

**City Council Budget Workshop
MINUTES
August 12, 2024 at 5:00 PM**

CALL TO ORDER:

Mayor Countryman called the meeting to order at 5:02 p.m.

Present:	Sara Countryman	Mayor
	Casey Olson	Mayor Pro Tem
	Carol Langley	City Council Place #1
	Cheryl Fox	City Council Place #4
	Stan Donaldson	City Council Place #5

Also Present:	Gary Palmer	City Administrator
	Dave McCorquodale	Director of Planning & Development
	Maryann Carl	Finance Director
	Mike Muckleroy	Director of Public Works
	Anthony Solomon	MPD Chief
	Kimberly Duckett	Court Administrator
	Katherine Vu	WGA Consulting Engineers
	Diana Titus	Deputy City Secretary

WORKSHOP AGENDA

1. Review and Discussion on the Proposed FY2025 Annual Budget

Maryann Carl stated for the summary of changes this is post workshop #3 and these were any adjustments that were made from the previous workshop. In review of the summary she stated the first line is ad valorem taxes and said based on the calculation, the Tax Assessor Collector used the certified estimate to calculate the City's tax rate this year because certified values were not available due to a number of circumstances and most recently hurricane Beryl. She said the notice of 2024 tax rates you received outlines that and they left it at the 40 cents which is where they have been for the last several years. In doing so they did the net collection based at 96 percent. As you know our collection is almost 100 percent but based on refunds that reduces the net collection. Keeping in mind they were using certified estimates, they are not exactly sure what might be out there in protest. They felt like 96 percent net collection at the 40 cents was a relatively safe number. Based on that the ad valorem revenue decrease by \$31,362 which is what you are currently seeing \$1,548,638 on the revenue sheet.

Ms. Carl said the next item is the admin transfer from MEDC. In the last workshop they discussed the fact that they did not have anything in there yet at this point. EDC had a workshop which they talked about the components that the EDC transfer offsets on the general fund side and that is how this number was derived at. There is a transfer from the EDC for \$187,354.

The next line item is the judicial efficiency and only had a \$10 amount budgeted in there but they have decrease that and moving it to a special revenue fund. Ms. Carl said the same is true on the child belt safety line and the reason for this is there are certain court fees that

are very restrictive in how they can be spent and they should be maintained on the finance side in a special revenue fund so that at the end of the year those unspent funds do not just roll back up into the general fund and become surplus. They need to stay within their own fund for fund balance purposes. Ms. Carl said her and Ms. Duckett have worked on what those fees are and worked at setting those up which you will see later on in the special revenue funds so that they will work with the auditors this year to get an entry that is made to get that fund balance back on track where it should be. It is maintained in the court system; it is just not maintained on the financial side and it should be. There is also a decrease in the court fines revenue and a part of that has to do with the things that are moving over to the special revenue fund. They discovered there are some items in court technology and building security that were being coded and have been for a long time on the finance side just as general court revenue and as they pulled it apart and looked at all those codes from the court side those also need to go into the building security and court technology respectively and that is why you see that reduction. The money is still coming in, it is just going into the special revenue fund where it needs to be housed.

Ms. Carl said on the expense side under the admin department, general consulting is an increase of \$65,000 which is due in large part to the Kendig Keast project. Ms. Carl stated she and Mr. Palmer had a phone call with them last week to discuss the phases and the pace at which they are moving. They anticipate they will be complete with the City's project next September and it will not span over a third fiscal year and in keeping that in mind, they went ahead and budgeted the remainder of that project.

Ms. Carl said one thing she failed to include when she was working on this which is part of a larger discussion when it comes to capital projects and that is they would like to request \$20,000 under the general consulting for administrative services for the ARPA grant. She said there are a lot of moving pieces to that and that is part of a larger discussion. Mayor Countryman said she does not understand what that means. Ms. Carl said with the ARPA money they have there are treasury reporting requirements and what leads to the treasury reporting requirement is how they actually secure and procure the services for whatever project they are going to do. However Council decides on how the ARPA funds are to be spent there are some very specific guidelines (168 pages worth) of government details of what the requirements are having to do with how you do the bidding process, what people work on your project, if that employer has used E verify. There are all kinds of things that take a lot of work to put into making sure that the City is not going to get a callback of those funds if treasury decides that they look through the City's things and then treasury says you have not dotted all you I's or crossed all your T's and they want the \$360,000 back. Ms. Carl said she would feel much better knowing that Grant Works, who has an ARPA team who are the ones that go through that process. The City still files the report but they are the ones ensuring the City is in compliance. Just as the City has used Grant Works before for GLO grants, it is the same type of thing. They just have a specialty group that handles the ARPA funds. Mayor Countryman asked how much does the City have available. Ms. Carl said they have not spent any ARPA funds and it has been earning interest. As of June 26th the balance was \$361,121 and have had two interest postings since then. The balance is right around \$364,000. It does come into play in the fact that they are able to use that interest. She said she is not sure as she has not looked into this ruling but the initial funds they received is what is they are required to spend and report on. They can use the interest and the interest can also go towards that project. It is just a matter of how that gets reported. Councilmember Carol Langley said nowhere in that grant was a line item for consulting. Ms. Carl said there is an option if you wanted to use the ARPA funds

to pay for grant administration services that should have been procured and gone out for RFP prior to the distribution of the ARPA funds. She said since it was not, they could do that now, however they are fast approaching the commitment deadline of December 31st of which a project must be identified and funds must be obligated for that project at that point. If they were to start that process now for the RFP they would be looking at maybe having a six to eight week window to work with your grant administrator in order to be able to do all of the pieces that are required and be able to notify treasury by that deadline. If they use local funds they do not have to abide by that same procurement measure for the administrative services. Councilmember Carol Langley asked if these people said that for \$20,000 they would do this project. Ms. Carl said yes they do not believe it will exceed that based on the amount of money they have received. Councilmember Carol Langley asked if they will be able to get it done in September. Ms. Carl said they will be able to get them to the point of being able to report what their project is by the end of December. That also includes them being able to work through a workshop with Council and with the capital project plan to be able to look at what projects fit within these parameters and what that looks like moving forward. Ms. Carl said the \$20,000 would cover that and expect that it will probably be less than that. Councilmember Carol Langley asked where the \$20,000 is coming from. Ms. Carl said it should be added onto the admin general consulting expense. She said where it was an increase of \$65,000 it will be an increase of \$85,000. Councilmember Carol Langley asked where is the \$20,000 being taken out of. Ms. Carl said she is not taking it out of anywhere. Currently they do not have that budgeted in the general consulting. Where you have the general consulting budget on page 1 of 3 of the fund 100 department 10 administration there is a figure of \$215,000. They are asking to increase that to \$235,000 and as a result that would change the net revenue on the front page to \$171,000. It does not make them go in the hole.

Councilmember Casey Olson said maybe he is misunderstanding, but on the worksheet it looks like they had a net decrease and asked if the EDC goes straight into the general fund. Ms. Carl said the top portion of this worksheet is just the general fund. Councilmember Casey Olson said their total last time was around \$95,000 and showed around \$100,000. This time it is \$170,000 and asked if that is just MEDC. Ms. Carl said that is a huge portion of it, \$187,000 they did not have.

Ms. Carl said the other two changes in the general fund were under PD and those were brought to you at the workshop and discussed in the meeting. These worksheets just reflect those changes that included a decrease in what had been on the radio line and the patrol weapons line.

