

MINUTES OF CALLED MEETING OF THE CITY COUNCIL OF THE
CITY OF LUFKIN, TEXAS, HELD ON THE
18TH DAY OF FEBRUARY, 1998 AT 10:00 A.M.

On the 18th day of February, 1998 the City Council of the City of Lufkin, Texas, convened in a called meeting in the Council Chambers of City Hall with the following members thereof, to wit:

Louis Bronaugh
Don Boyd
Percy Simond
Betty Jones
Bob Bowman
Jack Gorden, Jr.
Tucker Weems
C. G. Maclin
Tommy Deaton
Atha Stokes
Keith Wright

Mayor
Mayor pro tem
Councilmember, Ward No. 1
Councilmember, Ward No. 3
Councilmember, Ward No. 4
Councilmember, Ward No. 5
Councilmember, Ward No. 6
City Manager
Asst. City Attorney
City Secretary
City Engineer

being present when the following business was transacted.

1. Meeting was opened by Mayor Louis Bronaugh.

2. CAPITAL IMPROVEMENT PROJECTS - GENERAL FUND - UTILITY FUND -
SOLID WASTE FUND - ISSUANCE OF DEBT AND FINANCING OF PROJECTS

Mayor Bronaugh stated that Council had met in a Called meeting to consider capital improvement projects for the General Fund, Utility Fund and the Solid Waste Fund for alternatives for issuance of debt and financing of these projects.

City Manager Maclin stated that last summer during the budget process the Council approved the inclusion in this current fiscal year budget the addition of a substation for the Fire Department located in the City's elevated storage tank on White House Drive (including some renovations). City Manager Maclin stated that in 1997 the City annexed some property off of Brentwood, and there are homeowners/property owners who would like to have sewer service, which would cost approximately \$200,000 to extend to this area. City Manager Maclin stated that there was also an indication that additional funds would be needed to complete the street bond program for Feagin, Tulane, Paul and MLK. City Manager Maclin stated that staff would know more accurately exactly what the short fall would be of how much additional dollars the City would need to complete that project after going to bid in the next 30-45 days. City Manager Maclin stated that the City has a bid coming due next month on Webber Street, which is the City's Texas Capital Fund Economic Development Administration project, to improve Webber Street and to enhance the growth of Pilgrim's Pride. City Manager Maclin stated that when staff gets those bids in they will have a pretty good idea of what the current market is. City Manager Maclin stated that the market has changed significantly due to the Union Pacific rail problems and the inability to have gravel aggregate delivered on a reliable basis, and it has caused the price of concrete and asphalt to go up significantly. City Manager Maclin stated that in the Solid Waste Fund there is a new Solid Waste facility to be built adjacent to the current recycling facility. City Manager Maclin stated that he would remind Council that the Solid Waste Fund is a revenue neutral item in that the funds that the City is currently paying to lease the Solid Waste facility on the West Loop from Mr. Allen would be applied towards the debt retirement so that basically money that is already in the budget for lease payments will be applied towards amortization payments, and would not require any kind of rate increase in the Solid Waste fees in order to have a new facility. City Manager Maclin stated that staff felt that this would produce some management economies of scale to have those two facilities side by side, and the fact

that the superintendent supervises both Recycling and Solid Waste, as well as uses the same equipment. City Manager Maclin stated that these are the items that Council agreed to do during 1998, and a little later in the presentation, Mr. Byrd, the City's financial advisor, will be providing some information.

City Manager Maclin stated that there are two other items for discussion today and one of them is a follow-up on the meeting in November when Dodson & Associates made their presentation of Phase I of the Master Drainage Study. City Manager Maclin stated that included in their presentation was a recommendation for consideration of the construction of two detention ponds in the west side of the community's water shed. City Manager Maclin stated that those two detention ponds would serve as what's commonly called a "dry pond". City Manager Maclin stated that this is when you build a pond that when it comes a good rain it catches a certain amount of the water shed flow, holds it in a pond, allows it to drain at a decelerated rate so that it doesn't over burden or cause flooding beyond current limits through the addition of these detention ponds. City Manager Maclin stated that there are two locations proposed after study by the engineering consultant, one is just north of Lotus Lane, and the other is just north of Old Union Road, west of the Post Office. City Manager Maclin stated that staff will be providing Council with maps and reviewing that information briefly since it hasn't been discussed since November. City Manager Maclin stated that on the list of proposed items by fund for debt issuance there is \$1.8 million for the cost of the two detention ponds.

City Manager Maclin stated that the last item is a method for permanent resolution for the asbestos occurrence in the City's water. City Manager Maclin stated that staff has identified all of the asbestos cement pipe lines in the City's distribution system, and it does comprise about 25% of the City's distribution system. City Manager Maclin stated that the estimated cost for replacement of all of that pipe is approximately \$15 million and staff will be talking about options for financing should Council choose to move forward with that project. City Manager Maclin stated that pending TNRCC approval, the City has some options relating to low interest financing through the Texas Water Development Board, which has a program that provides a discounted interest rate for projects that improve water quality. City Manager Maclin stated that if the City is able to secure funds through that program, the interest rate is about a percent and a half less than if the City went to the market, and on \$15 million that would be close to \$4 million in interest savings to the general public.

City Manager Maclin stated that before Council looks at the financial options on these items, he felt that it would be appropriate to take this opportunity for the City Engineer to give an update on the various bond funds that have been issued over the last six or seven years, and it includes the street bond program.

Keith Wright, City Engineer, stated that he would try and provide an overview and basically answer a few questions about the current status of the street, water and sewer bond projects. Mr. Wright stated that he will tell the financial status, the construction progress, and where we go from here. Mr. Wright stated that all of the funds were broken down in fund numbers, and Funds 24 and 29 are the funds that track the street bond project; Fund 18 is the most recent water and sewer project; and, Funds 47 and 49 are the older projects that started back in 1991 and are continuing to this day.

