**FINANCE COUNCIL COMMITTEE**
**MAY 27, 2026**
DRAFT MINUTES

Council Present:
Adam Russell, Chair
Larry H. Scott
Dan McClendon

Council Absent:

Staff:
Tommy Ludwig, City Manager
Harlan Jefferson, Deputy City Manager
Eric Oscarson, Deputy Director
Monica Solko, Deputy City Secretary
Matt Ribitzki, Deputy City Attorney

## 1. CALL TO ORDER – 9:00 a.m.

Chair Adam Russell called the meeting to order. **Time: 9:01 a.m.**

## 2. CITIZEN APPEARANCES

- No speakers.

## 3. GENERAL

**A. Minutes from the March 4, 2026 Infrastructure & Development committee meeting. *(Staff Contact: Monica Solko, Deputy City Secretary)***

Motion was made by Dan McClendon and seconded by Larry Scott to approve the minutes.

Motion passed 3-0.

## 4. REPORTS AND PRESENTATIONS

**A. Receive a report, hold a discussion, and provide recommendations to the city council on the proposed timeline and budget for adopting a stormwater utility fee. *(Staff Contact: Justin Scharnhorst, Deputy Director of Public Works)***

Justin Scharnhorst, Deputy Director of Public Works, presented an overview of the proposed timeline and budget for adopting a stormwater utility fee. Council direction provided to staff included development of a stormwater utility and fee with a base rate not to exceed $8 per ERU per month, a tiered residential structure, a capital component, an additional drainage crew, and a 75% discount for religious institutions, not to exceed $2.00 per ERU. The proposed program is estimated to generate between $3.7 million and $4.1 million annually, depending on collection rates. Funding would support a new drainage crew, equipment purchases and reserves, operational expenses, existing drainage activities, and future debt service for up to $20 million in capital projects beginning in the second year of collections. Staff also highlighted outreach efforts completed during Fall/Winter 2026, which included resident engagement, digital outreach, newsletters, social media posts, town halls, and direct meetings with industry representatives and religious institutions.

Staff reviewed the proposed notice requirements and implementation schedule, including seeking approval to move forward with the budget in June 2026, conducting additional public outreach during June and July, holding public hearings in September, and beginning billing on October 1. Discussion included clarification that the stormwater fund would remain within the budget process until the program is formally adopted and operational. Committee members discussed current general fund conditions, projected revenue growth, and assumptions related to future Police and Fire expenditures. Discussion also addressed how the stormwater fee is currently reflected in the financial forecast as additional revenue rather than an offsetting source. Committee members emphasized the need to clearly define what constitutes a religious institution for purposes of the discount. Staff stated that appraisal district classifications would be used for the determination.

Committee members expressed support for adopting the fee in conjunction with the FY 2027 budget adoption process.

**B. Receive a report, hold a discussion, and provide recommendations to the city council on a professional services agreement with Pattillo, Brown & Hill, L.L.P for financial audit services, for an initial three-year term with two possible one-year extensions.** ***(Staff Contact: Michael Franklin, Deputy Director of Finance)***

Michael Franklin, Deputy Director of Finance, presented a professional services agreement for financial audit services to the committee. The presentation outlined the City's audit requirements, noting that the City Charter requires an annual independent audit and submission of an annual financial report. State law also requires municipalities to file their annual audit within 180 days of the fiscal year end in order to maintain the ability to adopt a property tax rate above the no-new-revenue rate. The presentation also reviewed the City's financial policy requiring solicitation of proposals for audit services at least every five years, noting the current contract executed in June 2021 has reached the five-year maximum engagement period. Mr. Franklin reviewed the Request for Qualifications process for financial audit services, which closed on January 29, 2026. Six CPA firms submitted proposals, with the top three firms advancing to second-round interviews. Following the interview process and contract negotiations, Pattillo, Brown & Hill L.L.P. was selected as the highest scoring firm, pending Council approval.

Committee members expressed support for the presentation and requested staff move forward with presenting the item to the full Council.