Mayor Countryman said she knows they have the ARPA funds and can use them for specific projects. She knows they are going to pay \$20,000 to help manage those and get those projects on the books before the end of the year. Councilman Casey Olson said it will help them qualify with the funds they have. Ms. Carl said that is correct. Mayor Countryman said she is having a hard time spending \$20,000 and their timeframe is no better than the timeframe if the City did it on their own. Mr. Palmer said the problem is they do not have the capacity to do it on their own. Any time we take federal dollars especially if it is for something like this it will either have a matching component or a heavy reporting requirement and it is worth the money to have someone else manage it for us because it takes the liability off of us. Mayor Countryman said that part she certainly appreciates. Councilmember Carol Langley said it is usually in the grant itself. Mayor Countryman said so take \$20,000 out of the \$364,000. Mayor Countryman then asked if

they cannot use it until they pay for the Grant Work fees. Ms. Carl said if they do that they have to go through the RFP channels and that should have been done before you received the ARPA funds. Councilmember Casey Olson asked if they give it to this third party will they qualify all of their projects. Ms. Carl said she has actually worked with Grant Works on the ARPA and what they like for the city to do is identify saying here are the projects we have identified and here is the scope of what that includes. They will then look at that preliminary list and be able to say either yes, or some may be borderline and would have the City consider other projects instead, which is then up to Council to decide what projects to use. Depending on what that project is and what category it fits into then that triggers what they do on their side as far as the reporting requirements. For an example, at the City of Waller they had put in a generator because it was becoming an emergency operation center. The new city hall that was built did not have the generator and the new generator was being put in. All of the components from that from the concrete slab that was laid to the installation crew that was coming they had to make sure that all of those subs had met the criteria that the federal government has put in place. There were actually some people that were not able to work on their project and be paid for working on that project because they did not meet certain criteria. Ms. Carl said that is a lot of work for them depending on what those projects are. It is as if they become another level of employment verification. When she and Mr. McCorquodale have discussed it as it is really difficult at that amount of money at \$360,000 in the ARPA funds where he would sign off on it, she would file the report and if treasury audits them and comes back, they will call back that amount of money because you cannot make up some of those things that trigger the call back and cannot make them up after the fact. If you paid someone who did not meet the criteria they are not going to just take that portion it becomes the whole project because the project did not meet the criteria as stated in the report that was filed and certified that yes, you abided by everything. Mayor Countryman said for instance for water plant #2 improvements for \$2.6 million can the \$364,000 be applied to the \$2.6 million which would help offset trying to find CIP funds out of other funds. Ms. Carl said yes. She said typically what they will do is ask you to designate a portion of a project that would be able to use those funds towards it. Ms. Vu said word of caution on water plant #2 improvements. She said that project was already bid. She wants to make it perfectly abundantly clear that everything with federal funds has to be solicited all the way from starting from the engineer. Mayor Countryman said she was just stating it could help alleviate potentially one of these line items. Ms. Vu said yes and the ARPA funds are best.

Councilmember Stan Donaldson said if they grant GrantWorks the opportunity to ensure compliance when do they need to start having workshops. Ms. Carl said it would all happen relatively quickly. At the next Council meeting they would bring a proposal from Grant Works for the administrative services. She said she does not know if they would be able to be here in person but they could certainly do a virtual workshop with them. They understand the pressure the City is under as far as timeframe and they feel it is a very doable thing based on the amount of money the City has. Mayor Countryman asked if there is a guarantee that if the City pays them they do not lose that money. Ms. Carl said we do not pay Grant Works upfront. They are paid at different stages along the way of the project. They do not have any concerns about meeting that timeframe as long as the City is in communication with them and moving forward on this. Ms. Carl said with this ARPA project, Grant Works has a dedicated ARPA team and that is all they do. The person who would be their designated person in this area his name is Derek Katznelson, ARPA Project Manager and he is the person she worked with when she was at the City of Waller as well. She said the entire team has been super responsive. They are a wealth of research and

knowledge and she does not expect especially being three years into ARPA very many hiccups if any because they have been seeing it with all the other cities.

Councilmember Casey Olson said there is one change he would like to make. He asked Chief Solomon how long they have been with Tyler Tech. Chief Solomon said two years. Councilmember Casey Olson said he totally understands the difference and just looks at it as they made the two years can they make it three. Chief Solomon said it is \$490,000 and yes, they can continue with what they have until next year but by next year they need to make the change. He said because they are already into the Tyler system right now with the change it will give them time to see exactly if they are going to do any upgrades as well. Chief Solomon said that price may increase a bit next year but not by much. Ms. Carl said it would give them a little bit less than that because they will still have to pay on the Tyler fees and they had budgeted in here that a portion of that would be given back but that will not be the case anymore. Ms. Carl said she just received Tyler info last week and asked if there was an increase. Chief Solomon said no it should be the \$17,000. Ms. Carl said \$17,622 so there would be a savings of \$89,378. Ms. Carl asked if they are changing that one back to \$17,622. Councilmember Casey Olson said that is his request to Council to look at it and see what they think. Mayor Countryman asked so less than \$20,000 to give to Spillman. Chief Solomon said no. He said she is taking the money the \$107,000 and part of that is for paying Tyler with a rebate for once they stop using it they would be given that money back. He said if she takes the \$17,000 out which they normally pay Tyler that is the \$89,000. Councilmember Casey Olson said his request to Council is that they hold off on the Spillman upgrade at least another year. Councilmember Cheryl Fox asked why. Councilmember Casey Olson said because they are broke. He said they still have not touch on capital yet but they are \$1.4 million short.

Ms. Carl said one of the things she wants to give a reminder on with capital projects is that your operating funds should not be what are funding the capital projects. She said using general fund revenue surplus from past years based on fund balance is definitely an acceptable use and that is something that can be done. When we look at that we look at an audited year where they would go back to fiscal year 2023 and ensure that they maintain the 45 percent requirement that is in our policy for our fund balance needs. She did look at those numbers. For general fund, the excess of the 45 percent would leave you just shy of \$780,000 in general fund surplus from the close of fiscal year 2023. She said she had a conversation with Councilmember Casey Olson about looking at a policy that would put in place a cap of how much of that surplus could be used in any one fiscal year for capital projects or things of that nature. She hears what you are saying with having excess and just by virtue of the budget you will have some surplus and they anticipate there will be some surplus, but if you are looking at trying to use the general fund revenues or surplus to pay for capital she would strongly encourage Council to look at surplus and not in the operating portion of the budget. Councilmember Casey Olson said whether they take \$80,000 out of their budget this year or pull it out of their surplus and put it back in with surplus from estimates from this year, the whole point is if they want to take the surplus they need to be able to put the surplus back. He said obviously it is just transferring as they would be pulling it from their surplus balance from 2023 but with an estimate of yes they are going to put this back because they budgeted for it.

Ms. Carl said she wants to make sure on what Council would like to see on the public safety technology line reflected in tomorrow night's proposed budget. She asked do they want to leave the \$107,000 or are they reducing it back down to the \$17,622. Councilmember Carol

Langley asked Chief Solomon if they can survive one more year. Chief Solomon said they will survive one more year with Tyler. He said the other one gives them a lot better access to what they are doing. Instead of going one place to get something you do not have to go two or three places like they are doing right now. He said they will survive with what they have until next budget. Councilmember Carol Langley asked if he thinks the Crime Control and Prevention District can pay for it next year. Chief Solomon said he is sure the District can pay for it next year but that is going to depend on what you are paying for.

Mayor Countryman asked if there is going to be another budget meeting. Mr. Palmer said the next meeting is on August 20th. Mayor Countryman asked at that meeting will there just be amendments to the budget. Mr. Palmer said no, they will have a final discussion with them about the proposed budget and then if there are amendments that need to be made it will have to wait until after it is adopted. Mr. Palmer said because of the posting requirements they cannot touch it from the time they post it to the time they adopt it.