Mr. Wright stated that the first slide shows the total cost of Funds 24 and 29. Mr. Wright stated that the costs have been broken down into four categories: acquisition, engineering, utility relocation and construction, for each of the four streets, Feagin, Paul, Tulane and MLK. Mr. Wright stated that Feagin is completed and there is no projected future expense. Mr. Wright stated that year-to-date expense was \$1,642,764 for Feagin, \$1,851,760 for Paul Avenue with projected expenditures of \$603,322 for a total of \$2,455,082. Mr. Wright stated that the acquisition costs for Tulane is \$385,948 and is nearing completion, with engineering costs of \$179,686. Mr. Wright stated that utility relocation is underway and the

\$13,480 reflects some sewer line relocation. Mr. Wright stated that construction expense today for Tulane has been \$29,831 and year-to-date expense is \$608,946. Mr. Wright stated that projected future expense based on a hot mix asphalt street is \$2,547,183 for a total project cost of \$3,156,129. Mr. Wright stated that he went back to Goodwin & Lasiter and got some updates for concrete and hot mix options based on current bids they have received. Mr. Wright stated that based on that information he had revised the estimates for Tulane. Mr. Wright stated that the concrete option is about \$500,000 more than what is being projected on the hot mix. Mr. Wright stated that the acquisition costs for MLK is \$1,080,527, engineering is \$197,798, utility relocation is \$169,949 (which is complete), construction to-date is \$390,737, for a total year-to-date expense of \$1,839,011. Mr. Wright stated that he is projecting future expense at \$1,079,723 for a total projected cost of \$2,918,734.

Mr. Wright stated that some pictures had been included in the presentation and the first picture was taken on Paul Street outside of the Loop where both lanes have been completed. Mr. Wright stated that the sidewalks and storm sewer inlet have also been completed. Mr. Wright stated that there is a very large box culvert crossing for creeks with concrete riprap, with a metal railing to provide for safety. Mr. Wright stated that the total projected cost for all the street projects is \$10.2 million and the original bond funds were \$8,650,000. Mr. Wright stated that staff estimates that the City has earned interest of approximately \$474,014 on those funds. Mr. Wright stated that based on a hot mix project on Tulane, staff is currently projecting a shortfall of \$1,048,694 for the street bond projects. Mr. Wright stated that total expense year-to-date on all the streets is \$5,942,480. Mr. Wright stated that based on the information at the bottom of the page, Tulane will be the most expensive street followed by MLK, Paul and Feagin.

City Manager Maclin stated that Fund 24 represents the original \$5 million the City issued at \$8.6, and Fund 29 represents the other \$3.6 million.

Mr. Wright stated that the next picture was taken on MLK during construction. Mr. Wright stated that the first layer of asphalt has been laid. Mr. Wright stated that in order to expedite the ease of travel on MLK they are now laying a thin layer of asphalt prior to putting the curb on. Mr. Wright stated that forming up the curb and pouring the concrete in inclement weather has been delaying the construction. Mr. Wright stated that they are now pouring the curb on top of the thin layer of asphalt which allows them to cover the lime stabilized subgrade and protects the lime stabilized subgrade from damage, which is not meant for heavy traffic and it will minimize the complaints about pot holes and gives a much better temporary driving surface.

Mr. Wright stated that the bottom picture is of the side walks on Paul Avenue. Mr. Wright stated that the Feagin Street project is 100% complete. Mr. Wright stated that he is estimating that Paul Avenue is 85% complete, and the main task that remains includes laying pavement for the east bound lane inside the Loop. Mr. Wright stated that rainfall has hampered completion of this project. Mr. Wright stated that MLK is 30% complete and the tasks remaining include drainage, subgrade stabilization, and pavement. Mr. Wright stated that most of the pavement has been completed between Abney and Kurth Drive. Mr. Wright stated that the pavement used on MLK is full depth asphalt and is between 7 and 9 inches depending upon the location. Mr. Wright stated that the last layer of asphalt (1 1/2" Type D on top) will be applied for a uniform surface. Mr. Wright stated that he is estimating that Tulane is 10% complete. Mr. Wright stated that all of the acquisition is finished and utilities are being relocated. Mr. Wright stated that he is expecting to bid out in April of 1998, which will reflect the actual expenses. Mr. Wright stated that even though the quantity of gravel seems to be stable right now he has noticed that the price has not come down. Mr. Wright stated that this street could have been bid earlier but they were holding off hoping for some type of stabilization in the bid process for a better price.

Mr. Wright stated that Fund 18 is for the new bonds that Council approved in 1996.

Mr. Wright stated that the pie-graph reflects that the ground storage tank is 60% of the cost, the water well is 21%, the clarifier rehab is 11% and the sewer main relocation is 8%. Mr. Wright stated that the picture is of Water Well 13, which was funded through Fund 18, and is actually a little further along than the picture shows. Mr. Wright stated that is off of FM 843 in Allentown.

Mr. Wright stated that the total projected cost for the water well is \$619,144, the sewer line is \$366,460, the storage tank is \$1,575,000 and the clarifier is \$242,000. Mr. Wright stated that the sewer line relocation work was necessary because of the work that TxDOT is doing on Highway 69 N. Mr. Wright stated that the storage tank has not been bid out as yet, but he is staying with the original estimate. Mr. Wright stated that the original bond funds are listed by project. Mr. Wright stated that in the water well project there is a projected short fall of \$69,144, and is mainly due to the estimate that was done, and did not include a lot of the transmission line or include the cost of property acquisition. Mr. Wright stated that total year-to-date expense for the water well has been \$510,730. Mr. Wright stated that he is predicating a projected shortfall of \$84,924 on the sewer line, and the biggest part of this is directly due to a change in the way that TxDOT was funding the City's projects. Mr. Wright stated that two of the lines (A & F) were not even in the State Highway right-of-way (there were private easements for these lines). Mr. Wright stated that the State was requisitioning additional property for a drainage channel where the lines came out and outfaulted at. Mr. Wright stated that there is a big channel that TxDOT is excavating for the drainage of the highway and that channel took in parts of the easement where the City's sewer line was. Mr. Wright stated that originally the City successfully argued that if TxDOT was impacting the sewer line, even though they are only impacting parts of it, since it is a sewer line in reality you are impacting the whole line. Mr. Wright stated that if the City has to relay a part of the line in order to get it on grade and get it to drain property, the whole line has to be relayed. Mr. Wright stated that TxDOT projected a percent of participation in these lines of 85%. Mr. Wright stated that they came back after the City had completed the line work and now are saying that they will only pay for 45% based on State law. Mr. Wright stated that this is the reason he is projecting a shortfall in the 69 N project.

