rates. He added that the staff has highlighted the big CIP projects for the Council to review. The fire station is the big project in the General Improvement Fund and the staff does not know in which year that project will be funded. The project will cost several million dollars and they hope to receive SEDCO money to help with funding.

COUNCIL MINUTES – JUNE 17, 2011

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 12:20 p.m. Documentation for the Budget Work Session is held in the General File "Budget Work Session FY 2011-2012" in the City Clerk's Office.

ATTEST

MAYOR

CITY CLERK