Councilmember Stan Donaldson said he saw they had some net revenue. It may not have been a lot but it is like they are covering everything.

Mr. Palmer said to correct him if he is wrong, but they have a 45 percent fund balance policy which means they have to carry 45 percent of their general revenue balance has to be the fund balance and after they retain the 45 percent which they are not going to touch they have another \$700,000 on top of that which is available. Ms. Carl said correct and that is fund balance side if you are talking about this budget we are talking about now you are correct. Even with the change they made to the administration line of adding that extra \$20,000 for the grant services they still have a projected net revenue including leaving the Spillman in there they would have a net revenue of \$171,401. She said that would go back into fund balance next year. Ms. Carl said what is being proposed right now would be adding another almost \$90,000 on top of that which would bring it to adding about \$250,000 in net revenue at the end of the year. Councilmember Casey Olson said then what that would allow them to do is pull from their surplus and replace it with net revenue from this year and would see no change really depending on how much they pull from surplus. He said it is just shifting money around and unless they want to raise taxes, they have to cut a lot out of their capital budget as they are \$1.4 million behind.

Ms. Carl said concerning Spillman she is trying to get a consensus from Council if they are reducing that back down to the \$17,622. Councilmember Casey Olson and Councilmember Carol Langley said they are good with it. Mr. Palmer said if they need some time they will bring this back tomorrow and make that change tomorrow as no decision needs to be made tonight. Councilmember Carol Langley said tomorrow night they will be able to see a finished copy of the budget before they vote on it. Mr. Palmer said they are going to get the final copy but say this is the only item you want to change and decide at the budget meeting tomorrow that yes you want to take that out then they can add that as a condition and that is not a problem. He said they will be ready with whatever way they want to go tomorrow night.

Councilmember Carol Langley asked about wages and what was in there. Ms. Carl said wages is the same total they discussed last time based on the three percent COLA and a five percent merit pool funded at 75 percent. In discussions with Mr. Palmer they said they would come back as they still have time because it does not take place until January 1st. She said based on the question of how does it look if they change that to a flat amount,

what does it look like if they keep it at the percentage, they decided they would come back in a workshop setting as they get closer to January to iron out what that would look like. She said but the money is here and it might be slightly different in the fact that it may be in one department versus another department but they will address that as needed through a budget adjustment if that is needed.

Councilmember Casey Olson said he wants to do a three percent COLA and do a five percent merit. He said the only thing his suggestion was last time to reevaluate the way they divide the three percent. He said instead of going on wage go on actual cost and cost is the same. This is based on five and he can go ahead and change it to three, just two columns and change the formula that changes the entire worksheet because everything is built on one formula. He said to just look at the five percent and take it for what it is. If you look at the sum of the increase all the way to the right in yellow it is the exact same amount whether you give it out at three percent to each person based on their wages or if you divide it out and say this is the total if you give everyone three percent here is the total divided by the actual positions. He said he did not include the docents because they are part-time. He said the average increase at five percent is \$3,475.60. You take that number and add it back in and divide it out by how the wage pays which the wage pays depending on the position is either \$2,080 or \$2,184 for Chief's guys as they work those long shifts. When you figure it all out you look on the far right column and that is the actual percent increase they would receive on the current hourly wage. If you look at the numbers 11 or 12 people are taking decreases and some a slight increase in COLA and 25 would get an increase in their COLA versus just doing it by percentage. He said it is totally up to Council how it is done, it is unorthodox and is not usually done because the people who decide to get COLA sit at the top and get more when done across the board with the percentage. Chief Solomon asked if he is saying that is the same amount for everyone. Councilmember Casey Olson said the exact same amount. Chief Solomon said last time you talked about it you talked about fairness. He said COLA and merit, these two do not interchange and trying to do so causes confusion in dissatisfaction among employees. He said for example if he takes someone like Ms. Goode, the glue to what they have going on over here, that means she does not get the increase that she would get at three percent. Councilmember Casey Olson said actually she would get more. Chief Solomon said if you did that by five percent. Councilmember Casey Olson said it does not matter if you do three or five. Chief Solomon said when he looked at it the other day she would actually lose money. Councilmember Casey Olson said 25 or 26 people actually get more and the only ones that really get less are the ones at the top of the bracket. He said the reason he looks at COLA this way is that if you really study our wage gap in the United States and hear about all these reports with wage gap increases the gap is getting larger. It is not because their merits are so much higher. Instead of getting a five percent increase, this is based on five, she would actually get a six percent increase. Chief Solomon said where does she get a six percent increase. Councilmember Casey Olson said he used five and instead of five percent she would actually get six percent based on the average. Chief Solomon said when you do that she would actually decrease by more than \$200. Councilmember Casey Olson said the math is in front of you. Chief Solomon said he understands the math but you mentioned it being fair and when you say fair it is not necessarily fair. He said last year they had a deal where they were not giving department heads COLA anymore, so when you talk about fair, bread prices go up for them as well. Then when you say you are not giving us those prices but you change that policy, but that policy even though you changed it, it still says offset the inflation on City employees' salaries. Councilmember Casey Olson said the person who makes \$18/hour his is less than \$3,500 and your is more. Chief Solomon said when you start messing with the

three percent it just throws everything off. Councilmember Casey Olson said no it does not it is absolutely equal across the board and every single person got the same cost of living increase because their cost all went up exactly the same. Councilmember Cheryl Fox said if Mayor Countryman goes to Neiman Marcus and shops and she goes to Walmart she guarantees that her dollars are going to go further than hers anyway. Councilmember Casey Olson said the cost of living is her choice, not her employer's fault. Chief Solomon said as a department head he has to look out for his people and whatever that percentage is for their people. Councilmember Casey Olson said he just wanted people to see it because he wants you to understand it effects the top less than 20 percent of employees because they are the highest wage earners. If you continue on a COLA where the highest wage earners get the same percentage as the lower wage earners all you do is build a wage gap and it gets larger and larger. He said if you do not believe him look at what CEOs make versus what the person of the lower wage earners makes. He asked why does that happen. He said because they do not adjust. They just keep building COLA on top of it. Chief Solomon said it is like a police department. In order for the lieutenant wanting to be a captain there should be a price gap there where he is trying to reach that and it gives him an incentive to work. Councilmember Casey Olson said but COLA is not based on knowledge, responsibility, or anything except for your cost of living. Chief Solomon said you are absolutely right but you just said the highest paid people in those classes which means that man went out to work, got a degree and he is getting a merit raise for that. Chief Solomon said you said here we do not get COLA as department heads. Councilmember Casey Olson said no, it was just for last year and that was it. Chief Solomon said the policy is going to have to be changed again because it still says City employees and we are City employees. Councilmember Casey Olson asked Mr. Palmer how they did that last year as they passed it in January. Mr. Palmer said they removed the language about the COLA increases going to all employees. Chief Solomon said what they removed was "if granting the adjustment will be applied to salary ranges and step plans for all employees" so you removed all employees but what was left in there brings it back to them because it says it offsets the effects of inflation on City employees' salaries. Councilmember Casey Olson said with these numbers you are still getting the same amount as the other person as the average is the same. Chief Solomon said that is just not adding up when they looked at it what they ran. Councilmember Casey Olson said that is run by excel and the formulas are very straight forward.