Mr. Wright stated that the City is \$40,000 in the black on the bids for the clarifier which will help offset some of the expense on the sewer line project.

Councilmember Jones asked if the City had to take the final determination that 45% is all that TxDOT will be responsible for. City Manager Maclin stated that staff had appealed this decision to the extent that we can appeal it. City Manager Maclin stated that the City staff had not taken it to the Commission in Austin, but have taken it as high as we can at a District level and have been told that that is all they will do. City Manager Maclin stated that, in his opinion, it would be feudal to appeal it further since Austin will uphold the District Office's decision. Mr. Wright stated that he is able to relocate parts of other utility lines without it effecting the whole line, but that is not true for sewer line relocation. Mr. Wright stated that TxDOT is saying that if the line is not in the easement they are taking up even though it may be impacting things upstream, they are not going to participate. Councilmember Jones stated that, in her opinion, if there had been a fluctuation on their position of 85% to 45% the City might have some grounds for appeal. City Manager Maclin stated that he would be happy to visit with Mr. Justice further to see if they might reconsider.

Mr. Wright stated that the water well is 99% complete. Mr. Wright stated that the only thing left is the installation of the electrical equipment, which should be completed by the end of April.

Mr. Wright stated that the Loop 287 and 69 N sewer relocation is 99% complete with some clean up remaining.

Mr. Wright stated that the ground storage tank is 5% complete. Mr. Wright stated

the site has been cleared and the soil analysis completed. Mr. Wright stated that the engineering is nearing completion, with some of it being subbed out for the structural foundation design on the tank. Mr. Wright stated that he hopes to bid out in late March or early April.

Mr. Wright stated that the clarifier rehab has been bid out and is 10% complete. Mr. Wright stated that at this time they are waiting on the arrival of the equipment, which had a 120 day delivery period.

Mr. Wright stated that Fund 47 was the original \$7.1 million bond project of 1991, and Fund 49 was the project of 1993-'94 to replace the wellfield lines and some digester work. Mr. Wright stated that the next picture is of the digester and the building that went with it that was built underneath the project. Mr. Wright stated that the year-to-date expense for Fund 47 is \$7,035,779, and the year-to-date expense for Fund 49 is \$4,280,168. Mr. Wright stated that the original bond fund total was \$9,670,000. Mr. Wright stated that the estimated interest on the bond funds is \$2,138,191 over a seven to eight year period. Mr. Wright stated that there was \$18,500 in grant funds for some fluoride injection that was done at the Water Plant. Mr. Wright stated that the current year-to-date balance is \$511,344, projected expenses of \$87,365, and the projected balance is \$423,980. Mr. Wright stated that the balance is currently earmarked for the upgrade of waterlines to improve fire protection in designated areas of Lufkin.

Mr. Wright stated that the next pictures are of the new aeration basin that was constructed at the Wastewater Treatment Plant and the new clarifier. Mr. Wright stated that the following projects were completed under Funds 47 and 49: Two million gallon elevated ground storage tank and concrete street access; 16" Loop water transmission line around the Loop from MLK to 58 and back to the White House elevated tank; 12" MLK to 103 water transmission line; filter system at water plant and a new chlorine building; WWTP expansion to 11.3 mgd, including expansion of the lab; completed booster pump upgrades and the electrical system was totally redone going from a 2300 volt system to 480 volt system, the SCADA system at the Wastewater Treatment Plant, and the well field lines. Mr. Wright stated that with the SCADA system he can monitor the water plant from his office.

Mr. Wright stated that current and future projects are: the WWTP computer control system, which is 25% complete; the 16" force main repair, which was \$57,000; and the waterline upgrades in order to provide for fire protection.

Councilmember Simond complimented Mr. Wright on his good, professional presentation.

In response to question by Councilmember Gorden, Mr. Wright stated that the City has a map that was prepared by EGA when the bond fund was originally passed and some of the projects have been completed by the City. Mr. Wright stated that the projects on Ponderosa and Valley Drive were completed under the City's normal budgeting process. Mr. Wright stated that the funds could also be used for asbestos cement pipe replacement. City Manager Maclin stated that staff had used the key rate reports from the State Fire Marshal's office to determine which areas needed upgrades that would have the greatest impact on the City's key rate to upgrade from 2" lines to 6" lines so that there would be fire protection. City Manager Maclin stated that you cannot get fire protection without a 6" line. Mr. Wright stated that you cannot put a fire hydrant on anything smaller than a 6" line.

City Manager Maclin asked Councilmembers to refer to a copy of a handout that was used during the presentation back in November by Dodson & Associates. City Manager Maclin stated that at the bottom of page 4 there is a recommended detention plan and it refers to excavation and to Basins #3 and #7. Mr. Wright passed around a map taken from the notebook prepared by Dodson & Associates showing the location of these two basins. City Manager Maclin stated that at the top of the fifth page the benefits of the regional detention plan are given, and at the

bottom of the page is the land acquisition and construction cost estimates for an interim plan. City Manager Maclin stated that the total cost when you add basin #3 and basin #7 is \$1,740,384. City Manager Maclin stated that the property owners in these areas have been identified and have estimated appraised value for inclusion in this number. City Manager Maclin stated that part of the follow up to the November meeting is to ask the Council to further discuss today how they would like to direct staff action in regards to the recommendations from Dodson & Associates, specifically to the detention ponds.

City Manager Maclin stated that as a very simple recap of a detention pond, a detention pond acts as a flood prevention measure by catching water upstream, holding it and allowing it to drain at a rate that the downstream area can handle. Once it is drained it is back to being a dry pond and could be used for public park areas or greenbelts. City Manager Maclin stated that those two locations are just north of Lotus Lane going back towards Morris Frank Park and on Old Union Road about 800 yards west of the Post Office (approximately).

