

MINUTES OF THE REGULAR MEETING OF THE CITY COUNCIL OF THE CITY OF LUFKIN, TEXAS HELD ON THE 7TH DAY OF APRIL, 2009

On the 7th day of April, 2009, the City Council of the City of Lufkin, Texas convened in a Regular Meeting in the Council Chambers of City Hall with the following members, thereof to wit:

Jack Gorden, Jr.
Rose Faine Boyd
R. L. Kuykendall
Don Langston
Rufus Duncan
Phil Medford
Paul L. Parker
Keith Wright
Robert Flournoy
Renee Thompson
Rodney Ivy
Larry Brazil
Scott Marcotte
Duane Freeman
Doug Wood
Steve Floyd
Don Hannabas
Barbara Thompson
Dale Allred
Chuck Walker
Belinda Southern
Diana Russell
Bill Cameron

Mayor
Mayor Pro-Tem
Councilmember, Ward No. 1
Councilmember, Ward No. 4
Councilmember, Ward No. 5
Councilmember, Ward No. 6
City Manager
Asst. City Manager
City Attorney
City Secretary
Human Resource Director
Police Chief
Asst. Police Chief
Interim Fire Chief
Finance Director
Public Works Director
Parks & Recreation Director
Main Street Director
Inspection Services Director
Public Utilities Director
Finance Manager
Purchasing Agent
City Webmaster

being present, and

Lynn Torres

Councilmember, Ward No. 3

being absent, when the following business was transacted:

1. The meeting was opened with prayer by City Attorney Robert Flournoy.
2. Mayor Jack Gorden welcomed visitors present.

3. APPROVAL OF MINUTES

Minutes of the Regular Meeting of March 24, 2009, were approved on a motion by Councilmember Rose Faine Boyd, and seconded by Councilmember R. L. Kuykendall. A unanimous affirmative vote was recorded.

OLD BUSINESS:

4. **CERTIFICATION FROM CITY SECRETARY CANCELING THE MUNICIPAL ELECTION SCHEDULED FOR MAY 9, 2009 TO ELECT A MAYOR AND CITY COUNCIL MEMBER FOR WARD NUMBER FOUR (4) AND SECOND READING OF THE ORDINANCE DECLARING UNOPPOSED CANDIDATES IN THE MAY 9, 2009 GENERAL ELECTION, - APPROVED - ELECTED TO OFFICE; CANCELING THE ELECTION; PROVIDING A SEVERABILITY CLAUSE; AND PROVIDING AN EFFECTIVE DATE**

Mayor Jack Gorden stated that the next item for consideration was the Certification from City Secretary canceling the Municipal Election scheduled for May 9, 2009, to elect a Mayor and City Council Member for Ward Number Four (4) and Second Reading of the Ordinance

declaring unopposed candidates in the May 9, 2009, General Election, elected to office; canceling the election; providing a severability clause; and providing an effective date.

City Manager Paul Parker stated that the agenda item was the Certification from the City Secretary and Ordinance canceling the Municipal Election on May 9, 2009, for the positions of Mayor and Councilmember Ward Number Four (4), which was Councilmember Don Langston's Ward. City Manager Parker stated that Mayor Jack Gorden and Councilmember Don Langston were both running for office and were both unopposed. City Manager Parker added that there would be a Municipal Election on May 9, 2009, for the position of Councilmember Ward Number Two (2), which was the position currently being held by Councilmember Rose Faine Boyd. City Manager Parker stated that there was an opponent in that Ward, and reiterated that the Mayor's and Councilmember Ward Number Four's (4's) positions were unopposed, and that Mayor Gorden and Councilmember Langston would be considered elected to office.

Mayor Gorden asked for questions or comments from the Council.

Councilmember Phil Medford moved to approve the Certification from City Secretary canceling the Municipal Election scheduled for May 9, 2009 to elect a Mayor and City Council Member for Ward Number Four (4) and Second Reading of the Ordinance declaring unopposed candidates in the May 9, 2009 General Election, elected to office; canceling the election; providing a severability clause; and providing an effective date. Councilmember R. L. Kuykendall seconded the motion. A unanimous affirmative vote was recorded.

NEW BUSINESS:

5. FIRST READING OF AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF LUFKIN, TEXAS, - APPROVED - RESTRICTING SMOKING IN CITY OF LUFKIN PARKS; PROVIDING A SEVERABILITY CLAUSE; AND PROVIDING AN EFFECTIVE DATE AND REPEALING ALL ORDINANCES IN CONFLICT HEREWITH

Mayor Jack Gorden stated that the next item for consideration was the First Reading of an Ordinance of the City Council of the City of Lufkin, Texas restricting smoking in City of Lufkin Parks; providing a severability clause; and providing an effective date and repealing all Ordinances in conflict herewith. Mayor Gorden stated that the City Council had a Work Session concerning the Ordinance a couple of weeks earlier, and that the Council had been talking about and considering the Ordinance for quite some time.

City Manager Paul Parker stated that the Coalition initially made a presentation to the City Council, requesting a tobacco free area in the Lufkin Parks. City Manager Parker added that after considerable discussion and a Work Session, the City Council gave direction to Staff to prepare an Ordinance for smoke free parks, but not entirely tobacco free, in the City of Lufkin. City Manager Parker stated that the City anticipated that most of the compliance would be voluntarily, although there was the possibility of fines if people did not comply. City Manager Parker added that if the Ordinance was approved by the Council, City Staff would put the appropriate signage in all of the City Parks, notifying the public that the parks were "no smoking" areas.

Mayor Gorden asked for questions or comments from the Council.

Councilmember Rufus Duncan moved to approve the First Reading of the Ordinance of the City Council of the City of Lufkin, Texas restricting smoking in City of Lufkin Parks; providing a severability clause; and providing an effective date and repealing all Ordinances in conflict herewith. Councilmember Don Langston seconded the motion. A unanimous affirmative vote was recorded.

6. PUBLIC HEARING AND FIRST READING OF AN ORDINANCE AMENDING THE ZONING ORDINANCE OF THE 2001 COMPREHENSIVE PLAN OF THE CITY OF LUFKIN, TEXAS - APPROVED - BY CHANGING THE ZONING ON LAND DESCRIBED AS LOT 2, BLOCK 1, OF THE GDSV-ETBR SUBDIVISION FROM A ZONING CLASSIFICATION OF "LOCAL BUSINESS" TO A "COMMERCIAL" ZONING DISTRICT

Mayor Jack Gorden stated that the next item for consideration was a Public Hearing and First Reading of an Ordinance amending the Zoning Ordinance of the 2001 Comprehensive Plan of the City of Lufkin, Texas by changing the zoning on land described as Lot 2, Block 1, of the GDSV-ETBR Subdivision from a zoning classification of "Local Business" to a "Commercial" Zoning District.

City Manager Paul Parker stated that David Miles was requesting a change in zoning from "Local Business" to a "Commercial" Zoning District on property located at the corner of Miles Way and Loop 287. City Manager Parker added that the property was immediately east of the Burke Center and west of Cheddar's Restaurant. City Manager Parker stated that the intent of the applicant was to develop the property with several small stores. City Manager Parker explained that the frontage was located on Miles Way and the land was approximately 1.4 acres, which was currently vacant. City Manager Parker stated that the area surrounding the property was zoned "Commercial" and "Local Business". City Manager Parker added that the Lufkin Comprehensive Master Plan showed the area to be "Commercial". City Manager Parker stated that both the Planning and Zoning Commission and Staff recommended that the City Council approve the zone change from "Local Business" to "Commercial".

