

**PLANO CITY COUNCIL
SPECIAL CALLED SESSION
April 4, 2011**

COUNCIL MEMBERS

Phil Dyer, Mayor
Lee Dunlap, Mayor Pro Tem
Pat Miner, Deputy Mayor Pro Tem
Ben Harris
André Davidson
Lissa Smith
Harry LaRosiliere
Jean Callison

STAFF

Bruce Glasscock, City Manager
Frank Turner, Deputy City Manager
LaShon Ross, Deputy City Manager
Diane C. Wetherbee, City Attorney
Diane Zucco, City Secretary

Mayor Dyer called the meeting to order at 7:01 p.m., Monday, April 4, 2011, in Training Room A of the Municipal Center, 1520 K Avenue. All Council Members were present. Council Member Callison arrived at 7:11 p.m. Mayor Dyer then stated that the Council would retire into Executive Session in compliance with Chapter 551, Government Code, Vernon's Texas Codes, Annotated, in order to consult with an attorney and receive Legal Advice, Section 551.071 for which a certified agenda is not required.

Mayor Dyer reconvened the meeting back into the Special Called Session at 7:37 p.m.

Opening Remarks

City Manager Glasscock spoke to setting a foundation for future budget discussions by reviewing the four pillars of the budget process: financial policies; bond ratings; fund structures; and the history of the tax rate. He spoke to the City as a major corporation with 2,000+ employees and a combined budget of \$400 million with \$200 million in the General Fund (70% of which is personnel services). Mr. Glasscock spoke to Staff efforts to make reductions with minimal impact on the community and advised that future savings will result in an impact on service delivery and citizen/employee satisfaction. He spoke to the increasing tax rates of other maturing cities, focusing on maintaining citizen satisfaction while controlling expenditures, and areas for Council consideration including whether or not to maintain the AAA bond rating, continuing the use of reserve balances, maintaining the tax rate, avoiding the issuance of debt, and/or a planned gradual tax rate increase to offset revenue changes.

Discussion on the City of Plano's Financial Policies

Director of Finance Tacke spoke to the origins of fund accounting and the need for governments to demonstrate compliance with significant legal restrictions on the use of public resources and their annual budget and advised that the use of fund accounting helps demonstrate fiscal and fiduciary responsibility. She advised that the funds are self-balancing sets of accounts, much like subsidiaries of private companies, vary in type and have their own records. Ms. Tacke advised that government funds (General Fund, Debt Service Fund, Special Revenue Fund, and Capital Projects Fund) are used for tax-supported debt and are recorded in a cash-based accounting system while proprietary funds are more business-like in nature and are recorded in an accrual fashion. She responded to the Council, advising that the City must comply with generally accepted standards of accounting in order to receive a "clean" audit opinion.

Ms. Tacke reviewed the spending of each fund, advising that the General Fund is the chief operating fund of the City housing the operating and maintenance portion of property and sales tax and franchise fees; the Debt Service Fund is used to set aside resources for current and future debt service payments and must be paid first; the Special Revenue Funds raise revenue for specific purposes including red light cameras and are restricted in use; the Capital Projects Fund is used for financing and construction of capital projects and is made up of revenue received from other participating government agencies, bond proceeds and capital reserve monies; Proprietary Funds are business-type activities; Enterprise Funds are recovered by a fee such as those for water/sewer and environmental services; Internal Service Funds function to support activities within the City; and the Equipment Replacement Fund is for large items and is based on the expected life of the asset.

Director of Budget and Research Rhodes-Whitley spoke to the need for a rate structure adjustment should internal loans between funds be considered. Ms. Tacke advised that "best practices" recommend 60 days of working capital for General and Enterprise Funds and that Plano has 30 days in the General Fund and 14 days in the Environmental Services Fund. Ms. Rhodes-Whitley spoke to keeping 60 days in the Water & Sewer Fund and to a lower balance in the Solid Waste Fund due to stable revenues in that account. Ms. Tacke advised that all funds in an account cannot be spent due to portions being restricted, committed or assigned and spoke regarding the use of encumbrances and further advised that new accounting board requirements will impact reserves for appropriations.

Ms. Tacke spoke to funds for health care benefits and the 115 Trust (covering retiree health insurance) accumulated from each department based on their number of employees and responded to Mayor Pro Tem Dunlap regarding reserve funds versus contingency funds. Ms. Rhodes-Whitley advised that the Central Appraisal District does an annual appraisal at no extra cost to the City and Deputy City Manager Turner spoke to earmarking monies in the Capital Reserve Fund for specific purposes. City Manager Glasscock advised that he was unaware of insurance that would cover major, unexpected repairs such as a sewer line break.