In response to question by Councilmember Jones, City Manager Maclin stated the cost of land acquisition is based on appraised value. Councilmember Jones stated that this is an issue that she has been interested in for the whole City and, in her opinion, this is a place to start to address some of the major drainage problems the City has. Councilmember Jones stated that she had read through the material provided by Dotson & Associates and in some cases they recommended more retention facilities. Councilmember Jones stated that, in her opinion, this is a logical approach to start to address some of the things that will continue to be a problem for the City. Councilmember Jones stated that as this area continues to develop and more concrete is put on the ground, the Council will have to think about the impact that will have on the City in the future.

Mike Byrd, the City's financial consultant, stated that he had prepared a three page handout for Council. Mr. Byrd stated that the first page would assume that the City would fund its fire station and the street money for a total of \$1.6, and further assumes that the City includes within that \$800,000 a Solid Waste Facility and \$200,000 to extend sewer to the Brentwood project. Mr. Byrd stated that the first column is the general obligation debt service of the City, and the second column is the portion of the G. O. debt service that is paid from the water and sewer system. Mr. Byrd stated that there is just a small amount left, and it will be paid out in a couple of years. Mr. Byrd stated that the third column is the net G. O. debt from I&S tax and the City's current debt levy is approximately \$1,229,149 per year. Mr. Byrd stated that the next column in blue ink is entitled "plus \$1,600,000 Tax C. O.'s", this is the debt service requirements on the \$1.6 million, which will fund the fire station and will fund the deficiency in the street fund. Mr. Byrd stated that these are just payments, and Council would not see the tax rate effect on this page. Mr. Byrd stated that the next column is the Total G. O. debt from I&S tax showing the City's current level at \$1.227 million and the payments would increase in this situation up to a rounded \$1.320 and would continue at that level and eventually drop off. Mr. Byrd stated that this is important because so far the City has always postured itself when it issues bonds or some form of indebtedness so as to allow some future run-off and give future Councils room to issue debt for improvements as the need may arise. Mr. Byrd stated that if the City did not issue the debt that's great, then the tax rate would fall. Mr. Byrd stated that, in his opinion, Council did not want to push everything to the future, Council has never done that and is to be commended for it, and the Administration is to be commended for it, and it is because the Council has a very realistic attitude about handling their debt, which was evidenced when Moody's and Standard & Poor elevated the City's G. O. rating from a BAA to an A.

Mr. Byrd stated that on the right hand side of the page there is a column for total revenue bond debt service, which also includes within it that portion of the system G. O. debt that is paid from the system. Mr. Byrd stated that those requirements are \$1.764 million in this fiscal year and they are pretty constant. Mr. Byrd stated that for this portion of the \$200,000 C. O. issue even though it is going to

be secured with a pledge of taxes wouldn't be serviced by the system. Mr. Byrd stated that that small issue will be absorbed in the current payment structure. Mr. Byrd stated that its effect is negotiable. Mr. Byrd stated that the next column is the Solid Waste System and there is \$800,000 to be issued to build that facility. Mr. Byrd stated that as Mr. Maclin pointed out at the onset of this meeting, that is really a revenue neutral debt issue because the City is currently paying lease payments and those will be discontinued and we will pick up with this payment stream.

In response to question by Councilmember Simond, Mr. Byrd stated that the \$800,000 was to be used for the construction of a Solid Waste Facility as a maintenance facility. City Manager Maclin stated that this is the facility that Council and staff talked about last summer to relocate from the current location on the West Loop to build a new facility adjacent to the Recycling facility. City Manager Maclin stated that the revenue that the City is currently paying in rent would be applied toward this debt so there would not need to be any type of rate increase to the citizens in order to build this facility. Mr. Byrd stated that nor would there be a rate increase as a result of extending sewer service to the Brentwood project.

Mr. Byrd stated that on page 2 there is the same format and same structure. Mr. Byrd stated that on the right hand side of the page nothing changes. Mr. Byrd stated that where the change occurs on this page is in the blue column entitled "Plus \$3,400,000 Tax C. O.'s". Mr. Byrd stated that the fire station is in this amount plus the street improvements and \$1.8 for the detention facility should Council choose to include that. Mr. Byrd stated that the total G. O. debt which will be paid from an I&S tax would go from the current level of \$1.227 million and would increase roughly \$190,000 to obtain a level of \$1.416 million.

Mr. Byrd stated that on page 3 in the first column "Present Net G. O. Debt" he has replicated from prior pages the City's current G. O. debt requirement and he also shows the tax rate that is associated with those cash flows. Mr. Byrd stated that to calculate tax rates throughout he used the City's current 1997-'98 net taxable value. Mr. Byrd stated that was \$1,024,000,000. Mr. Byrd stated that he has shown no growth in that taxable value, which is very conservative. Mr. Byrd stated that he would point out that the debt has been illustrated at an effective rate of interest of 5 1/2%. Mr. Byrd stated that the fourth column from the left is entitled "Projected Fire Station & Street Payments", and that is on the \$1.6 million and would fund just those two projects. Mr. Byrd stated that the payment initially would be \$88,000 a year and he is wrapping that debt around the City's current G. O. debt. Mr. Byrd stated that the tax rate that would be required to service this addition debt, Council would be looking at an increase of 9/10's of a cent. Mr. Byrd stated that the next column reflects that the payments on the \$1.8 million for the detention ponds will run around \$99,000 per year initially and calls for a tax rate increase of one cent. Mr. Byrd stated that if the City did both of those projects Council could expect a tax increase of approximately 1.9 cents.

Mr. Byrd stated that under the Tax Rate Detail & Grand total on the right hand side of the page, the present I&S tax rate requirement is \$0.1223 and will remain unchanged for 1998. Mr. Byrd stated that there will be a little bit of interest expense associated with issuing that debt in the 1998 fiscal year. Mr. Byrd stated that the tax rate will not change this year; it cannot, and typically the City would service that odd amount of interest expense with investment earnings that the City will earn on the construction fund. Mr. Byrd stated that if the City were to do both of these projects, the tax rate would increase to approximately \$0.1411 next fiscal year, and will stay at that level for about 8 to 9 years and will drop off and make room for the City to issue additional debt should the need arise.