Mayor Gorden opened the Public Hearing 5:10 p.m. and asked anyone who wished to speak on the item to please step forward. There appearing to be no one who wished to speak, Mayor Gorden closed the Public Hearing at 5:11 p.m.

Mayor Gorden asked for questions or comments from the Council.

Councilmember Phil Medford moved to approve the First Reading of the Ordinance amending the Zoning Ordinance of the 2001 Comprehensive Plan of the City of Lufkin, Texas by changing the zoning on land described as Lot 2, Block 1, of the GDSV-ETBR Subdivision from a zoning classification of "Local Business" to a "Commercial" Zoning District. Councilmember Rose Faine Boyd seconded the motion. A unanimous affirmative vote was recorded.

Mayor Gorden then thanked David Miles for his progressive work in Lufkin.

7. **PUBLIC HEARING AND FIRST READING OF AN ORDINANCE ANNEXING THE HEREINAFTER DESCRIBED TERRITORY TO THE CITY OF LUFKIN, TEXAS, - APPROVED - AND EXTENDING THE BOUNDARIES OF SAID CITY SO AS TO INCLUDE SAID HEREINAFTER DESCRIBED PROPERTY WITHIN THE CITY LIMITS, AND GRANTING TO SAID TERRITORY AND TO ALL FUTURE INHABITANTS OF SAID PROPERTY ALL OF THE RIGHTS AND PRIVILEGES OF OTHER CITIZENS AND BINDING SAID FUTURE INHABITANTS BY ALL OF THE ACTS AND ORDINANCES OF THE SAID CITY**

Mayor Jack Gorden stated that the next item for consideration was a Public Hearing and First Reading of an Ordinance annexing the hereinafter described territory to the City of Lufkin, Texas, and extending the boundaries of said City so as to include said hereinafter described property within the city limits, and granting to said territory and to all future inhabitants of said property all of the rights and privileges of other citizens and binding said future inhabitants by all of the acts and Ordinances of the said City.

City Manager Paul Parker stated that Mr. Allen Loggins, representing himself, Roger Jones, and Randy Hanson, was proposing a voluntary annexation of the property. City Manager Parker explained that the property was approximately 10.605 acres of land. City Manager Parker added that Staff had provided a map of the property on the desks for the Council, and explained that the map might be easier to read and look at. City Manager Parker stated that the area basically encompassed the Total Performance Business, the Reo Club, and a daycare center. City Manager Parker added that those were the three (3) businesses that were being proposed for annexation. City Manager Parker stated that the area fit the qualifications for an expedited annexation, if the City Council so approved. City Manager Parker stated that it would only take this First Reading and then the Second Reading on April 21, 2009, for the approval of the annexation request. City Manager Parker stated that also provided to the City Council was a list of protest letters that were received earlier that day. City Manager Parker

added that the information was not mailed outside the city limits, but a copy of the form was obtained and circulated, mainly in the King's Row Mobile Home Park area. City Manager Parker explained that there wasn't a twenty percent (20%) protest factor, even though there were numerous letters in the Council's files. City Manager Parker stated that most of the protest letters were related to noise, and sewer and drainage complaints. City Manager Parker stated that the applicant desired the annexation because they desired to have City of Lufkin services, primarily the sewer services. City Manager Parker stated that primarily the Reo Club had a large contingency, because of the large number of users in the club, and because of the large facility that was pumped out on a regular basis. City Manager Parker stated that this was the general description of the property. City Manager Parker added that the City had the Police Department and the Fire Department look at the Club's operations, and that there were no significant problems other than what was normal for those types of establishments. City Manager Parker then requested that Assistant Chief of Police Scott Marcotte speak concerning the City's Noise Ordinance, to let the public understand where the City stood concerning noise compared with that of the County.

Assistant Chief of Police Scott Marcotte stated that if the City Council chose to annex the proposed property, the City's Noise Ordinance would allow noise emanating from fifty feet (50 ft.) of the place of origin, whether it be from a vehicle, building or habitation. Mr. Marcotte added that the State Law allowed eighty-five (85) decibels, and that there was a decibel meter at the Police Department. Mr. Marcotte explained that it would fall under the State Statute of Disorderly Conduct.

City Manager Parker reiterated that the Fire Department had looked at the proposed property, and that there may be some other restrictions with it being in the City. City Manager Parker added that the applicant's real desire was for the City services. City Manager Parker explained that the City of Lufkin's policy was the City did not provide City services outside the City, unless the City annexed the property. City Manager Parker added that in the past, King's Row, and a few other properties were extended City services without annexation, but the City of Lufkin had changed that policy several years back. City Manager Parker stated that presently the City did not choose to provide services unless the City annexed the property.

Mayor Gorden opened the Public Hearing 5:16 p.m. and asked anyone who wished to speak on the item to please step forward. Speaking concerning the annexation were:

John Moore – Manager King's Row Mobile Home Park
Gary Boyd
Randy Hanson – Owner Reo Club
Peggy Moore – Office Manager King's Row Mobile Home Park

Mr. Gary Boyd inquired if privacy fencing would be required by the City of Lufkin if the property was annexed. Inspections Services Director Dale Allred stated that the last property that was annexed by the City of Lufkin voluntarily put the privacy fencing up, but that he did not think it was a requirement from the City. Mayor Gorden asked if the property would come into the City of Lufkin properly zoned. City Manager Parker stated that it would, and that the property would originally be zoned "Agricultural", and would have to be brought back to the City Council for rezoning. Property owner Randy Hanson stated that he had just recently spent five thousand six hundred dollars (\$5600) putting up one (1) fence that wasn't really even on his property. Mr. Hanson added that he put a fence up between his business and the daycare, and also on the other side of the daycare. Mr. Hanson explained that if someone asked he would put up a fence, without the City even requiring him to.

Additional speaker during the Public Hearing:

Allen Loggins, Jr.

Mayor Gorden closed the Public Hearing at 5:36 p.m.

Mayor Gorden asked for questions or comments from the Council.

Councilmember Rufus Duncan stated that there were nightclubs in the City of Lufkin, and that he had not heard that the City could not control the noise level or decibel level at any of

the nightclubs currently open inside the city limits of Lufkin. Councilmember Duncan asked if there were currently any nightclubs in the City where the City could not control the noise level. Mayor Gorden commented that he had not been made aware of any nightclubs where this was a problem. Councilmember Duncan stated that he had asked that question because it seemed that it would be a positive move to annex the property and place the nightclub under the jurisdiction of the City of Lufkin's laws governing noise.

Assistant Chief of Police Scott Marcotte stated that the Police Department did receive calls from time to time regarding noise. Mr. Marcotte added that even the City's Civic Center had occasional problems with noise level, and that the Police Department would respond and ask the renter to turn down the volume.

Councilmember Duncan asked if the City had any repeat offenders that the City had been unable to regulate. Mr. Marcotte stated that the City did not currently have that problem, and added that the Police Department would issue citations if problems persisted and that this would usually curtail the problem.