Mr. Palmer said he went to a Region 6 meeting for all City Managers on Friday and they talked about what other cities are doing as far as compensation. He said most cities are doing a three to five percent COLA and then they are also based on compensation studies which they have an RFQ response due by the 16th for a comp study and they will be funding merit increase as well based on whatever comes out of that. Mr. Palmer said whatever Council's philosophy is going to be for this year, if you want to fund COLAs at a certain level then they need to know what that percentage is going to be. If we are going to talk about merit increases which will be competitive, they can fund that at a certain level and they can wait until they get the class compensation study back which will probably be in November or December and roll into January or February with a recommendation. He said you can fund it up to the level you decide. He said for example if they want to do a three percent COLA and then do another three percent competitive merit increase. We want to fund that but understand not everyone is going to get the merit increase for the full amount. Ms. Carl said this current budget has the three percent COLA and a five percent merit at 75 percent. Mr. Palmer said it is already built in. Ms. Carl said yes. Mayor Countryman said she is okay with the three percent COLA. Mr. Palmer said he is okay with three percent

COLA and an additional five percent merit increase. Ms. Carl said at 75 percent. Mr. Palmer said okay. Ms. Carl said to remember this impacts the budget from January 1st through September 30th. Councilmember Carol Langley asked when COLA starts. Ms. Carl said January 1st. Ms. Carl said she is not sure at what point it changed but in going back and looking it changed somewhere along the line. Mr. Muckleroy said Mr. Richard Tramm changed it because it was already in the policy for January 1st but we have just always been doing it October 1st and he wanted to go back to what the policy was. Ms. Carl said it would be much easier budgeting if it were October 1st. She said it is in the budget for an increase at nine months. Mr. Palmer said they do not need to change that as long as everyone is in agreement in funding at 75 percent.

Ms. Carl said there are only two changes in regard to water and sewer on 300. The solid waste revenue increased and garbage pickup also increased. This is based on new rates from the new plan with Waste Management. You will see it does not match entirely correctly and that was because they were having some issues regarding overpayment with them. When they were first looking at numbers they were using current invoiced amounts from Waste Management. They did receive the \$93,000 refund from Waste Management. Mayor Countryman asked where does that go. Ms. Carl said it goes right back into that expense line. It was adjusted for the new contract pricing and the current trend. Based on that, they are still sitting at a negative net revenue so they have a deficit of \$196,193 on water and sewer. They cannot present a proposed budget that has a revenue deficit so they need to figure out how to cover that deficit and there is not anything else that can be removed on the expense side so they have to look at options for revenue replacement. Ms. Carl said preventative maintenance under the new Hays contract is specifically broken down whereas before everything fell under operator cost back on page one. This year they had budgeted \$126,500 for operator, next year they are only budgeting \$52,500 because that is the cost of the operator. They breakdown the maintenance cost and so that maintenance cost is put over here by Hays and the portion that they increased was literally just what they decreased up there. Mr. Muckleroy said it is a wash. Ms. Carl said correct. You still have \$150,000 budgeted in preventative maintenance and the reason it went up was because they moved it from operator to maintenance. Ms. Carl said the two things they are looking at as far as consideration is one would be a transfer from surplus which would be in water and sewer transferring from the surplus revenues of the fund balance of water and sewer. Water and sewer has the same requirements of 45 percent requirement of fund balance. Currently at the end of fiscal year 2023 water and sewer fund balance is at 83 percent so you have well exceeded that 45 percent. Based on that the excess of the 45 percent requirement equates to \$997,000. What happens with that if they were to see that it would literally be just an entry on your budget that would say a transfer from surplus. There would be no actual transfers that would take place. It is just a reduction in what goes back to fund balance if something were to go back to fund balance at the close of fiscal year 2025. The other option has to do with Katherine with looking at the water and sewer rates and if they have an increase in rates obviously that generates more revenue and they would lose the gap based on that. She said she does not know if they are at the point this evening to be able to say let us move on this so that is why they wanted to present both of those options. If they say they have committed to know that if they do not make up the shortfall that they will be relying on transfer from surplus that is what that means on your budget when you put that out there. Ms. Carl said that has actually been done in your budget before even on the general fund side so it is not something that has not ever been done historically. Mayor Countryman asked when was the last time they did it. Ms. Carl said she thinks it was in FY-2022. Councilmember Stan Donaldson asked what does that reduce our

ration to as we have 83 percent now and if they take it out of surplus what will the ratio be. Ms. Carl said she does not have all the details to be able to do that now because she needs the expenses based on that audit in order to do that. Mr. Muckleroy said one thing to keep in mind is if you decide to take it out of fund balance next year it will be the exact same scenario because the \$200,000 is coming from the debt issuance. Councilmember Casey Olson said Mr. Roznovsky's proposal generated the \$200,000 and he looked at the rates based off of Magnolia and Conroe and they would still be below that if they did the rate increase. He said he liked Mr. Roznovsky's proposal and was going to suggest from his point of view Council should do that. Mr. Muckleroy said Katherine has done some numbers with 400 as well. What they do not want to do tonight is put Council on the spot to make a decision. He said their recommendation is to just go with the fund balance scenario for now, give them time to put the numbers together and bring them back at a workshop where you can decide then. This way you are not rushing a decision on rate increases. Mayor Countryman asked if there is any chance this new construction could make up the gap too. Mr. Muckleroy said that is possible. He said Katherine has put together two scenarios. One scenario is a no growth projection and the other is a growth projection but it is really aggressive like 15 percent. Statistically they have increased water and sewer revenues every year about four percent to be conservative, to give a little bit of growth, but not over project. They always end up coming in over revenue what they expect at the four percent. Katherine is going to work on those numbers to get closer to the four percent range. Mayor Countryman said she thinks that is fair because there is going to be more usage coming up. Mr. Muckleroy said to also keep in mind the deficit is based on their revenue projections for next year which they historically exceed. The realistic number is going to be lower than \$196,000. Mayor Countryman said from her perspective she would rather see what you are going to do and not raise the rates and to your point, whittling away, maybe it whittles away on its own instead of doing the fund balance. Mr. Muckleroy said it is very possible because the fund balance does not have to be done right off the bat. He said Ms. Carl will not transfer anything on October 1st but it could be done at the end of the year. He said it may end up with no need for a transfer. Mr. Muckleroy said they do need to look at rates because it has been seven years since they have had an increase.

Councilmember Carol Langley asked if Ms. Carl is going to change something somewhere so that it is an equal budget. Mr. Carl said in this case they will have a net difference of zero. They will have a net revenue of zero and as she mentioned before it is accustomed to seeing a higher revenue than your expenses but in this case it will zero it out completely. They will add a line on the revenue that says, "transfer from surplus" and they will plug in that \$196,193 number and the net revenue will become zero for water and sewer. It will be on page 1 of 1 on the revenue. Ms. Carl said it brings them down to \$703,000 in water and sewer and she will tell you what that percentage brings them down to. Ms. Carl said right now they are sitting at 83 percent. Councilmember Casey Olson said his understanding is the \$700,000 is above the 45 percent. Ms. Carl said it is. She said right now we are sitting at 83 percent and Councilmember Stan Donaldson wants to know what that will bring them down to.

Ms. Carl said the next tab is for MEDC and is just for reference purposes so you can see what was discussed at their workshop. There were some questions in the workshop the Mayor had mentioned and those questions had to do with the events. With the way the expenses for these events are budgeted now, they are budgeted as just one line "quality of life events" and then internally there is a document that is used by the EDC for how that is divided up among those events. That does not overall impact the number you are seeing on

the sheet, that is just how they delineate how those funds will be spent on those events. This includes that transfer to general they talked about. The other thing discussed was you will see there is an increase in their consulting and professional services. You may recall last year the SRI your former sales tax folks was budgeted out of here. They moved to HDL and it is still budgeted out of here but it saves about \$12,000 a year. This takes into consideration money for an EDC consultant, the Wayfinding project, and McCown design. One of the other questions she thinks that was discussed had to do with the Wayfinding and the cost of signage. She does not know what those signs may end up costing. She suggested they go with what they have in the budget and when they get those plans back with the specs for the signs and are able to get bids they can always come behind with a budget amendment to pay for those signs.