**C. Receive a report, hold a discussion, and provide recommendations to the city council on the City Manager's recommendation for vehicle and equipment purchases using the Equipment Replacement Fund for FY 2027. *(Staff Contact: Lauren Seay, Deputy Director of Administrative Services)***

Lauren Seay, Deputy Director of Administrative Services, presented the City Manager's recommendation for vehicle and equipment purchases through the Equipment Replacement Fund (ERF) Program. The presentation included an overview of the ERF Policy adopted by City Council in February 2025, which was established to ensure funding for future vehicle and equipment replacements, stabilize annual budgeting, and provide a structured review and approval process. Staff reviewed the FY 2027 replacement process timeline, committee prioritization methodology, and considerations used in evaluating replacement requests, including age, mileage, condition, maintenance costs, operational impact, safety, technological obsolescence, and manufacturer lead times. Staff also reviewed the recommended proprietary and governmental fund equipment replacement lists and provided a funding overview. The Proprietary ERF projected beginning FY 2027 fund balance is $1,939,869 with a funding level of 55.1% and recommended replacements totaling $458,784. The Governmental ERF projected beginning FY 2027 fund balance is $7,341,356 with a funding level of 75.9% and recommended replacements totaling $1,341,296. Staff also outlined next steps, including continued evaluation of competitive purchasing opportunities and future policy discussions with Council.

Committee discussion focused on possible revisions to the ERF Policy and replacement criteria. Members discussed adjusting mileage thresholds, placing greater emphasis on equipment hours rather than mileage, evaluating resale value and maintenance costs, and considering operational needs when determining replacements. Staff noted the program is intended as a long-term budget planning tool and that recommendations will continue to evolve as the program matures. Additional discussion included the potential use of bonds for high-cost ambulance replacements, evaluating diesel versus gas fleet vehicles due to maintenance and emissions system concerns, and delaying replacement of certain equipment to preserve funding flexibility. Staff emphasized the importance of balancing replacement needs with available funding while continuing contributions to the ERF.

The committee members were supportive of the presentation and requested staff to present the item to the full council at a council meeting.

## <u>RECESS AND BACK TO ORDER</u>

Chair Adam Russell recessed for a short break at 10:11 a.m. and called the meeting back to order at 10:18 a.m. with all members present as recorded above.

**D. Receive a report, hold a discussion, and provide recommendations to the city council regarding the March 2026 monthly financial and investment**

**reports.** ***(Staff Contact: Mark Davies, Director of Finance, Presenting: Michael Franklin, Deputy Director of Finance, and Natalie Turner, Chief Accountant)***

Michael Franklin, Deputy Director of Finance and Natalie Turner, Chief Accountant, presented the April 2026 monthly financial and investment reports to the committee.

The committee members were happy with the presentation and requested staff to present the item to the full council at a council meeting.

**E. Receive a report, hold a discussion, and provide recommendations to the city council on tax rate strategies.** ***(Staff Contact: Kevin Hennessey, Deputy Director of Finance)***

Kevin Hennessey, Deputy Director of Finance, presented tax rate strategies and provided a historical overview of the City's property tax trends, terminology, and comparisons to benchmark cities. The presentation highlighted that the City has reduced the tax rate by 1.32 cents over the last ten years while recent budgets utilized the 3.5% voter approval rate and unused increment capacity from prior years. Staff also noted the implementation of the City's first homestead exemption in recent years to help ease the financial burden on homeowners. Assessed property values have increased an average of 9% annually over the past decade, with preliminary appraisal values received on April 30, 2026, and certified values expected July 25, 2026. Staff discussed the option for Council to adopt a tax rate up to 3.5% above the no-new-revenue rate and advised that management continues evaluating potential budget reductions as part of the FY 2027 budget process.

Committee discussion focused on maintaining a relatively flat tax rate versus implementing substantial budget cuts that could impact service delivery. Members discussed projected fiscal impacts, potential legislative changes, and the use of stormwater utility revenue as part of the overall financial strategy. Tommy Ludwig, City Manager, commented it was too early to determine a final rate and noted the city would likely avoid significant changes to our future assumptions unless legislative actions required adjustments. Discussion also included the possibility of not capturing the full 3.5% increase above the no-new-revenue rate if property values did not increase enough to generate the full amount without raising the tax rate.

The committee members expressed consensus in favor of maintaining a relatively flat tax rate and expressed a preference to avoid raising the tax rate while continuing to evaluate budget options and service impacts throughout the budget process.

## RECESS AND BACK TO ORDER

Chair Adam Russell recessed for a short break at 11:24 a.m. and called the meeting back to order at 11:34 a.m. with all members present as recorded above.