Councilmember Don Langston stated that the nightclub had the right to exist, whether it was inside or outside the city limits. Councilmember Langston added that if annexation into the City of Lufkin occurred, the nightclub would come under greater scrutiny, more regulations, and more enforcement codes than the County currently had in place. Councilmember Langston stated that he had a question regarding a statement he had heard earlier regarding King's Row Mobile Home Park. Councilmember Langston stated that he had heard it said that the King's Row Mobile Home Park was currently on the City of Lufkin's sewer system. Councilmember Langston asked how this came about if the City had a requirement that a property be in the City in order to be on the City's sewer system. Assistant City Manager Keith Wright stated that the City of Lufkin had several properties that were on the sewer system, and that it had happened years earlier. Mr. Wright added that he was not employed by the City of Lufkin whenever King's Row was brought in. Mr. Wright explained that the City of Lufkin had subsequently passed an Ordinance requiring that a property be inside the city limits before the City of Lufkin would extend sewer to them, unless they were non-profit and approved by the City Council. Councilmember Langston stated that the subject had come up and that had made him curious as to why it had occurred. Mr. Wright stated that the City of Lufkin was approached a few years ago about the possibility of expanding King's Row, and the City had denied the request since the city would not take any additional sewer from the mobile home park because the park was not inside the city limits of Lufkin. Councilmember Langston stated that there was, in his opinion, the greater good available by annexing the property for the adjacent land owners. Councilmember Langston added that there would be another process where proper zoning classification would be determined for the property. Councilmember Langston furthered that, at that time, issues that were typical to that type of zone could be addressed. Councilmember Langston stated that fencing was one (1) of those issues. Councilmember Langston that there were requirements, and added that the property might be grandfathered, but it was an opportunity for neighboring property owners that were most affected to get together with the owner to try to work out any differences of opinion. Councilmember Langston added that there would be another opportunity to speak, but that the complaints that he heard earlier at this meeting would be removed or corrected by the annexation of the proposed property. Councilmember Langston stated that annexation would not agitate or aggravate the problems presented by neighboring property owners.

Councilmember Phil Medford stated that he agreed with Councilmember Langston. Councilmember Medford added that he had read all of the objection letters, and had listened to the information given by the surrounding residents. Councilmember Medford stated that after giving the matter consideration, his thoughts were that currently the property was not inside the city limits of Lufkin, and therefore the City of Lufkin could not control anything that was being done on the proposed property because it was out of the City's jurisdiction. Councilmember Medford added that despite the lights, the noise, or the sewer, the property was not in the city limits of Lufkin and not under the control of the City. Councilmember Medford stated that by Mr. Hanson's own admission, if the property was annexed by the City, then the property owners would have to comply with the City's codes, regulations, and laws, which were stricter than what the property was currently operating under. Councilmember Medford stated that it seemed that the best way the City could address the concerns of the neighboring residents would be to annex the property. Councilmember

Medford stated that there had been a similar concern occurring across the road a few months earlier, and that the City was limited on what it could do concerning a business that was already operating in the County, but if they were annexed into the City, the current use would be grandfathered, but the City could see that the Ordinances that were currently in place were enforced.

Councilmember R. L. Kuykendall asked if he had heard correctly that the property owners did not want to be annexed into the City of Lufkin. Councilmember Langston stated that the request was that the property be annexed into the City, but the neighbors were voicing opposition to the annexation.

Mayor Gorden asked about the lift station that would be put in for the property. Mayor Gorden stated that there were three (3) property owners and wanted to know how that would work. Assistant City Manager Keith Wright stated that the actual request for annexation came from three (3) separate property owners, which were Allen Loggins, Roger Jones, and Randy Hanson. Mr. Wright added that in the first part of 2008, the City had an additional annexation in that area, and that the City of Lufkin had been designing a sewer extension to the area which would have a lift station that would be on the opposite side of Highway 69. Mr. Wright stated that once the annexation came up, the City looked at the possibility of modifying the design so that the City could pick up the facilities, but couldn't do so with gravity flow. Mr. Wright added that the property owner would have to pump to the City of Lufkin's system, which was similar to what King's Row did, in order to utilize the City's sewer system. Mayor Gorden asked which properties would have to pump to utilize the City's sewer system and which ones could the City pick up using gravity flow. City Engineer and Public Utilities Director Chuck Walker stated that the daycare and the Reo Club would both be gravity flow. Mr. Walker added that Total Performance was down hill and would have to pump to the City's system. City Manager Parker asked if Mr. Walker was referring to using a grinder pump. Mr. Walker stated that it would be a small grinder pump that would be needed for Total Performance. Mayor Gorden stated that Total Performance was the closest to the city limits, but would have to pump. Mr. Walker stated that they were the closest, but the elevation of the building at Total Performance was approximately four (4) feet lower than the Reo Club and the daycare. Mayor Gorden stated that the City would be out no expense to do this. Mr. Walker stated that the only expense would be to get a permit to bore under U.S. Highway 69, from the lift station near the animal clinic across the road. Mr. Wright stated that the City had already started the project for the lift station, and were just trying to modify the current project to be able to pick up the property proposed for annexation. Mr. Walker stated that the lift station project was already underway so the cost would be minimal to add the proposed property. Mayor Gorden asked if the cost of line to the property would be borne by the property owner. Mr. Wright stated that the City would bring the line to the property line, and then the owners of the property would be required to bear the expense from there.

Councilmember Rose Faine Boyd stated that it appeared to her that it would be more advantageous for the City of Lufkin to annex the property, and then the property owners would receive more services. Mayor Gorden stated that he understood the people's comments and concerns, because the Council was not there with them daily, but that he believed that through annexation the City would be able to address their concerns in the future. Mayor Gorden added that the way it was currently, there was no way the City could address the problems and concerns at all. Mayor Gorden stated that another concern he had was regarding a statement about the Health Department asking one of the facilities to close. Mayor Gorden wanted to know if the City knew anything about that allegation. City Manager Parker stated that the City was not aware of the problem, but was not saying that it didn't happen.

Councilmember Langston asked if the property was on City of Lufkin water. Mr. Wright confirmed that they were on Lufkin water.

Councilmember Don Langston moved to approve the First Reading of the Ordinance annexing the hereinafter described territory to the City of Lufkin, Texas, and extending the boundaries of said City so as to include said hereinafter described property within the city limits, and granting to said territory and to all future inhabitants of said property all of the rights and privileges of other citizens and binding said future inhabitants by all of the acts

and Ordinances of the said City. Councilmember Rufus Duncan seconded the motion. A unanimous affirmative vote was recorded.

8. RESOLUTION AUTHORIZING AN AMENDMENT TO THE 2008/2009 OPERATING BUDGET (BUDGET AMENDMENT NO. 16), - APPROVED - PROVIDING FOR THE SUPPLEMENTAL APPROPRIATION OF FUNDS IN THE 2009 WATER AND SEWER CERTIFICATES OF OBLIGATION FUND; AND PROVIDING AN EFFECTIVE DATE; FOR THE PURCHASE OF KURTH LAKE PROPERTY

Mayor Jack Gorden stated that the next item for consideration was a Resolution authorizing an amendment to the 2008/2009 Operating Budget (Budget Amendment No. 16), providing for the supplemental appropriation of funds in the 2009 Water and Sewer Certificates of Obligation Fund; and providing an effective date; for the purchase of Kurth Lake property.

City Manager Paul Parker stated that the City was taking the proceeds from the bond sales for the purchase of the Kurth Lake and the future five million dollars (\$5,000,000) of sewer projects, and putting them into the right accounts. City Manager Parker stated that after the closing costs, the sewer amount was four million eight hundred seventy-nine thousand dollars (\$4,879,000). City Manager Parker stated that Staff believed the interest gained, prior to the time the projects were let, would help offset some of the project. City Manager Parker added that the item was simply the housekeeping needed to put the money into the correct accounts.