Mr. Byrd stated that he would like to point out that while he is showing Council portions of this issue \$3.4 million, on the \$800,000 figure he is talking about one issue that would be secured with a pledge of taxes and surplus revenues of the water and sewer system. Mr. Byrd stated that the reason is that one, there is more

economies of scale and the City can take the debt and appropriate it and choose to pay for it from whatever sources it chooses to make available. Mr. Byrd stated that the things that lend themselves to payment from the I&S tax, he shows that on the \$3.4 million and Council would expect to levy a tax for that. Mr. Byrd stated that the other portion of the debt, Council would simply budget a payment to the I&S fund from the revenues of the Solid Waste System or the revenues from the water and sewer system.

In response to question by Councilmember Bowman, Mr. Byrd stated that the 1.9 cents will cover the funding of the Fire Station, the street improvements, and the detention ponds.

City Manager Maclin stated that from a staff standpoint, staff would seek some kind of indication from Council at their earliest convenience relating to the detention ponds. City Manager Maclin stated that in terms of the property that would need to be acquired, the longer the City waits the more development that takes place, the higher the price will be and the more expensive these detention ponds will cost the City in the future if we choose not to do it now but choose to do it later. City Manager Maclin stated that the City would then be looking at the possibility of acquiring developed properties, having to displace a home or a business and having to pay for the expense of acquiring the structure and having to tear it down. City Manager Maclin stated that now we are looking at property that is clear and free from any type of significant development with no structures. Councilmember Gorden stated that he is in favor of moving ahead with the detention ponds; Councilmember Bowman and Councilmember Jones concurred. Councilmember Boyd stated that he, too, agreed.

City Manager Maclin stated that with the consensus of opinion by Council we will add in the \$1.8 for the detention ponds.

In response to question by Councilmember Weems, Mr. Wright stated that the detention pond will have an open pipe on the end and will be sized that only a certain amount of water will come out and will also have an emergency overflow. Mr. Wright stated that the only real type of construction that will take place is the dam at one end which will be ponded back up to a natural elevation. Mr. Wright stated that the natural trees will be left alone except right next to the dam. Mr. Wright stated that depending on the size of storm it may take two or three days to drain. In response to question by Councilmember Weems, Mr. Wright stated that at the dam he will excavate around that area to build the dam itself and then build the outfault structures, everything else in the back part of the pond will not be touched unless the City at some time comes back and wants to build a jogging trail or some type of park facility. Mr. Wright stated that ever now and then that facility would come under water. Mr. Wright stated that this could be part of the Parks & Recreation Program.

In response to question by Councilmember Bowman, City Manager Maclin stated that basically rounded off, one penny equals \$100,000 in net taxes. Councilmember Bowman stated that he would like for the City Manager to make some projections of economic growth in the community to see if economic growth would produce that \$200,000 on its own without raising taxes. City Manager Maclin stated that the worst case scenario would be a 2 cent tax increase. City Manager Maclin stated that if the City were to have the same type of growth in property values like we did this past year and maintained that for the next three or four years, then there is a possibility that the 1.9 would drop to maybe as much as 1.5. City Manager Maclin stated that he would like to add that this is what Council has been paying for Decision Packages with. City Manager Maclin stated that this past year Council was able to go far down the list because the City did have 5% increase in property values, going from \$968,000,000 to \$1,024,000,000 net taxable. City Manager Maclin stated that when Council begins to anticipate increased net taxable revenues and begins to commit them for something new, the amount of new funds available for Decision Packages will be reduced. City Manager Maclin stated that at the retreat year before

last Council expressed strong frustrations about a long Decision Package list and not being able to get very many of them done, and he was challenged by Mr. Gorden at that meeting to find ways to get further down the Decision Package list. City Manager Maclin stated that the best way from an administrative standpoint is to increase revenues without increasing the tax rate. City Manager Maclin stated that staff has been able to do this in two ways - through the creation of Lufkin as a regional retail center, and through new growth. City Manager Maclin stated that when you have new growth you are able to have more money without raising the tax rate, and in essence that has been the primary motivation for economic development in the community producing additional tax revenues so that the citizens can have more services without their tax rate being increased. City Manager Maclin stated that if we begin to anticipate the utilization for issuance of new debt on the improved property values then you are proportionately spending the growth funds of the City before you have them and therefore will eliminate the ability to get new Decision Packages and make other needed improvements to the City.

In response to question by Councilmember Jones, City Manager Maclin stated that back when the City had the bond campaign in 1993-'94 to the average homeowner a 5 cent tax increase equivocated to a hamburger, french fries and coke per month (\$3.00 or \$36.00 per year). City Manager Maclin stated that we are looking at it being about 2/3s of that. City Manager Maclin stated that he could provide those figures of what a nine cent tax increase would do. City Manager Maclin stated that as the City moves closer towards the issuance of debt there will be several items on the agenda and prior to that he will provide Council with that information.

In response to question by Councilmember Jones, City Manager Maclin stated that the City is doing Phase II and III of the drainage study at the same time because the City got a grant from the Texas Water Development Board. City Manager Maclin stated that the watersheds on the east and north sides of town are being studied now. Mr. Wright stated that as an update on this study, staff has completed all of the mapping, the aerial photography, all of the surveying of actual surveys of the channel is completed and they should be developing their computer models this month. Mr. Wright stated that the City has to be completed with the study by October, which is the deadline given by the Texas Water Development Board. Councilmember Jones stated that just as a reminder, when this study is completed, we still have not finished the drainage work because it is an ongoing thing until we finish the whole study and look at the whole City and the problem areas in each part. City Manager Maclin stated that the current study that is under way will include Hurricane Creek and Mill Creek.