Bond Rating Discussion

Ms. Tacke spoke to consideration by bond rating agencies of economic development and opportunities to bring businesses into the City; the ability to raise taxes if needed; General Fund reserve balances; and their negative view of an erosion of the tax base and decreases in the General Fund or a drawing down of reserves. She advised that agencies look at conservative and sophisticated debt management policies such as the City's use of short-term debt. Ms. Tacke spoke to consideration of strong General Fund reserves and revenue raising flexibility and advised regarding the impact on the City's bond interest rate should the rating fall from AAA.

Overview of Governmental, Debt, Enterprise and Internal Services Funds and Budgetary Impact

Ms. Rhodes-Whitley spoke regarding the relationship of the General Fund to other funds and advised that allocation to the debt tax rate in the General Obligation Fund must be done first. She spoke to monies coming into the General Fund from Water & Sewer, Sustainability & Environmental Services, Municipal Drainage, Convention & Tourism and Rec Revolving Funds to pay for administrative services. She advised that a majority of the work done by the Plano Television Network is for the Council and Planning and Zoning Commission and will be transferred out of the General Fund. Ms. Rhodes-Whitley advised that a goal of the Capital Reserve Fund is to transfer 75% of the annual depreciation value of projects and stated that the Property and Liability Loss Fund covers workman's compensation, property damages, judgments and claims and is funded through the General, Sustainability & Environmental Services, and Water & Sewer Funds. She advised regarding funding of the PC Replacement Fund and spoke to the Technology Services Fund which maintains the operations of the Technology Services Department with 80% covered by the General Fund and 20% from the Water & Sewer Fund. Ms. Rhodes-Whitley advised that the Technology Fund receives \$1.4 million each year for large projects and the Economic Development Incentive Fund is comprised of two cents from the property tax rate.

Ad Valorem Tax Rate Overview

Ms. Rhodes-Whitley advised regarding new growth added to the tax rate, transfer of 10.5 cents of the rate to the Capital Reserve Fund and 2 cents for economic development. She spoke to future payments closing out existing tax notes and the resulting increase in monies available for operations and maintenance. Ms. Rhodes-Whitley advised that projections of additional revenues include the acquisition of new debt. She further advised that Plano utilizes short-term notes rather than long-term debt which incur less overall cost and that projections include all items approved and unfunded from the 2009 bond referendum. Ms. Rhodes-Whitley spoke to CIP projects coming online and the impact to the budget of their operating and maintenance with a cumulative cost of eight cents on the tax rate. City Manager Glasscock advised that in the past, the City has depended on new growth to offset the increased costs of operations and maintenance rather than increasing the tax rate and to this driving the deficits.

Ms. Rhodes-Whitley stated that if all items were funded as planned, the tax rate in 2014-15 would need to be 56.47 cents to maintain operations. She spoke to lost revenues through exemptions and tax freezes and to the effective tax rate as the rate that would be passed to collect the same tax revenue as the prior year. She spoke to the effective rate of 52.03 cents for 2010-11 and to the Council adopting a 48.86 tax rate which resulted in a missed opportunity of \$7.8 million. She responded to the Council advising that calculations do not include new development. Ms. Rhodes-Whitley spoke to the rollback rate which allows a taxing unit to raise the same amount for operations (only General Fund operations) as in the prior year plus provides an 8% cushion and stated that for last year it would have been 37.74 cents as compared to the 31.35 cents adopted by the Council. Mr. Turner advised that calculations for the rollback rate encourage cities to take on more debt because they exclude the debt cost. Ms. Rhodes-Whitley reviewed the budget calendar.

Conclusion/Next Steps

City Manager Glasscock spoke to setting a foundation to understand where the City is now and what is anticipated in the future. Council Member Smith spoke to receiving information from each department. Mr. Glasscock advised that he would bring forward a recommended budget and cuts along with a tax rate for Council's consideration. He spoke to each department presenting information on their general service delivery with an overall view. After discussion, the Council concurred to hold meetings on a separate evening from Council nights and to conduct them in the chambers.

Council Member LaRosiliere spoke to setting a clear direction and considering the quality of services and costs. He spoke to recent reductions taking \$13 in cuts for every \$1 in increased revenues, and to focusing on what citizens want and providing the resources to Staff to deliver their expectations. He and Council Member Callison spoke to the impact of decisions on service quality and bond ratings. Mr. Glasscock spoke to departments "telling their story," providing information on challenges and the impacts of the last three years. He further spoke to the difficulty of recovery should significant cuts be made and potential consequences on service, citizen satisfaction and financial stability.

Nothing further was discussed. Mayor Dyer adjourned the Session at 9:37 p.m.

Phil Dyer, Mayor

ATTEST:

Diane Zucco, City Secretary