Mayor Gorden asked for questions or comments from the Council.

Councilmember Don Langston moved to approve the Resolution authorizing an amendment to the 2008/2009 Operating Budget (Budget Amendment No. 16), providing for the supplemental appropriation of funds in the 2009 Water and Sewer Certificates of Obligation Fund; and providing an effective date; for the purchase of Kurth Lake property. Councilmember Rose Faine Boyd seconded the motion. A unanimous affirmative vote was recorded.

9. RESOLUTION AUTHORIZING AN AMENDMENT TO THE 2008/2009 OPERATING BUDGET (BUDGET AMENDMENT NO. 17), - APPROVED - PROVIDING FOR THE SUPPLEMENTAL APPROPRIATION OF FUNDS IN THE GENERAL AND GENERAL CONSTRUCTION FUND; AND PROVIDING AN EFFECTIVE DATE; FOR THE RESTORATION OF THE GIRL'S SOFTBALL RESTROOMS

Mayor Jack Gorden stated that the next item for consideration was a Resolution authorizing an amendment to the 2008/2009 Operating Budget (Budget Amendment No. 17), providing for the supplemental appropriation of funds in the General and General Construction Fund; and providing an effective date; for the restoration of the Girl's Softball Restrooms.

City Manager Paul Parker stated that at the last Council Work Session the Council gave Staff the go ahead to bring the project back to the Council to appropriate the one hundred twenty-five thousand dollar (\$125,000) estimate for the new restroom facilities at the Girl's Softball Complex. City Manager Parker added that if the Budget Amendment was approved to appropriate the money, Staff would carry the plans to the Building Committee, and once the committee was satisfied with the plans, the City would go out to bid for the project. City Manager Parker stated that Staff recommended approval of the Budget Amendment.

Mayor Gorden asked for questions or comments from the Council.

Councilmember Don Langston moved to approve the Resolution authorizing an amendment to the 2008/2009 Operating Budget (Budget Amendment No. 17), providing for the supplemental appropriation of funds in the General and General Construction Fund; and providing an effective date; for the restoration of the Girl's Softball Restrooms. Councilmember Phil Medford seconded the motion. A unanimous affirmative vote was recorded.

10. RESOLUTION AUTHORIZING AN AMENDMENT TO THE 2008/2009 OPERATING AND CAPITAL BUDGET (BUDGET AMENDMENT NO. 18), - APPROVED - PROVIDING FOR THE SUPPLEMENTAL APPROPRIATION OF FUNDS IN THE 1999 CAPITAL IMPROVEMENT PROGRAM, 2001 STREET BOND PROGRAM, SOLID WASTE/RECYCLING RENEWAL AND REPLACEMENT, AND THE WATER/WASTEWATER RENEWAL AND REPLACEMENT FUNDS; AND PROVIDING AN EFFECTIVE DATE; FOR CLOSE OUT OF PROJECTS FOR THE CITY OF LUFKIN

Mayor Jack Gorden stated that the next item for consideration was a Resolution authorizing an amendment to the 2008/2009 Operating and Capital Budget (Budget Amendment No. 18), providing for the supplemental appropriation of funds in the 1999 Capital Improvement Program, 2001 Street Bond Program, Solid Waste/Recycling Renewal and Replacement, and the Water/Wastewater Renewal and Replacement Funds; and providing an effective date; for close out of projects for the City of Lufkin.

City Manager Paul Parker stated that this item was accounting housekeeping for the City. City Manager Parker added that as the Council was aware, the City was close to finishing many of the City's Capital Improvement Projects. City Manager Parker stated that the Budget Amendment would close out the US 59 Highway Right-of-Way acquisition, Whitehouse Drive extension, Lotus Lane street improvements, Service Center Complex, Warehouse and Fleet Maintenance Facility, Asbestos Pipe Replacement Program (rehabilitation of Ellen Street and two (2) ground storage tanks), and the water and sewer installation for the US Highway 59 reconstruction. City Manager Parker pointed out that the only caveat on the US 59 Highway Right-of-Way acquisition was there was one (1) still under condemnation hearings that could come back on the City, but that Staff thought that there was enough funds in the reserve at the current time.

City Manager Parker stated that all of the projects were completed, and that the Budget Amendment rolled the excess funds back into the fund balances so that the City could re-appropriate the funding and close out the accounts. City Manager Parker added that Staff recommended the Budget Amendment for approval.

Mayor Gorden asked for questions or comments from the Council.

Councilmember Rose Faine Boyd moved to approve the Resolution authorizing an amendment to the 2008/2009 Operating and Capital Budget (Budget Amendment No. 18), providing for the supplemental appropriation of funds in the 1999 Capital Improvement Program, 2001 Street Bond Program, Solid Waste/Recycling Renewal and Replacement, and the Water/Wastewater Renewal and Replacement Funds; and providing an effective date; for close out of projects for the City of Lufkin. Councilmember R. L. Kuykendall seconded the motion. A unanimous affirmative vote was recorded.

11. ACCEPT THE ASBESTOS WATERLINE REPLACEMENT PROJECT - APPROVED - #12 AND #13

Mayor Jack Gorden stated that the next item for consideration was to accept the Asbestos Waterline Replacement Project #12 and #13.

City Manager Paul Parker stated that this item was very similar to the previous item. City Manager Parker added that Texas Water Development Board required that the Council formally accept all projects funded by the State Revolving Fund. City Manager Parker stated that the item was to close the Crown Colony Waterline area, known to the City as Projects Twelve (#12) and Thirteen (#13). City Manager Parker added that the water lines in Crown Colony were complete and the item would close out those projects, and that Staff recommended it to the Council for their approval.

Mayor Gorden asked if the total asbestos program was completed. City Manager Parker stated that there was some money left in it, and that Staff would more than likely discuss using the funds for some additional water improvements at the upcoming retreat. City Manager Parker added that this would complete all of the existing projects, however. City Manager Parker reiterated that there was funding left, and that Staff would probably discuss

re-appropriating the funding. City Manager Parker pointed out that the agenda item would allow the City to roll the money into that fund balance.

Councilmember Don Langston stated that he wanted to make a comment about the project, since it was in his ward. Councilmember Langston added that he was amazed at the great job that was done with the planning, execution, and the very few complaints that came in, and added that the City did a great job in designing it and that the contractor did a great job in installing it. Councilmember Langston stated that he had really expected to receive a lot of negative phone calls, but everyone was very complimentary, and that he wanted to pass that on Mr. Wright and the City's Engineering Department. Mayor Gorden agreed with Councilmember Langston's comments.

Mayor Gorden asked for questions or comments from the Council.

Councilmember Rufus Duncan moved to approve the Asbestos Waterline Replacement Project #12 and #13. Councilmember Don Langston seconded the motion. A unanimous affirmative vote was recorded.

12. PUBLIC HEARING AND AUTHORIZE POLICE DEPARTMENT – APPROVED - TO APPLY FOR THE U.S. DEPARTMENT OF JUSTICE, ‘2009 JUSTICE ASSISTANCE GRANT’

Mayor Jack Gorden stated that the next item for consideration was a Public Hearing and to authorize the Police Department to apply for the U.S. Department of Justice, “2009 Justice Assistance Grant”.