Councilmember Cheryl Fox said she had some questions about the quality of life. She said she knows it is all going to be in one but are they going to be able to see how these funds are distributed because she had a serious one about the Christmas parade. It happened at \$14,000 but now you have it down to \$10,000 and considering everyone pays to be in that, what is the majority of the cost. Ms. Carl said the \$10,000 you are seeing was 2022-2023. Councilmember Cheryl Fox asked what caused that to be that much money and was it security. Chief Solomon said they use all of their officers who are paid by overtime but last year they used about 22, 23 outside agency officers and those are the officers that are paid out of this fund. He said he thinks it came to about \$5,000. Ms. Carl said from the finance side they do not track those events that way but EDC does track those events and those expenses related to those events. Ms. Campuzano does have a spreadsheet and every one of her projects are in her binder with all of her expenses so if you have a question about that they can get that information from Ms. Campuzano. Councilmember Cheryl Fox said that is a reasonable amount for the Christmas parade then. She said they are charged to be in the parade now but previously they did not charge for that.

Mayor Countryman said she does not see the Lone Star Street Dance in here. Ms. Carl said because that was not an item, it was a budgeted individual item in your system at that point. Remember we do not budget the individual items on the budget anymore. We only budget a quality of life amendment. Mayor Countryman said don't they want to know how much they are giving and spending. Ms. Carl said absolutely and that is why there is the internal spreadsheet so you can see. Mayor Countryman said don't we want the public to know too. Mr. McCorquodale said it is also posted on EDC's page on the website. You can pull up the event that shows you what the internal budget number was for that event and what the expenses were. He said it is updated quarterly and not every month. Mr. Palmer said because this is the budget anything put on the website will stay on there for three years and that is why they took the individual ones off. To have a document that is public and shows exactly what you are talking about they can easily create that. He said he would not use their budget as the public facing document for people to look at to see what the events are and the breakdown as we do not want this to become super huge. Ms. Carl said one of the things she will say is remember when she talked about the public facing budget book feature and the budgeting software they are looking at, what would happen in this case is they literally will have a quality of life number and underneath it will be all of the events with an estimated number for the year. That is different from what we see here and the reason she suggested that they move to this last year was one to prevent the EDC budget from getting as large as the general fund budget but it also gives that flexibility within your events. If we have a line item for an event and that event does not happen that year, you have that \$5,000 stuck in there and unless they come back and do a budget amendment to

move that or she saved money in this event and this event cost \$200 more. It does not matter to the budget itself how that is delineated, it does for planning purposes definitely, but in the budget itself it is quality of life events. Those events change and new events come along and that is why they moved toward this last year. In the budgeting software and the budget book you can have all of the things you anticipate being a part for that year and it does not have to be an all-inclusive list from the past 20 years. Councilmember Cheryl Fox asked how is the budget addressed when you have revenue coming in from an event. Ms. Carl said you have revenue here at the top and it is strictly events revenue and that is how it is recorded on the finance side. On the EDC side it goes right in the spreadsheet. They track the revenue and those expenses. Ms. Carl said this is kind of a strange thing because a city usually does not have events that have revenue and expenses. The EDC is a bit unique in that way because this is typically something you see at a chamber level and so you normally would not be seeing this if you looked at other EDC budgets. Ms. Carl said they may have a lot of events but is that revenue received in it to the EDC and those expenses paid from the EDC. She said just because Navasota has events does not mean it is their EDC that is doing it.

Ms. Carl said they will now review debt service. She said expenses are related to what is payable for the debt issuances. Revenue is based on that tax rate calculation and these are not choices they have. This is where they have a transfer from water and sewer and you will see that amount is more this year because of the 2024 issuance.

Ms. Carl reviewed special revenue funds. She said these are not operational funds as these are generated for a very specific purpose. For court security you will see that number is more as she and Ms. Duckett reviewed court security and how that was being distributed and needs to go to court security special revenue fund. The court security is paid for out of here. She said the child safety funds are really hard to spend so they will be holding to those funds until a point that something changes or something is identified. Truancy prevention is also going into special revenue funds and jury funds is the same way. Court technology is the same thing as you will see a big jump in that revenue because it was not recorded in the special revenue funds previously. They have hotel occupancy. There have been some back and forth between two line items over the past couple of years and they are working to get that straightened up. It should all be falling all under the second line which is the hotel occupancy tax. Ms. Carl said for shop with a cop they talked about that on the revenue side that they were moving that to a special revenue fund. In talking with Chief Solomon when people make these donations for shop with a cop sometimes it comes in even after shop with a cop is done for that fiscal year so they want to make sure they are holding onto those shop with a cop funds in a fund that has its own fund balance that they do not lose those donations along the way.

Ms. Carl said those are all the pieces of the budget that will become the proposed budget tomorrow evening. Council will approved the proposed budget that will be posted on the website as of Wednesday and that gives them the timeframe to be able to have the public hearing for the budget and then adopt the budget in September.

Mayor Countryman said she is looking at the EDC budget online for \$74,700 for events, \$36,000 was used, and only \$945 for the Christmas parade was spent. She asked if they take that down or is everyone still comfortable with that. Ms. Carl said Mr. Palmer and Mr. McCorquodale both may have insight on that from Ms. Campuzano with the events itself. Mayor Countryman asked what are they spending money on. There is \$36,000 and where

is this \$38,000 going. She asked if it is going back into MEDC funds or do they need the full \$75,000 for events. Mr. McCorquodale said the sheet you are looking at is not going to match. The only thing it will match here is last fiscal year. Mayor Countryman said she is looking at the sheet that is online. Mr. McCorquodale said that is our current fiscal year and if money is not spent on events it stays in EDC.

Ms. Carl said she was going to show Council which was more for discussion purposes if they wanted to see what the different rates were looking like but keeping it at the 40 cents keeps them in line and the no new revenue rate based on the calculations was .3813 but that would give them a deficit so they use the 40 cents just as they had been doing since 2020. She wanted to review that to show what that number looks like as far as the debt service rate that is based on the calculation in the worksheet. They do not get to change that. It is .0911 and they have to budget that one at 100 percent. The maintenance and operation is the piece that changes. If you look at the green line which is where they went with keeping the rate consistent at the 40 cents so that becomes the M&O rate and then at the 97 percent. Ideally the 96 and 97 percent is where they want to look at. They try to make it with the lesser and they were able to make it on the lesser.