City Manager Maclin stated that the bottom part of the handout sheet of proposed items by fund for debt issuance addresses the replacement of A/C pipe. City Manager Maclin stated that to briefly reiterate that our current problem with asbestos in the water is in the distribution system and the problem the City had in 1994 was in the well field system. City Manager Maclin stated that this problem comes from the fact that the City has about 25% of the distribution system that is A/C pipe. City Manager Maclin stated that in 1994 the City replaced all 14 miles of the A/C pipe with PVC pipe and eliminated the problem in the well field. City Manager Maclin stated that in the '70s and into the early '80s A/C pipe was low bid and cities all over the nation used lots of A/C pipe. City Manager Maclin stated that this is not a problem that is unique to Lufkin, however, the problem of utilization of A/C pipe is accentuated when there is a natural corrosive action in the water. City Manager Maclin stated that the City's natural corrosive action is hydrogen sulfite (that rotten egg smell). City Manager Maclin stated that although hydrogen sulfite is not hazardous to your health or dangerous it is offensive from an aesthetic standpoint, and more importantly with A/C pipe, it attacks the concrete portion of the pipe (A/C pipe is 85% cement and 15% asbestos). The asbestos fibers were used to provide strength the same as contractors use steel in concrete slabs or highways. City Manager Maclin stated that over a period of time the hydrogen sulfite attacks the concrete and begins to dissolve it. It dissolves it like grains of sand

or granules of sugar to where it begins to flake off and over a period of time the erosion of the cement allows the asbestos fibers within the cement to then fall into the water. City Manager MacLin stated that what created the need for further consideration was in September, and the end of November, the City had a couple of tests that came back above seven million fibers per liter. City Manager MacLin stated that in 1994 when we had the asbestos problem we entered into an agreement with TNRC as part of resolving the problem to where we would do on-going testing for the foreseeable future or until such time as all the asbestos potential sources are removed and we have gone a long period without any asbestos above seven million fibers per liter showing up in the City's system, then the frequency of the City's testing would be reduced just to comply with EPA regulations. City Manager MacLin stated that the City had two samples, one in September and one in November, that prompted staff to do a series of over a hundred-plus tests. All of the A/C pipes were identified within the City's system and core samples were done and pipe was dug up, cut in half to visually inspect it to determine what type of depreciation is taking place. City Manager MacLin stated that staff found that in some of the pipe the inside 1/8th of an inch of the diameter of the pipe was soft and spongy like wet cardboard. City Manager MacLin stated that this was because of the hydrogen sulfite eating the top half of the pipe, gas rising to the top and attacking the concrete portion, therefore making that 1/8th of an inch inside diameter soft, and that is what staff believes to be the source of the asbestos levels we have had this past fall.

City Manager MacLin stated that the long term permanent solution to elimination of asbestos in our water is the replacement of the pipe. City Manager MacLin stated that if get rid of the pipe, we get rid of the source of the asbestos. City Manager MacLin stated that there is no naturally occurring asbestos in our ground water, and there is no other source that we can identify other than the A/C pipe.

City Manager MacLin stated that, as mentioned, 25% of our distribution system is A/C pipe and what we have been in the process of doing for the past 60 days, in addition to the tests and coring samples, we have been determining the levels of depreciation. City Manager MacLin stated that there are two areas they consider to be the worse condition of the 25% in the distribution system, and that is along Lotus Lane and in the south end of town going out towards Holiday Inn. City Manager MacLin stated that these two areas would be first on the priority list for replacement.

City Manager MacLin stated that in further investigation staff has determined an estimated cost for the replacement of all the A/C pipe in the system to be about \$15 million. City Manager MacLin stated that this is a number that includes acquisition of some right-of-way where we think it may be needed, and there may be the potential of using pipe bursting in a few locations where there is a lot of development and might be cheaper per linear foot to use pipe bursting because of the buildings adjacent to it. City Manager MacLin stated that this price is based on just replacing pipe with new pipe. City Manager MacLin stated that when staff began to investigate methods and options for financing they discovered that the Texas Development Water Board does have this low interest loan program whereby if you are improving the quality of water, or if water quality is an issue, then they can provide a low term loan at an interest rate of approximately 1 1/2 % below normal market issuance. City Manager MacLin stated that on the bottom of the sheet staff provided, over the life of a 20 year bond there will be a savings of between \$3.5 and \$4 million in interest costs to the citizens. City Manager MacLin stated that if Council wants to move forward in beginning a replacement plan, staff thinks we should apply for these funds because of the substantial interest savings. City Manager MacLin stated that if the City were to issue \$1 million worth of funds towards this project, we could hire the engineering to do be done and come up with some more accurate estimates, do some surveying and detail work, and then actually get prepared for plans and specifications so that once we knew what our real costs were in a more accurate, scientific professional approach, then we would know how many dollars we would need for issuance to replace all the pipe.

City Manager Maclin stated that the last time this was discussed a question was asked if we were to issue all of it at one time what would that do to rates, and based on 5 1/2% interest rate, it would require about a 13.4% rate increase at one time in order to amortize \$15 million worth of debt at 5 1/2% interest over a 20 year period. City Manager Maclin stated that obviously with the 3 1/2% interest rate through the Texas Development Water Board it will be less than that, and once again if we spend some money and effort in beginning to prepare a plan where we would actually over 4 to 5 years minimum replace this pipe, it would be more feasible. City Manager Maclin stated that to issue \$15 million worth of debt and do it all at one time probably would put an undue burden or hardship on the citizens in terms of the rates they would have to pay for that time period. City Manager Maclin stated that if we spread it out over the five years, it would probably take to do all this construction anyway. City Manager Maclin stated that it would reduce the rate increase per year to a much lower level in the 2 to 3% range per year and, therefore make it a little more manageable to the local consumer budget.

Mike Byrd stated that he and Mr. Maclin had talked about this \$15 million and the 13% increase, and he introduced to Mr. Maclin the topic of the Drinking Water State Revolving Fund, which is a program that will be administered by the Texas Water Development Board. Mr. Byrd stated that it was TNRCC that tagged the City on finding the asbestos abatement and their sister agency is the Texas Water Development Board. Mr. Byrd stated that this is more like a financing arm of the State that is concerned with promoting clean water within the State.