City Manager Paul Parker stated that annually the Police Department had applied for the Justice Assistance Grant. City Manager Parker added that this year the City was entitled to apply for ninety-eight thousand seven hundred fifty dollars (\$98,750), with no local match required. City Manager Parker stated that the Grant required the City to hold a Public Hearing, before the City could utilize the funds. City Manager Parker added that the Police Department did not currently have specific items in mind, but knew that they wanted to use the funds for technical assistance, training, equipment, supplies, and information systems. City Manager Parker stated that one (1) of the purchases would include a robotic camera to locate suspects. City Manager Parker added that these were some items that the City would probably not purchase through the regular budget. City Manager Parker stated that Staff recommended that the City hold the Public Hearing and allow the Police Department to go forth with the application requesting ninety-eight thousand seven hundred fifty dollars (\$98,750).

Mayor Gorden opened the Public Hearing 5:53 p.m. and asked anyone who wished to speak on the item to please step forward. There appearing to be no one who wished to speak, Mayor Gorden closed the Public Hearing at 5:54 p.m.

Mayor Gorden asked for questions or comments from the Council.

Councilmember Rose Faine Boyd moved to authorize the Police Department to apply for the U.S. Department of Justice, “2009 Justice Assistance Grant”. Councilmember Phil Medford seconded the motion. A unanimous affirmative vote was recorded.

13. Mayor Jack Gorden recessed the Regular Session at 5:55 p.m. to enter into Executive Session.

EXECUTIVE SESSION: In accordance with the Texas Government Code Section 551.071 (2) Consultation with City Attorney on any Regular Session Agenda item requiring confidential, attorney/client advices necessitated by the deliberation or discussion of said items (as needed), and real estate, demolition of buildings, or appointments to boards and personnel may be discussed.

Mayor Jack Gorden reconvened the Regular Session at 7:03 p.m.

14. PROJECT SECURITY INCENTIVE REQUEST - APPROVED

Mayor Jack Gorden stated that the next item for consideration was the Project Security incentive request.

City Manager Paul Parker stated that the Mayor and Council had seen the proposal for the request presented on Project Security, and that Staff recommended that the Council approve the incentives, as outlined in Executive Session.

Mayor Gorden asked for questions or comments from the Council.

Councilmember Rufus Duncan asked to be recused from voting on the item. Mayor Gorden requested the City Secretary to show that Councilmember Rufus Duncan was recused from voting on the item.

Councilmember Rose Faine Boyd moved to approve the Project Security incentive request. Councilmember Don Langston seconded the motion. A unanimous affirmative vote was recorded, with Councilmember Rufus Duncan recusing himself from voting.

Mayor Gorden stated that the Council had scheduled a Work Session for the next couple of items on the agenda. Mayor Gorden added that there would be no action taken on the items, but there would be an exchange of information that was educational.

WORK SESSION:

15. PRESENTATION BY MICKEY MCDANIEL CONCERNING THE FIREMEN'S PENSION FUND

Mayor Jack Gorden stated that the next item was a presentation by Mickey McDaniel concerning the Firemen's Pension Fund.

Consulting Actuary for Retirement Horizons Mickey McDaniel approached the podium. Mr. McDaniel stated that he was retained by the Firemen's Retirement Fund to do an actuarial valuation as of December 31, 2006. Mr. McDaniel added that the report was published in June 2007. Mr. McDaniel explained that the company was retained to do another actuarial evaluation as of December 31, 2008. Mr. McDaniel stated that he had preliminary results, but the checking and peer review process had not been completed. Mr. McDaniel explained that the company was comfortable with where they were. Mr. McDaniel added that the company had the opportunity to present some information to the Council and wanted to take advantage of that. Mr. McDaniel stated that the first page was a summary of very high level key evaluation results, and that he would make a few comments and explain it. Mr. McDaniel added that like a lot of retirement systems in the United States, the Lufkin Firefighter's Fund was under stress, due to the downturn in the financial market. Mr. McDaniel asked the Council to look at the column labeled December 31, 2008. Mr. McDaniel stated that for the twelve (12) months ending in 2008, the fund return was a negative twenty-six percent (-26%). Mr. McDaniel stated that the value of the fund had dropped from ten million six hundred thousand dollars (\$10,600,000) to seven million eight hundred thousand dollars (\$7,800,000). Mr. McDaniel added that the plan's liabilities continued to grow as firefighters worked and earned service credits and additional benefits. Mr. McDaniel stated that in 2007 the return was 6.3%. Mr. McDaniel added that they had also shown the actuarial value of assets. Mr. McDaniel stated that fair market values could fluctuate wildly, and it seemed that in the last few years markets had become even more volatile. Mr. McDaniel added that during the current year they were going to recommend to the Firefighters Pension Fund Board to adopt a smoothing method. Mr. McDaniel explained that a smoothing method was simply a mathematical process to try to even out the wild swings, and averaging returns, gains, and losses over a three (3) year period. Mr. McDaniel stated that 2008 was terrible. Mr. McDaniel added that in the long run they did not think it was representative of where the fund was going. Mr. McDaniel explained that the smoothing technique would assist in bridging over what was hopefully a temporary setback for the fund. Mr. McDaniel stated that he would give some conclusions that he thought were important. Mr. McDaniel asked the Council to look at the term called actuarial accrued liability. Mr. McDaniel asked the Council to think of that as sort of a target or hypothetical number. Mr. McDaniel stated that if everything had gone according to the actuarial assumptions, over the entire lifetime of the program, the assets could be expected to be about twenty-four million seven thousand dollars (\$24,700,000). Mr. McDaniel stated that obviously the assets were

not that amount, and that the actuarial value was nine million four hundred thousand dollars (\$9,400,000). Mr. McDaniel added that if everything had gone according to schedule, and there were assets of twenty-four million seven hundred thousand dollars (\$24,700,000), the total contributions required for the fund would only be about 14.4% of pay, or what the actuaries call the normal cost. Mr. McDaniel stated that the actual contributions, committed by both firefighters and the City of Lufkin, was 29.72%, which was up from twenty-five percent (25%) in the prior evaluation. Mr. McDaniel stated that the contribution was not sufficient to fund the program within the guidelines published by the Texas Pension Review Board to meet the PRB standard to amortize the unfunded liability that the fund had. Mr. McDaniel stated that over the next thirty (30) years the contribution rate would need to increase to 43.5% of pay. Mr. McDaniel added that this was obviously quite a stretch from where the fund currently was. Mr. McDaniel if the Council were to give the fund a one (1) time contribution to shore the fund up, the amount that would have to be added in a one (1) time cash infusion to bring the fund into the PRB guidelines, and would be approximately five million three hundred thousand dollars (\$5,300,000) on top of the scheduled contributions. Mr. McDaniel stated that alternatively the Council might be thinking that if the markets rebounded the fund could earn its way out of the hole. Mr. McDaniel stated that this was possible, and that he did a rough calculation and that the fund would need to earn at least twenty percent (20%) a year for the next five (5) years in a row just to get back on schedule. Mr. McDaniel added that he didn't think that there were that many investment advisors out there that could promise that kind of return. Mr. McDaniel stated that a third alternative would be to cut benefits across the board, including existing pensioners by at least twenty percent (20%), which Mr. McDaniel guessed would be very tough to swallow. Mr. McDaniel stated that he didn't want to say that this was gloom and doom and that the fund was a lost cause. Mr. McDaniel added that this was certainly not the case. Mr. McDaniel stated that pension programs were a very long term promise, especially in the public sector. Mr. McDaniel added that in the private sector companies went out of business and pension plans terminated, but in the public sector it was a pretty good assumption that the program would go on over time. Mr. McDaniel explained that there needed to be time to work out of the hole, but it did require some kind of action in the near future. Mr. McDaniel stated that some steps had already been taken. Mr. McDaniel added that the contribution rates had increased recently, and the board was gradually moving to a more conservative valuation basis. Mr. McDaniel stated that historically the fund had assumed it would earn on average eight percent (8%) per annum, and had not been able to achieve that rate in recent years. Mr. McDaniel stated that they had done an accrued analysis from an actuarial perspective, but that he wanted to make one (1) thing clear. Mr. McDaniel stated that they were not investment advisors, don't give investment advice, and were not qualified to, and they didn't manage money. Mr. McDaniel stated that he looked at the last ten (10) years of actuarial reports and summarized the annual rate of return that was reported in the actuarial valuation. Mr. McDaniel added that he wanted to point out that it was net of expenses. Mr. McDaniel stated that they started averaging those reports, and that over the last ten (10) years the fund had averaged a negative 0.55%. Mr. McDaniel added that at first glance that sounded terrible, but the indices showed that this was just a sign of what the financial market had been. Mr. McDaniel stated that the fund had outperformed the S & P 500 or the NASDAQ. Mr. McDaniel added that ten (10) years ago if every penny was put into bonds, the fund would have been better off, but added that hindsight was 20-20. Mr. McDaniel stated that if someone would have told you ten (10) years ago that you should put all of your money in treasuries, you would have probably said that they were crazy. Mr. McDaniel stated that we were in early 2009 and the financial markets had taken a dramatic downturn. Mr. McDaniel stated that over the last four (4) years the fund had negative cash flow. Mr. McDaniel added that total contributions coming in from the City and the firefighters had not been sufficient to cover the cash benefit payments and expenses going out. Mr. McDaniel stated that he would like to suggest that this was something in the short run that this fund needed to work on. Mr. McDaniel added that the hole was getting deeper on the path that the fund was on. Mr. McDaniel stated that at a minimum there needed to be some additional funding to stop the bleeding, and to stabilize the fund so that some of the unfunded liability could be retired.