2. Review and Discuss Capital Projects

Ms. Vu reviewed the capital projects list for FY2025. She said a couple of key things to note is it is broken down into the same priorities as before. Priority one being these are the projects you have to do in order to keep the City functioning and they are projects Council has already been contractually committed to fund. For example, the MISD waterline. Unfortunately, you do not have a choice because of agreements you are in. Priority one is the must dos. The other projects that are included in there you will see in parentheses and will say TxDOT SH-105 and this is because of the widening project that TxDOT is doing from Grimes County up to Sheppard Street as there are a few utilities that need to be relocated. Mayor Countryman asked is it on their dime. Ms. Vu said that is correct. She said if the utilities are located in TxDOT's right-of-way and you have to move them, it is on the utility owner's dime. If TxDOT is acquiring property and those utilities were in an easement, not in the right-of-way, you now have to move them because they are acquiring right-of-way, it is on their dime. Councilmember Casey Olson asked if they investigated that. Ms. Vu said they are as sure now as they were the last time they discussed this. Ms. Vu said the one that could potentially change is this lift station #5 force main relocation at \$421,000. Assuming Tri-Point goes that lift station #5 face one improvements also includes relocating the force main. One or the other would go but it is important to her that both are in front of you. Councilmember Casey Olson asked if Tri-Point went through they were going to help fund that correct. Ms. Vu said they are. If you look at lift station #5 this is forth from the bottom in priority one. Lift station #5 phase I improvements the \$1.5 million is all upfront funded by Tri-Point and then the City will pay them back over time. Councilmember Casey Olson asked 100 percent as he thought they were splitting that. Ms. Vu said no, up to the City's portion which is right around 50 percent. It is not 100 percent. Ms. Vu said they are paying for their portion in perpetuity but then they have agreed to front it because of cash flow. Ms. Vu said \$1.5 million is the total project. Councilmember Casey Olson said the City portion should be \$750,000. Ms. Vu said she does not have it on here as City portion because that is not a budget number for this year and it will be paid back incrementally.

Ms. Vu said priority two is projects they would recommend that reduce the risk of failure in the future or necessary upgrades that are coming. She said these are projects that if they do not happen you may run into a potential capacity issue but you can get by for this year if you needed to. Priority three are the ones that are not necessarily related to capacity, they may help but are not driven by capacity issues. It is more like your bleach conversion which is related to safety for operators and residents and then lift station three is because of the condition of the lift station. Priority fours are entirely developer driven. That would be the Morning Cloud force main extension. This is Marjorie Cox's development down by the railroad tracks. The force main needed for that would not happen if her development does not go. Same thing with the lift station 10 improvements. If Taylor Morrison goes away, that project is not going to get done at all.

Ms. Vu said the big number to focus on is the City portion of \$6,052,950. Going down below that is a summary of the funds and how they are to be sourced. Of all of these projects, about \$1.9 million is eligible to come from impact fees. The City has that money available both between the current balance and what is projected to come in this year considering Redbird Meadows tomorrow for example and that is quite a bit of impact fees. The CO already issued accounts for about \$2.3 million, \$2.4 million and the ARPA funds are at \$361,121 that they were talking about beforehand. That does leave a deficit as Councilmember Casey Olson mentioned earlier of around \$1.4 million needed to fund these projects on this list for this year. Councilmember Casey Olson said his suggestion is if they just completely wipe priority three out which is \$442,000 which also frees up the \$361,000. He said take \$442,000 and subtract it from the \$391,000. Ms. Vu said she thinks she knows where you are going with this and is already one step ahead of you. Ms. Vu said the amount of funds you have available to you without anything else is about \$4.6 million or exactly \$4,661,737 and that does not even cover all of priority one. You could remove all of the priority three items but that does not solve your source of funds. Councilmember Casey Olson said it gets them closer. Ms. Vu said yes, it does get you closer and she completely agrees. It gets you \$442,000 closer. Councilmember Casey Olson said it puts them at less than \$1 million. He said if they pull from surplus and do the rate increase so they are not pulling from surplus to cover that, they pull from surplus for capital and do the rate increase to cover the negative balance in utilities. They could potentially pull around \$500,000 out of there and be safe because they would put \$250,000 back in and would leave them with a balance coming out of the year with around \$500,000. He said that would put them very close to their spot and it is just a matter of tweaking the other ones down to around \$250,000. He said he is using large numbers just to get the theory across to everyone as it is not exact. They just need to look at the gray numbers in the second and third columns. Ms. Vu said one thing to consider is that if you look on the next page, these are the next five fiscal years and you have some very large projects coming up. Councilmember Casey Olson said this is why he does not want to borrow money because they know they have to borrow money next year and they already have trouble covering the debt they have. Ms. Vu said true. He said if they can squeeze every dime out of it to get through this year without borrowing money, hopefully they will have some more houses built and they might be able to cover more debt, but right now as you can see from our admin budget they cannot cover the debt services they currently have. He said they cannot really borrow much of anything unless they raise taxes. Ms. Vu said taxes and rates. She said she does not want to pressure Council to make a decision on this tonight but wants to show the other scenario she ran on the rate increase. This is a \$400,000 scenario for a rate increase. She said this is based on no growth like Mr. Muckleroy was saying earlier but that is the most conservative option because while they have projected neighborhoods that are coming in they also do

not know what is coming on the housing market. Things could dry up and all the developers go on hold. To summarize, when they were doing this they tried to keep the lowest impact on your low use single family customers and wanted to impact them the least. There is a larger impact on commercial, multi-family, institutional, and higher single family users. What you are ultimately looking at with this is if you look at the box on the right half of it with the blue title that says single family total monthly bill, your average user is going to see about a \$9.00 increase in the water bill and this is after not increasing rates for seven years. Your minimum user would go from \$28.50 to \$35.00 which is just based on the base rate and the minimum users that were non-zero. When they are looking at this minimum user they eliminated the zero flow meters which are meters that have been set but no one has moved in and it skews the data if they included those. The maximum user would see about a \$650 jump. You see what this would potentially do to commercial and multi-family irrigation and institutional as well. Assuming no growth, this would give you an additional \$400,000 which would allow you to cover your current deficit. The reason they ran this was if you wanted to cover the \$1.4 million that they are proposing this would allow for a \$2 million loan. She understands the perspective of wanting to save the issuance for next year. They also compared this scenario to what your neighbors are doing. Keep in mind this is before the City of Conroe just raised their rates last week. You are currently sitting at half of what the City of Conroe is and maybe two-thirds for the City of Magnolia. If that eases any concerns about your water rates being much higher than your neighbors, you are doing pretty well comparatively when it comes to your single family users. The others get a little bit squirrely just because of how each city chooses to breakdown their water and sewer bills for the different classifications. All in all, when it comes to a rate increase she would like for Council to take this home and just think about it and if this evening they can get some feedback on do you want to impact a different classification of end users, would you like them to run it a different way of maybe not impacting commercial or not impacting schools. She said to remember schools and churches do not pay property taxes. She is not saying that to sway Council but it is more just a statement of fact. Ms. Vu said the other page she included in the packets is including the projected growth. You will see the rate increase is much lower that is being proposed and will still get you the \$400,000 but again that is assuming that every development that is currently in the works develops at the rate that the developer has advised them they are going to do.

Councilmember Casey Olson asked if Ms. Vu can explain the irrigation rate and why it is so much higher than one that actually uses water and sewer. Ms. Vu said if you look at the rate table the irrigation rate structure is broken down by less than one-inch meter and greater than one-inch meter so your base rate for most residents if they have an irrigation meter is going to be less than one-inch so that is the \$12.00 base rate. Usually the greater than one-inch you start to see those on the commercial users or if someone has a very large lot. On average that user is getting around a \$144.00 water bill. For the purposes of this study they assumed all irrigation meters were greater than one-inch. Mayor Countryman asked what do typical restaurants and like a Home Depot use. Ms. Vu said a Home Depot and a restaurant are very different. Mayor Countryman asked separately what do they use. Ms. Vu said it is hard to say specifically but for a Home Depot she would expect between five and 10 thousand gallons. Mr. Muckleroy said it is going to be low because it is just restrooms. Ms. Vu said also spraying the nursery but those are just misters it is not high water usage like at a restaurant. She said some restaurants policy is they just leave the tap open in the kitchen so they can be rinsing dishes constantly and they see extreme high water usage.