Mr. Byrd gave a brief history on State Revolving Funds. In the '70s and early '80s if a City such as Lufkin wanted to try to obtain some grant money to be spent on a wastewater project, they retained an engineer and started to turn out mountains of paperwork, they submitted their documents and waited to get priority to be ranked. Mr. Byrd stated that as the grant money came in if the City of Lufkin had a \$15 million project it might get a 50% grant.

Mr. Byrd stated that about eight years ago they started a program called the State Revolving Fund and under this program the grant monies that flowed in from the Federal government, instead of being doled out piece-meal to individual issuers or cities it was put into a pot and just sat there. Mr. Byrd stated that the State of Texas would generally provide a 20% match and they would sell revenue bonds into the market place and take the proceeds from that and put it into this "pot". Mr. Byrd stated that the City of Lufkin would not, under that scenario, expect to get a direct grant. Mr. Byrd stated that the best they could do is go in and get approved for funding and then borrow 100% of the cost of the project, but it would do so with a subsidized rate of interest. Mr. Byrd stated that it was easy for the State of Texas to loan this money at a cheap rate of interest because 80% of the money in that "pot" had no interest expense associated from the State - it was theirs to dole out. Mr. Byrd stated that all the State had to worry about recovering was its interest expense on its 20%. Mr. Byrd stated that the idea of the State Revolving Fund is that as the monies are loaned out there's a profit to be had as the monies flow back in. Mr. Byrd stated that the goal is to take a small pot of grant funds that never seemed to go far enough and slowly build up a pot of some very low interest cost money that any qualified entity could access. Mr. Byrd stated that recently with the Clean Water Act that was passed by Congress there is grant money flowing into the State of Texas now for potable water projects and, in his opinion, the City's project would fit ideally into this because those funds are going to be directed at water quality not water supply. Mr. Byrd stated that he could not guarantee that the City of Lufkin is going to achieve a high enough priority to get money any time soon. Mr. Byrd stated that on the first go round there will be \$190 million available to qualified applicants. Mr. Byrd stated that he had encouraged Mr. Maclin to fill out the form to get the City's name on the intended use plan and the intended use plan goes to the TNRCC and it is TNRCC that assigns the rankings for priority. Mr. Byrd stated that the Federal funds involved in this put the State of Texas in a position to offer a subsidy that is equal to 145 basis points off of this interest rate index. Mr. Byrd

stated that what that means to the City of Lufkin is if you want to sell an issue of bonds to this fund you will go through the process, get the issue insured so that they offer the very best credit at an effective rate of interest at 3.3% in today's market place.

Mr. Byrd stated that the first thing is to put some money into engineering to define the project and come up with the particulars. Mr. Byrd stated that, in his opinion, we wouldn't tackle the whole problem at once. Mr. Byrd stated that having done the initial engineering then staff would define the scope of individual projects. Mr. Byrd stated that he calculated what would happen if the City took \$3 million per year each year for five years, and how that would impact the City's rates. Mr. Byrd stated that this is a rough estimate. Mr. Byrd stated that the left hand column listed as "Present" and that is the debt service requirements (water and sewer systems). Mr. Byrd stated that the \$200,000 for the Brentwood project has already been factored in and this will represent the total bond issue revenue debt service for the system. Mr. Byrd stated that the City was at \$1,764 million this year, next year the City expects \$1,796 million; \$1,801 million in fiscal year 2000; and then there is a decline in payments. Mr. Byrd stated that he had suggested \$3 million to be sold each year for five years, and with a 3.3% rate of interest the City is looking at \$207,000 per year to service a \$3 million issue. Mr. Byrd stated that his thinking is that the issue would be somewhere around November of this year. Mr. Byrd stated that the earliest that there would be money that would become available to the City of Lufkin would be October 1 of this year. Mr. Byrd stated that ideally we would issue at the very end of the year and close on the issue next year. Mr. Byrd stated that the reason is for the City to take advantage of whatever mechanisms that are good for the City of Lufkin. Mr. Byrd stated that in the issuance of tax exempt debt, if a City issues \$5 million or less in a given calendar year, then they are exempt from the rebate of any arbitrage profits. Mr. Byrd stated that if the City issues the debt at 5% they can turn around and put the proceeds in TexPool at 5.7%. Mr. Byrd stated that if the City is exempted then they get to keep the entire 5.7%. Mr. Byrd stated that if the City issues more than \$5 million in a calendar year, then the City will be subject to rebate and would be expected to return that .7% to the Federal government. Mr. Byrd stated that with the current project that is on the table, at \$4.4 million, if that is all the issue this year, the City will be able to arbitrage that money to the best of their ability. Mr. Byrd stated that he would hate to see the City issue \$3 million in this calendar year on top of that because immediately the City would lose its right to arbitrage this money. Mr. Byrd stated that \$207,000 would commence in the City's fiscal year 1999-2000. Mr. Byrd stated that the payments would start with \$1,764 million and in the year 2006 the payment would be \$2,412 million. Mr. Byrd stated that the City would not have to deal with a rate increase all at one time.

Mr. Byrd stated that if Council likes this scenario and feels that this project might be better addressed by an installment issue and breaking it up into separate projects, he would be happy to give Council a more detailed worksheet that would take into account some amount of growth. Mr. Byrd stated that, in his opinion, the Drinking Water State Revolving Fund offers an excellent opportunity to the City of Lufkin and he would encourage Council, if they fund this program, to fund it by making application there.

City Manager Maclin stated that what he would seek from staff's standpoint today is for Council's continued consideration and contemplation on this. City Manager Maclin stated that perhaps Council would like to get some feedback from the citizens in terms of how they feel about making an expense of this magnitude but knowing that the net result will be the elimination of the asbestos problem for now and in the future. City Manager Maclin stated that staff and Council need to come up with a plan probably within the next 30 to 45 days that can be submitted to TNRCC because if we have any additional elevated levels show up in our tests, then they will become on the offensive and the City will be on the defensive in that we will be responding to their directives. City Manager Maclin stated that if the City can come up with their own plan, we will to a larger extent control our own destiny by us being proactive and developing a plan that TNRCC accepts as an acceptable method of eliminating the problem. City Manager Maclin stated that he did not

think that Council would be prepared today to make a decision. City Manager Maclin stated that Council now has some numbers to deal with and he would ask Mr. Byrd to follow through with a little more written detail than the sheet he gave Council and get back to Council at his earliest convenience. City Manager Maclin stated that staff will bring this back to Council towards the end of March or the first of April, or as soon as Council is ready. City Manager Maclin stated that once Council has had a chance to get some feedback from citizens then staff will provide Council with the other alternatives and together come up with a plan that the City Engineer and himself can submit to TNRCC for their consideration.