City Manager Parker asked if Mr. McDaniel had the number that showed how much the expenses exceeded the revenue in the fund. City Manager Parker added that he recalled that the number was approximately two hundred sixty-five thousand dollars (\$265,000). Mr. McDaniel stated that he thought that figure was correct for the year 2008. Mr. McDaniel added that the amount might have been closer to two hundred thousand dollars (\$200,000). Mr. McDaniel added that he thought the amount was approximately four hundred thousand

dollars (\$400,000) the year before, three hundred thousand dollars (\$300,000) the year before that, and eight hundred thousand dollars (\$800,000) the year before that. Mr. McDaniel explained that the amount bounced around because the plan had a drop provision, and that there would be times that there would be a lump sum payment instead of smooth monthly annuities.

Councilmember Rufus Duncan stated that on the second page he saw that the fund had a negative 0.55% for ten (10) years. Councilmember Duncan added that using the averages below he didn't see one (1) that was a sixty-forty (60-40) split. Councilmember Duncan asked what Mr. McDaniel would have guessed the ten (10) year average would have been on a sixty-forty (60-40) split. Councilmember Duncan stated that he saw where bonds did approximately 5.63%, and that the S & P and the Dow Jones basically cancelled out, and asked what the average would have been with a sixty-forty (60-40) split.

Mr. McDaniel stated that after adjusting for expenses to where the fund actually was, to him it was crossing the line over to where a custom index was being built, and that he really thought that was the role of the investment advisor. Mr. McDaniel stated that he had put the information together as an independent accrued analysis, and by trying himself to understand why the fund was where it was. Councilmember Duncan stated that both should be net of expenses, and added that all the indices were net of expenses and that the top chart showed the ten (10) year rate of return at -0.55%. Councilmember Duncan stated that he wanted to point out that it was not just contributions that the firefighters or the City had been putting in, but was poor market returns. Councilmember Duncan stated that he didn't know what the number was, and that they could look at what it would be on a sixty-forty (60-40) split, with sixty percent (60%) bonds and forty percent (40%) stocks, but he suspected that there would be a pretty large difference there. Councilmember Duncan stated that a four percent (4%) difference in return on a ten million dollar (\$10,000,000) fund was four hundred thousand dollars (\$400,000) a year. Councilmember Duncan added that they were talking about ten (10) years. Councilmember Duncan stated that he thought that the City had been putting in a lot of money and the firefighters certainly had. Councilmember Duncan added that the firefighters had made concessions and that he thought the biggest problem was that they had underperformed the market. Mr. McDaniel stated that he did not think the data supported that. Councilmember Duncan stated that the thing to do would be to see what a sixty-forty (60-40) split would be. Mr. McDaniel stated that he didn't know that the fund was sixty-forty (60-40). Mr. McDaniel added that he thought the fund was tilted more to the equity side. Captain Villasana stated that the fund was sixty percent (60%) equity and forty percent (40%) bonds. Mr. McDaniel explained that the fund was never exactly sixty-forty (60-40) at any point in time, and that the fund was moving over time. Councilmember Duncan stated that his point was that it was definitely in the positive overall, and what had actually been done was in the negative. Councilmember Langston stated that for a retirement fund it was very aggressive to have that percentage in equities. Councilmember Duncan explained that he was under the impression that the fund was sixty percent (60%) bonds and forty percent (40%) equities. City Manager Parker stated that it also excluded the endowment and that it actually skewed the numbers even more. City Manager Parker stated that the fund was probably more than sixty percent (60%) in equities overall if the endowment was included. City Manager Parker added that he thought the fund could go up to seventy percent (70%) in equities and that the City's policy would allow the fund to go to that. City Manager Parker then asked Finance Director Doug Wood to come to the podium to give the status of the fund and to address Councilmember Duncan's concerns.

Finance Director Doug Wood stated that Staff had contacted Alexander, Lankford and Hiers, Inc. and gave them four (4) items or four (4) procedures that the City thought should be done. Mr. Wood explained that Alexander, Lankford and Hiers, Inc. were currently inundated with tax returns. Mr. Wood added that he had talked with one (1) of the partners, who was Glenda Hiers, and that Alexander, Lankford and Hiers, Inc. would begin work as soon as they had finished with the tax returns. Mr. Wood stated that Staff asked Alexander, Lankford and Hiers, Inc. to do four (4) things. Mr. Wood stated that the first item was to schedule out the rate of return, going back for ten (10) years, and added that this was almost completed. Mr. Wood added that the next item would be to work on the index funds or indices to see what the differences were. Mr. Wood added that it sounded like the City already had part of that information from the actuary. Mr. Wood stated that it would probably be approximately two (2) weeks before it would be started. City Manager Parker stated that basically the City would look at ten (10) years and work to get a blended index which would be representative

of where the fund was. City Manager Parker added that this would answer Councilmember Duncan's question, and stated that the City was aware that there was fluctuation, and that it was never exact because there was money in and out at different times. City Manager Parker stated that the City could evaluate the fund for several years, but beyond that annual contribution data was all that the City had, and that there was fluctuation as to which month the money actually came in.

Councilmember Duncan asked if the Council would be able to get the information by the date of the City Council's Planning Retreat. City Manager Parker stated that Staff was pushing to get the information by that target date. City Manager Parker added that once April 15th (Tax Day) was over, and the tax season ended, there would be a much better chance to get the information. Mr. Wood stated that it shouldn't take very long because the Firemen's Pension Fund Administrator Diana Russell had pulled most of the information together and was just a matter of bringing in the accounting firm. Mr. Wood stated that the first goal was to evaluate ten (10) years, and that the further back in time one went the harder it would be to get information. City Manager Parker commented that going back ten (10) years would show the fund's trend.