Councilmember Casey Olson asked if the water includes the sewer percentage built into it. Ms. Vu said it does include the sewer percentage. Councilmember Casey Olson said for example if he has two meters and he looks at this rate he is going to say turn the irrigation meter off and run it all through the house because it is cheaper. Mr. Muckleroy said the sewer is not built into the irrigation rate. Ms. Vu said there is a water rate column and a sewer rate column so when you are looking at a base water fee of \$16.00 for a single family you are also looking at a base sewer rate of \$12.50. She said essentially each single family user is paying a base rate of \$28.50 for their domestic meter. If they also have an irrigation meter we will assume it is less than one-inch because we are talking single family they are paying \$12.00 for their base rate. Mr. Muckleroy said there is a number of gallons that it makes sense to get an irrigation meter. He does not remember exactly what it is now but Randy built a spreadsheet on this and they would use it for customers and explain it. If he remembers correctly the number was around 12,000 whereas if you are using under 12,000 gallons a month it is actually cheaper to just stay on one. If you are using over that amount the spreadsheet would show you how you start saving on the sewer charges to a point where you would save money. Councilmember said that is what he is getting at is when you do the math on this until you get way up here on eight, to 10, even 15,000 gallons you are better off running it all through the sewer. Ms. Vu said that is when it does not make sense to get an irrigation meter. She said that is when it comes to each individual property owner to decide if it is worth it for them to get an irrigation meter. Councilmember Casey Olson said they have to be able to explain that to them. Ms. Vu said it is not any different than it how it currently is. Councilmember Casey Olson said he understands that but when you have a \$300 water bill or an \$800 water bill or a \$100 water bill and people that have pools the customers he hears because the city water bill they have when they have a pool cost them \$800 a month and they raise it, it is going to go up significantly higher than it already is. He said he is all for a rate increase but he just needs to make it make sense. Ms. Vu said there are different ways they can look at this to see who do you want to have a bigger impact from the rate increase on and who do you want to safeguard a bit more. She said ultimately the whole point of this is to get a total delta that the City needs. They can slice and dice the rates in all sorts of different ways but what they have presented are just two different ways to do it but if there is something different you would like to see like you do not want to affect the low end single family users and want there to be a zero percent increase that is fine. They can run that scenario and bring it back to Council. She said they are not asking for a decision tonight. They just need to know what guidance would you like, how they prioritized it, and would you like to see it a different way. She said ultimately it would do you well to start thinking about a water and sewer rate increase and an ordinance for that. Mr. Muckleroy said last time they did this Council's direction was impact the low end user the least amount as possible and the high end irrigation users put that burden there and let them deal with it. Councilmember Casey Olson said he agrees with that for the most part but just needs to understand how they are going to do this because why would they take on the burden of a second meter if they could run it all through their house and it is cheaper. Councilmember Casey Olson said there is no cost benefit with two meters. Mr. Muckleroy said there is but it is just at a certain point and you have to get to a certain point to reach that cost benefit. Ms. Vu said that is not something they can decide for people, they have to know their own individual usage and look at the payback period for the meter.

Mayor Countryman asked how many house are they expecting to be on the ground this next year that they will start billing water to. Ms. Vu said do not hold her to this number but about 150. Mayor Countryman said she is assuming that is Pulte. Ms. Vu said Pulte,

Redbird Meadows, and Hills of Town Creek section five, Tri-Point depending on how quickly they are able to move and how quickly Marjorie is able to move. The big ones are going to be Pulte, Hills Five, and Redbird Meadows. Mr. Muckleroy said Pulte is probably going to put 20 homes in place Wednesday morning if you approve their infrastructure.

Mr. Palmer said they would like to workshop this with you on September 9th to go over the rate study. Councilmember Carol Langley said she is not going as she is not voting for it. She said she is not doing a rate increase until after May.

Ms. Vu asked if there are different scenarios they would like them to look at between now and September 9th. Councilmember Stan Donaldson said he missed the point where there rest of the money that is short where are they going to get it because you said \$400,000 and they are still \$400,000 - 500,000 short. Ms. Vu said what the \$400,000 allows you to do is it pays for your current debt service as there is a deficit right now. The remaining \$200,000 of that \$400,000 revenue gives you the ability to take out an additional \$2 million loan which would cover the \$1.4 million and to Councilmember Casey Olson's point it gets you through this year. She said with the rates as they currently are she cannot say with an educated answer how much more of a loan you would be able to get. Looking at next year, yes you have some big dollar amounts but without a rate increase you would not be able to get a loan for those either. Councilmember Casey Olson said he does not want to borrow any money this year because they are between a rock and a hard spot next year and they have no choice that they are going to have to make the decision to borrow money and other than that it would be to raise taxes. Councilmember Stan Donaldson asked if they raise it now is it going to carry over to next year. Councilmember Casey Olson said he is not against a rate change this year so they can cover their deficit and free up some money for a debt payment for next year. He said \$2 million is not even a fraction of what they have to borrow next year. His thought process on this is there are some items on here they do not have to do and he would like to try and use as much of their funds they have to cover it without borrowing anything this year because they are going to have borrow money, they do not have a choice.

Mayor Countryman asked Mr. Muckleroy if they can do the committed and then the need, the first two, does that bring well #1, #2, #3, and #4 up to working order and all systems go. Mr. Muckleroy said well #1 is decommissioned and does not even exist anymore and well #2 is a complete redrill. Mayor Countryman asked if there will be no more rehabbing and if they will be up and running now and it will just be maintenance. Ms. Vu said as far as the wells yes that will get wells #2, #3, and #4 operational. What is on here is water plant #4 which is going to be another well. Councilmember Casey Olson asked if they have to design the well right now because it is design only. Ms. Vu said it is design only and design of a water plant like that can take six to nine months and you are also getting permits for a brand new water plant site and then in looking at construction timing they wanted to get that in front of Council now. She said it is not a next week discussion but it is not something that you can afford to wait a couple years. Councilmember Casey Olson said but they can wait a year. Ms. Vu said it will get you very tight if you wait a year. Ms. Vu said that \$400,000 is what they are estimating the cost of a design to be. It does not mean you need to start spending that \$400,000 on October 1st but you could potentially afford to wait until the spring to select an engineer and start getting those design funds going. All of that \$400,000 might not be in this fiscal year. She is hesitant to say you can continue to wait on water plant #4 especially with the growth they have coming in. They have been very fortunate to have well #4 stay online this entire time. It has been very critical.

Mr. Palmer asked if there are other scenarios Council would like to see. Councilmember Casey Olson said no he is fine with it. Councilmember Stan Donaldson said they do not know technically that they are going to get to supply water to Redbird because they are in court. Councilmember Cheryl Fox asked if they will for the first phase. Ms. Vu said she has not been kept up to date with the standings of the lawsuit so she cannot speak on that.

Councilmember Cheryl Fox asked Ms. Vu if they had the differences between Magnolia and Conroe. Ms. Vu said she did not have it printed but she emailed it to Mr. Palmer.