In response to question by Mayor Bronaugh, City Manager Maclin stated that the \$1 million for engineering costs would have to be included in some other type of issuance if they go that way. City Manager Maclin stated that one possibility is to use existing fund balance on a designated due-to due-from and then when the City gets the first \$3 million from Texas Water Development Board, we pay ourselves back. City Manager Maclin stated that we can do that by Council action to say we are going to use some of our \$4-5 million fund balance for this purpose and then we are committed to pay ourselves back to fund balance when the debt is issued at a later date. City Manager Maclin stated that the City's attorney, Ed Esquivel, has provided us with that type of Ordinance in the past, so that we can go ahead and get moving on a project and then use existing funds and as soon as the debt is issued we pay ourselves back. City Manager Maclin stated that this is what he would probably recommend.

In response to question by Councilmember Bowman, City Manager Maclin stated that the only way TNRCC could not consider this a high priority is if the City has no violations.

In response to question by Councilmember Simond, City Manager Maclin stated that historically anything that was related to the Utility Fund because it is an Enterprise Fund, staff always used the revenues from water and sewer to offset that. City Manager Maclin stated that the City could issue additional CO's and charge it to the General Fund and increase taxes. City Manager Maclin stated that when debt is issued there is normally not a concern whether it is coming from taxes or water and sewer from the bond rating agencies, they just want a firm commitment, and that would be a decision this Council would need to make - if they wanted to use tax revenues as opposed to water and sewer revenues.

Councilmember Simond stated that Mr. Maclin had mentioned that Council could go back to their constituents and see how they felt about this, and he asked if the administration could have someone professionally do that. Councilmember Simond stated that different people on this Council represent different constituency, and there will be a different outcome. Councilmember Simond stated that the businesses like Pilgrims Pride and Coca Cola are the ones who are polluting the water system.

Councilmember Gorden stated that he senses that Council needs to do this all at one time even though it will be an awfully large project. Councilmember Gorden stated that the quality of the water effects the whole town. Councilmember Gorden stated he thinks the Council should look closely at trying to do the whole thing right now or as soon as we can.

City Manager Maclin stated that by targeting a proactive replacement program predicated on the pipe that is the worst, the City may be able to minimize the concern that after the first or second year we may not have the violation levels simply because we have eliminated the worst pipe. Councilmember Gorden stated that he is concerned about the violations, and the violations are causing Council to be talking about this right now, but he has a sense that this does not need to be on the table or a part of discussion. City Manager Maclin stated that one thing the City could do in the engineering study is get a more accurate estimate and if we did have the money all at one time, what would be the fastest mathematically possible time

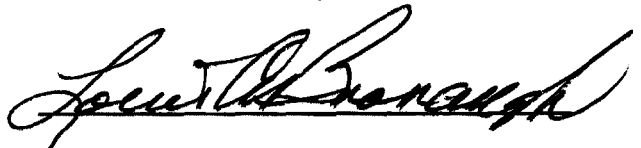
frame that 25% of the asbestos pipe could be replaced. Mr. Wright stated that with the engineering and construction manpower that is available to the City in this area there is no way that the City could get these services rapidly. City Manager Maclin stated that if the job is large enough contractors will be attracted from Houston and Dallas. Councilmember Gorden stated that the City is looking at saving money by doing all of Tulane at the same time based on the scale of the project, and it would save us money to do this whole job at the same time.

In response to question by Councilmember Bowman, Mr. Wright stated that staff is working on the hydrogen sulfite problem with the two million gallon ground storage tank by increasing the retention time. City Manager Maclin stated that back in the summer there were times when the City pumped over nine million gallons in a day, and four times that over eleven million gallons were pumped in one day, which had never been done before in the history of the City. City Manager Maclin stated that part of that was because of Pilgrims Pride doubling their consumption from one million to two million per day and part of it was people watering their yards during a dry summer. City Manager Maclin stated that when the City got above nine million gallons is when his phone began to ring fairly consistently about the odor problem. City Manager Maclin stated that once we got above the nine million gallons we exceeded our retention capacity to hold the water long enough to adequately get the hydrogen sulfite out. City Manager Maclin stated that when the two million gallon storage tank is operational this summer we will have that additional retention time so that even on nine million gallon pumping days we will have the retention time that is needed to aerify the water. City Manager Maclin stated that staff feels that they can improve and reduce the hydrogen sulfite problem by having the additional two million gallon ground storage tank along with some additional aerification. Mr. Wright stated that basically it is a chemical reaction that is taking place and you need time for that chemical reaction to occur in the ground storage tank. Mr. Wright stated that in the summer when the volume is real high, that reaction is taking place in the distribution system. Mr. Wright stated that they performed a pilot project on a different type of aeration system on one of the existing tanks and it cut the chlorine demand in half, which meant that the hydrogen sulfite was gone. Mr. Wright stated that this will reduce further deterioration, but the deterioration that is there it will not benefit.

City Manager Maclin stated that if it pleases the Council staff will try to put this item back on the agenda for March 17th for further consideration. Councilmember Simond asked that staff be prepared to tell Council how much the City would have to raise taxes to accomplish this project.

Mr. Wright stated that the cost estimate is a very conservative cost estimate. Mr. Wright stated that the engineers will provide a more detailed cost estimate and that price should come down.

3. There being no further business for consideration, meeting adjourned at 12:00 noon.


Louis A. Bronaugh
Mayor

ATTEST:



Atha Stokes - City Secretary