Mr. McDaniel stated that he also wanted to point out that even though they had only been the actuary for the last two (2) cycles it appeared to him that there had not been any improvement in benefits since 1999 or 2000. Mr. McDaniel added that it was not like anyone had received large pension increases. Mr. McDaniel explained that under the GASB accounting information there was the information for the net pension obligation. Mr. McDaniel stated that under GASB 27 and 25, those were the standards that were looked to for reporting the information. Mr. McDaniel added that GASB 25 told that the unfunded liability, or the contribution structure, should be sufficient to amortize the unfunded liability over thirty (30) years. Mr. McDaniel stated that this aligned with the guidelines that the Pension Review Board required be followed. Mr. McDaniel stated that the fact that there was a net pension obligation meant that the total contributions under GASB 25 and 27 were not being satisfied. Mr. McDaniel added that for eight (8) consecutive years the contribution structure had not been sufficient, and was a liability that was building and was now being recognized on the City of Lufkin's balance sheet. Mr. McDaniel continued that for eight (8) consecutive years the contribution structure had not met the guidelines of the Pension Review Board (PRB). Mr. McDaniel stated that he believed the fund was on the PRB's watch list, and that the board had been contacted and were asked what was the status and what was the plan to reverse the trend of steadily declining funded status. Mr. McDaniel added that the PRB would become much more interested when the actuarial report was published.

Councilmember Don Langston asked if the Firemen's Pension Fund was a self funded system. City Manager Parker stated that the Firemen's Pension Fund had always been a separate fund and was not part of Texas Municipal Retirement System (TMRS). Councilmember Langston asked how long the City had been required to step in and assist the fund. City Manager Parker stated that in 2004 the Legislature passed a bill, unless a city opted out, that the ultimate liability of the fund went to the City. City Manager Parker added that the City of Lufkin chose not to opt out, and then became liable for the fund. City Manager Parker stated that at that point the City Council restructured the Firemen's Pension Board and put a representative from the City Manager's Office, a representative from the City Council, and two (2) individuals that were not firemen on the Board. City Manager Parker added that three (3) firemen also served on the Board. City Manager Parker stated that before the City became liable for the fund, the firemen had cut the benefits to try to enhance the fund. City Manager Parker stated that there hadn't been any enhancement of their benefits, and the Board had adopted a policy that there would have to be two (2) positive actuarials before the benefits could be considered. City Manager Parker pointed out that it would more than likely be several years in the future before that happened. City Manager Parker stated that the firemen knew that they were looking at a program where benefits enhancements would not occur until the fund became much healthier. City Manager Parker added that the members of the Board had done an excellent job trying to review and hold costs down and were very conscientious about the fund. City Manager Parker pointed out that the fund was not on a very sound basis whenever the City accepted it. City Manager Parker added that the market analysis for the last five (5) years had not enhanced it. City Manager Parker added that over the last four and one half (4½) years the Council had improved their contribution rate by 6.52%. City Manager Parker stated that the City went

from eleven percent (11%) to 17.52%, with the City Council's added contribution. City Manager Parker added that the firemen had raised their contribution rate from eleven percent (11%) to 12.2%. City Manager Parker stated that initially the overall goal was to get the fund where the contributions from the City and the firemen would equal TMRS, plus Social Security benefits, because the firemen were not eligible for Social Security under their plan. City Manager Parker stated that this was the goal set between management and the firemen.

Councilmember Langston asked that without assuming a fourteen percent (14%) increase or five (5) twenty percent (20%) return years, how realistic that goal really was. City Manager Parker stated that it would be a long process to get there, and even if funding was added to get to the matching portion, it would fall way below the 43.5% that Mr. McDaniel outlined in his actuarial study. City Manager Parker asked Mr. McDaniel if the 24-7-7 on the actuarial was to be fully funded. City Manager Parker asked if that would fully fund the fund. City Manager Parker pointed out that most funds were considered to be sound if they were over sixty-five percent (65%) to seventy percent (70%) funded. Mr. McDaniel stated that the PRB was actually moving toward eighty percent (80%), but that it was very unusual in the public sector for the plan to be one hundred percent (100%) funded. Mr. McDaniel added that prior to 2008 it was fairly common in the private sector, but that had changed considerably. City Manager Parker stated that ultimately the City was responsible for keeping the firemen's benefits whole, and that the City of Lufkin had accepted that responsibility. City Manager Parker pointed out that this was why Mr. McDaniel suggested earlier for the Council to consider additional funding, just to make the money revenue in and revenue out to at least let the corpus grow or have the opportunity to grow. Mr. McDaniel stated that City Manager Parker had made a very good point, and that in the last few years the fact that the fund had negative cash flow had possibly forced the fund to liquidate assets to meet benefit payments at a time where the assets were depressed. Mr. McDaniel added that in 2008 that was the case. Mr. McDaniel stated that he wanted to repeat that he didn't want to sound alarmist, but that pension obligation was a very long term obligation and it wasn't like the fund was bankrupt. Mr. McDaniel added that there was time to work on it, but work needed to begin on finding the solution. Mr. McDaniel stated that the time had come to turn the corner and move the fund toward positive cash flow. Mr. McDaniel added that it was also time to start step by step working down the unfunded liability, because the trend line was on the downturn before there was the collapse in the financial markets.

Councilmember Langston stated that he had to understand how the fund had gotten here before he could understand how to move forward. Councilmember Langston added that he was trying to catch up and had not being involved in that particular area of the City. Councilmember Langston asked if the firemen, in the past, managed their own fund until 2004 or 2005. City Manager Parker asked Captain Tino Villasana to come to the podium and give Councilmember Langston the information. City Manager Parker stated that Captain Villasana was the Chairman of the Firemen's Pension Board, and had been very actively involved in the fund over a period of time.

Captain Tino Villasana stated that the Firemen's Pension Fund was chartered in October of 1941, and was under a Civil Statute set out by the State of Texas. Mr. Villasana added that the Civil Statute named who the Board representatives would be. Mr. Villasana explained that the first representative was the Chief Official of the City, which was the Mayor, and the second representative was the Chief Financial Officer of the City. Captain Villasana stated that the other members were two (2) members from the municipality that could have no affiliation with the City as far as receiving any type of compensation or working for the municipality, and three (3) members from the Fire Department, which were elected for three (3) year terms and then rotated off one (1) each year. Captain Villasana stated that the citizen members of the Board served for two (2) year terms. Captain Villasana added that the Mayor and the Chief Financial Officer of the City had permanent positions on the Board. Captain Villasana stated that the Board elected the officers once a year and was done in January. City Manager Parker stated that on the present Board, Councilmember Duncan represented the Mayor's position, and that City Manager Parker represented the Chief Financial Officer of the City. City Manager Parker added that the Board presently had one (1) vacancy and Danny Roper was one (1) of the citizen members. City Manager Parker furthered that there were three (3) firemen on the Board, which were Jimmy Ragsdale, Randy Moody, and Captain Villasana. Captain Villasana stated that he had researched some of his information and had gone back to when the Fire Department was a Volunteer Fire Department. Captain Villasana commented that in earlier documents he saw where there was a Jack Gorden who