Councilmember Casey Olson asked if they cut out all priority two that brings them to \$949,000. He asked what does the water plant #3 booster pump addition do for them. Mr. Muckleroy said it is adding a fourth booster pump. They have three in place but it is adding a fourth one for redundancy. Councilmember Casey Olson asked if all three are needed now. Mr. Muckleroy said they alternate and run in succession so if one does not meet the demand of the pressure then the second pump kicks in. Mr. McCorquodale said it does add a capacity to hold a number of connections that you can have on the system. It does give you some buffer. Councilmember Casey Olson asked how many connections are they comfortable with right now without doing anything to the system. He said they have to figure out the timing on it and how much room do they have for both right now. Ms. Vu said there is a difference between the State capacity limits and the realistic boots on the ground capacity limits. Right now in the State's eyes our booster pump capacity is our limiting factor on what they are allowed to serve. Adding a fourth booster pump increases the capacity they are allowed to serve. You have plenty of hydra tank capacity and plenty of ground storage tank capacity. Councilmember Casey Olson said from a strategic standpoint they are better off with that pump than they are with moving forward on a water plant design that they do not necessarily need right now. Ms. Vu said adding a booster pump is a much simpler way to get you more capacity faster. She said it will not get you all the way there but gets you a little bit further. What it does not do is help pressure issues on the west side. Mayor Countryman said she thought the water pressure issues improved. Councilmember Casey Olson said as the loop gets completed it will help with the water pressure as well. Ms. Vu said it will help but right now Tri-Point is only proposing to take it to their property line and right now it is not yet proposed to take it all the way around. Ms. Vu said that will help and Redbird Meadows loop may help some as it just gives another feed to the west side of town but the biggest impact will be water plant #4. Councilmember Casey Olson said water plant #4 is to up their capacity as they grow, but if they do not necessarily need it at this moment. Ms. Vu said since you are limited by booster pump capacity that will get you to around the middle of next year without the booster pump. Councilmember Casey Olson said that should be more a priority than a study as they are not going to be able to drill for a while. Mayor Countryman asked if they can put the study toward this time next year so they do not have to pay \$400,000 out of this budget. Ms. Vu said there is another facet of needing water plant #4. It is not just about gallons capacity. She said the State requires that you build an elevated storage tank that is a water tower at 2,500 connections. If things go as they are projecting that is going to be mid-year 2026. Ms. Vu said for prospective, the water plant #2 improvements projects has a one year contract because you are drilling a new well and most of that is the well. She said she would plan for a good year just for construction of water plant #4 and at least six to nine months for design and that does not include permitting time. Mayor Countryman asked how can they staddle two budgets and said maybe that is what they should look into. Ms. Vu said that is why they only have the design in here now and not the full project.

Mayor Countryman said she understands but even the design portion of it. Ms. Vu said you can, they have it all in here to be, she does not want to say conservative because it makes it sound unrealistic because there is a good chance that this could be spent this fiscal year depending on when they need to move on this. She said she would not recommend completely delaying the design of the water plant for a year. It makes her very nervous that you are going to run into capacity issues. Mayor Countryman asked then what item #1 or #2 would you hold. Ms. Vu said doing the booster pump will get you a little further down the road on a gallon standpoint but it does not help you on your connections. The city-wide drainage improvements and the city-wide drainage assessment is up to you. Ms. Vu said all the people in here have plenty of water to drink right now. She is just providing another perspective and these are really hard decisions Council is having to make and she recognizes that. Councilmember Casey Olson said if they have to sacrifice growth of people who are not here yet and have not paid taxes to them he is going to sacrifice in a heartbeat. He said if they have to wait a year or two years to build because they have to catch up with their infrastructure because our dollars will not go far enough he wants to make sure that the people who are here and have paid taxes for the last decade or more are taken care of. Ms. Vu said she completely agrees. She said there is also a part of Redbird Meadows contract that if the City ends up in a cashflow bind that they will front a portion of the water plant cost that is then deducted from their impact fees later on. Councilmember Casey Olson said the total cost of water plant #4 is around \$5 million. He said if they delay one part of it basically a year to get them through because they know they are going to have to take out a large loan next year for 2025-2026, but to get them to that point so that way they are borrowing the least amount of money they could until they hear this is what they have currently to pay debt and then they borrow money, then they look at raising taxes to say here is what they have to do, they do not have a choice. He said just to incrementally raise it for maybe it is going to happen and let us take care of the future people that do not exist yet and disregard the people that do exist is not a wise choice. He would rather push it down the road because none of us can predict the future and if the future comes and says you do not have enough water for the connections then they do not make the connections because they do not live here yet. Ms. Vu agreed. Mr. Muckleroy said to keep in mind they have been looking at this water plant #4 for years and knowing that they are going to try to hit that point where this is the year they need to design and the Engineer is recommending this is the year you need to design.

Mr. Palmer said he thinks they need to go back, work some contingencies, see what can be worked out, and see if there are areas they can straddle over a couple fiscal years and come back with some recommendations if there are any. He said you have to manage that risk. Ms. Vu said absolutely and she completely understands and appreciates where Council is coming from. She said she is trying to reinforce the importance of these because she knows it is very hard to make these kind of decisions. Ms. Vu said she will find out when the absolute must start date is for when they will need to start design and they are all playing with a crystal ball on what is actually going to get built.

Mayor Countryman asked if the Plez Morgan erosion repairs which is atrocious is a hard number. Ms. Vu said that is not a ballpark number. It is still high level to be sure but they did not pull it out of thin air. It is an educated number.

Mr. Palmer said they can plan a workshop for September 9th to continue this discussion and schedule as many workshops as needed.

Councilmember Casey Olson asked how long do they have to have the budget done. Mr. Palmer said they are not required to adopt a capital budget by a certain time. They just need to have whatever transfers in now needs to be in the adopted general fund budget they discussed covering the water and sewer this year.

Mayor Countryman said to keep this \$400,000 in to start the design they start in January and keep it in this fiscal year but also straddling the next year so they can stay on track for 2026 and not have to push it out so they know for sure they can plan now \$16 million for the 2026 fiscal year. Ms. Vu said they can do that. Councilmember Casey Olson said either way they do not have the money whether they straddle or not. He said they have to figure out a way to pay \$400,000 whether they do that in January or now. Mayor Countryman said but they also know they are going to have some surpluses. Councilmember Casey Olson said this goes back to Ms. Carl when she said things need to be zero so when you budget you need to know how you will do it. Mayor Countryman said she gets that and what Mr. Palmer says in managing risk. Councilmember Casey Olson said if he is going to take a risk he is going to take a risk on the conservative side that says the building is not going to come as fast as they think it is and if he is wrong that is okay because the people will still have the water they need and the drainage they complain about because he gets it, thousands get flooded and damaged. He said he will always adhere to the people who live here.

Councilmember Cheryl Fox asked what is the path for putting a moratorium on new construction. Mr. Palmer said it is a legislative process. You would have to do public hearings, pass an ordinance, and qualify. To continue a moratorium you need to keep coming back and qualifying that moratorium.

Mayor Countryman asked if they are confident the Jasper and the Catahoula wells are in good shape and have enough water. Mr. Muckleroy said with water plant #3 being back online they are sitting good again but anything can happen. He said the well that went down is repaired now and is just holding tight until the VFD gets installed. Once installed they will fire it up and get the blending going again. He said it is ready to go and if something were happen right now they could flip a switch and it would be running. Councilmember Casey Olson said when they first lost the well the water volume was very poor. He said over the weekend even with his carbon system it was not as yellow as some people but it had a tint to it but now it is crystal clear. Mr. Muckleroy said the piped got used to the new water. He said every water main that is in the ground has a buildup on the inside of and they all do. Whenever you start sending water through the pipes in a different direction or you change the type of water you are sending. The Catahoula and the Jasper are completely different types of water. The Catahoula is super soft with the characteristics being different as it starts passing through those pipes it pulls stuff with it. He said they knew that was going to happen. Normally they would go out and just do flushing but did not want to go out and do extensive flushing being on one well. He said they will see that again when they jump over to the #3 and are going to introduce it slowly. They will probably see some water quality complaints but now they will be able to go out and do some flushing and try and get everything directionally flushed out.

ADJOURNMENT

Mayor Countryman moved to adjourn the meeting at 7:21 p.m. **All in favor. (5-0)**

Submitted by: _____
Diana Titus, Deputy City Secretary

Date Approved: _____

Sara Countryman, Mayor