**F. Receive a report, hold a discussion, and provide recommendations to the city council on proposed amendments to City Council Policy #32, Financial Policy, and City Council Policy #41, Debt Management Policy. *(Staff Contact: Mark Davies, Director of Finance)***

Mark Davies, Director of Finance, presented recommended updates to the City Council Policy #32 Financial Policy and City Council Policy #41 Debit Management Policy to the committee.

**Financial Policy updates:**

VI. Expenditure Control:

- Equipment Financing: Recommend replacing language to match the ERF policy.
    - F. EQUIPMENT FINANCING. ~~**Equipment is accounted for at the original acquisition cost, which includes purchase price plus any costs incurred to place the equipment in service. Equipment may be leased or financed when the unite purchase price is $5,000 or more and the useful life is at least five years. Department shall contact the Finance Department for transfer or disposal instructions.**~~ Vehicles and equipment with a replacement cost greater than $300,000 will be funded by the issuance of certificates of obligation, and the debt service payment will not exceed the unit's useful life.
- Update terminology consistency: State – "Annual Comprehensive Financial Report (ACFR)" throughout.

**Debt Management Policy updates:**

- General Debt Governing Policies
    - The City shall review its outstanding debt annually for the purpose of determining if the financial marketplace will afford the City the opportunity to refund an issue and lessen its debt service cost. As a general rule, the net present value~~**s**~~ savings of an overall ~~**particular**~~ refunding should exceed three and one-half percent (3.5%) of the refunded maturities, unless a restricting or bond covenant revision is necessary in order to facilitate the ability to provide services or issue additional debt in accordance with the established debt policies.
    - To maximize market agility and achieve the lowest True Interest Cost (TIC), the City may elect to use a parameter ordinance to authorize the sale of debt obligations. Such an ordinance shall delegate the authority to a designated Pricing Officer to execute the final sale of bonds, provided that the final terms – including maximum interest rate, maximum principal amount, and expiration of authority – fall within the specific limits established by the City Council within the ordinance.

The committee members were in favor of the changes and requested staff to present the item to the full council at a council meeting.

**G. Receive a report, hold a discussion, and provide recommendations to the city council regarding future debt refunding opportunities. *(Staff Contact: Mark Davies, Director of Finance*)**

Mark Davies, Director of Finance, presented an overview of future debt refunding opportunities and the City's ongoing evaluation of its debt portfolio. He explained that debt refunding allows the City to refinance existing debt obligations to reduce interest costs, improve cash flow flexibility, restructure payments, and mitigate future financial risks when market conditions are favorable. Staff emphasized that regular monitoring of refunding opportunities demonstrates prudent fiscal management and positions the City to respond strategically to changing market conditions. The presentation also reviewed the City's debt policy, which requires annual review of outstanding debt and generally targets a minimum present value savings threshold of 3.5% before pursuing a refund unless restructuring is necessary for operational or policy reasons. Staff noted that current opportunities remain below the threshold but will continue to be monitored.

Discussion included the recent negative outlook issued by S&P Global Ratings on the City's outstanding utility revenue bonds while maintaining the 'AA-' rating. Staff explained the recommendation to transition a portion of the outstanding utility revenue debt, specifically the Series 2012 Water and Sewer debt, into Certificates of Obligation (COs) to utilize the City's stronger general obligation credit rating and strengthen debt service coverage ratios. Committee discussion also included the use of different credit rating agencies, including Fitch, Moody's, and S&P, with consensus that using a single rating agency such as Moody's may be sufficient for refinancing issuances under certain thresholds, while issuances exceeding $20 million would generally benefit from two ratings. Staff stated that only the 2012 utility debt is currently being actively considered for refunding, while other potential refunding opportunities and CO issuances will continue to be monitored. Additional discussion included possible land purchases utilizing 4A revenue funds.

The committee members expressed support for the presentation and requested staff bring the item forward to the full City Council for consideration.

## 5. <u>REQUESTS FOR FUTURE AGENDA ITEMS OR REPORTS</u>

- None.

## 6. <u>RECESS INTO EXECUTIVE SESSION</u>

In accordance with Chapter 551 of the Texas Government Code, the City Council may convene in Executive Session in the City Council Workroom in City Hall to conduct a closed meeting to discuss any item listed on this Agenda.

**A. Pending or contemplated litigation or to seek the advice of the City Attorney pursuant to Section 551.071, Texas Government Code**

- No executive session is needed.

## 7. ADJOURN

There being no further discussion Chair Adam Russell adjourned the meeting.

**Time: 12:20 p.m.**

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Monica Solko
Deputy City Secretary