had retired from the Volunteer Fire Department, and asked Mayor Gorden if that was his dad. Mayor Gorden confirmed that it was. Captain Villasana added that the Fire Department and the Firemen's Pension Fund had a long history with the City of Lufkin, and that after looking at some of the trophies located at the Fire Administration Building, and the names on the trophies, he thought the City had a lot of pride in the department, and that the firemen were proud to be part of the City of Lufkin. Captain Villasana added that the Firemen's Pension Fund needed some help and was trying to follow appropriate steps to move toward working something out with the City, and were working to take care of the fund and be good fiduciaries and be responsible with the expectations for retirement. Captain Villasana stated that Councilmember Langston commented on the type of investments, which were sixty percent (60%) in equities and forty percent (40%) in stocks, and that one of the reasons that there had to be that type of mix was because of the expectations on the annual return, and that the State had adopted an eight percent (8%) expected annual return net. Captain Villasana stated that to accomplish this with the way the market had been was really difficult, and was why the Firemen's Pension Fund Board led the State in trying to take steps to lower the assumptions. Captain Villasana stated that the fund did a quarter of a percent (.25%) last year and a quarter of a percent (.25%) this year, and were tossing about a figure of six percent (6%) because it was a retirement fund. Captain Villasana stated that to be in a more conservative and less volatile market, where there would be fewer ups and downs, was what the Board felt would be much more attainable and solid, and would be easier to achieve on an annual basis and meet the annual requirements to the retirees. Captain Villasana added that this was something that the Board was working toward, and something that had been brought about through education, because Lufkin was the first fund in the State to make education for the Board Members a part of their plan document. Captain Villasana stated that the fund was hit hard in 2002 and again in 2008, and that was a struggle, in light of where the fund was. Captain Villasana added that the Board knew the fund was in a hole, but were trying to get the foundation shored up in that hole, so that once the fund was out it would not get back in it. Captain Villasana stated that the Board Members were equipping themselves with the kind of tools that would be needed once they were in a situation where they wouldn't be called before the State as being unfunded, but that they may be called before the State as a model for how to recover. Captain Villasana reiterated that the Firemen's Pension Fund was the first in the State to look forward to actuarial studies before there was any type of Plan improvement that would negatively impact the Plan. Captain Villasana added that the Board was taking the education seriously, taking their responsibilities seriously, but needed help.

Councilmember Langston stated that he appreciated the comments made by Captain Villasana. Councilmember Langston added that in retrospect whenever the State did model expectations, they generally modeled means of achieving those expectations. Councilmember Langston asked if Captain Villasana would say that this was something that the Firemen's Pension Fund had tried to do in the past. Councilmember Langston asked if the sixty-forty (60-40) split was a means of accomplishing this. Captain Villasana stated that the sixty-forty (60-40) asset allocation was something that came from the State, and was adopted statewide. Captain Villasana added that the assumption of eight percent (8%) was also adopted statewide except for Lufkin, Texas. Captain Villasana explained that Lufkin, Texas now had a seven and one half percent (7.5%) assumption, and were scheduled to lower it even more. Captain Villasana stated that this was because the Board was hearing what the analysts were saying about what to expect out of the market. Captain Villasana added that the fund could get a higher rate of return. Captain Villasana stated that Board was discussing some high yield, and the fact that it had a higher rate of return whenever the Mayor was on the Board, and added that the Mayor told the Board that it was junk. Captain Villasana added that the Board was trying to buy good assets so that there would be really small peaks and valleys, and just stay in the middle and lower the risk deviation. Captain Villasana stated that the Board just increased the risk deviation two (2) years ago because there was a low return. Captain Villasana added that the fund had a risk deviation of approximately six percent (6%). Captain Villasana stated that the fund was not tolerating getting into anything racy, and nothing below an "A" rating. Captain Villasana stated that the fund increased the risk deviation to a ten (10) and eleven (11) to try to enhance the performance of the fund. Captain Villasana added that if they were to just buy an index, they were subject to whatever index that deviation was going to be, and that it might be a fifteen (15) or even a twenty (20) deviation depending on who picked the mix. Captain Villasana added that the Board was trying to be conservative because it was a retirement fund, and the market just hadn't responded, and that last year it was at a global level. Councilmember Langston stated that everyone never thought that they would be bragging about how little they lost last year.

Captain Villasana stated that he was grateful that he lives in East Texas and Lufkin. Captain Villasana explained that was because there were a lot of people on the east and west coasts that were moving to this area. Captain Villasana added that this was because of what Lufkin had, which was a quality of life and an economy that had not been nearly as impacted as the rest of the nation. Captain Villasana stated that he thought that the Board had been good stewards over the fund, and that he knew that this was something that could and would be fixed. Captain Villasana added that the Firemen's Pension Fund Board and the City would work through it together just like any other emergency that Lufkin has had.

Mayor Gorden stated that whenever the City of Lufkin accepted the responsibility of the Firemen's Pension Fund and didn't look at other alternatives at the time, it was because the City and the Fire Department were in it together. Mayor Gorden added that the Fire Department was the City's fire department, and were family, and that it would be fixed.

City Manager Parker asked if there were any other questions for Mr. McDaniel, or any questions concerning the Firemen's Pension Fund. City Manager Parker added that this was a precursor to the budget process and there was no action on the agenda, but Staff wanted the City Council to have the opportunity to talk to the people directly involved, so that the Council would have a better understanding when options and alternatives were discussed for funding. City Manager Parker stated that whenever he, the Mayor and Finance Director Doug Wood appeared before Moody's and S and P the Firemen's Pension Fund was the one (1) item that was discussed. City Manager Parker added that it was the only real point of contention. City Manager Parker explained that S and P upgraded the City and the City stayed the same with Moody's, so it went without saying that the negative would not hurt the City of Lufkin overall on bonds. City Manager Parker stated that they spent more time discussing the Firemen's Pension Fund and TMRS than any other item in the conversation. City Manager Parker added that the fund was a concern to address in the long run, not only for the firemen, but it could eventually affect bonds and other ratings in the future. City Manager Parker and Mayor Gorden thanked Mr. McDaniel for his time and work spent on the Firemen's Pension Fund.

16. PRESENTATION BY ANTHONY MILES CONCERNING THE TEXAS MUNICIPAL RETIREMENT SYSTEM

Mayor Jack Gorden stated that the next item was a presentation by Anthony Miles concerning the Texas Municipal Retirement System.

City Manager Paul Parker stated that Anthony was the City's local representative at TMRS and that Staff wanted to bring the Council up to date on the Texas Municipal Retirement System, which included all of the City of Lufkin employees, with the exception of the Fire Department. City Manager Parker added that all other employees were covered by the TMRS benefit programs.

Regional Manager of TMRS for East Texas Anthony Miles stated that because TMRS was a comprehensive program, he would give the Council an update before TMRS received their 2009 valuation. Mr. Miles added that TMRS should have the valuations in hand within the next couple of weeks. Mr. Miles stated that TMRS would be sending the information out to the City of Lufkin, and that the new rate letters should be out by the first weekend in May 2009, to show the valuation results as of December 31, 2008. Mr. Miles stated that with that he would move forward with the plan year 2010. Mr. Miles stated that he would give a backdrop of the plan, and then open up the floor for any questions that the Council had concerning TMRS. Mr. Miles stated that since the TMRS sixty (60) year history began TMRS had probably made the most substantive changes in the programs history. Mr. Miles added that the process was started in 2007, and in 2008 they began to move forward. Mr. Miles explained that currently pending before the Legislature were some provisions that would help TMRS to move forward with the changes that had been made in the sixty (60) year history. Mr. Miles added that the City of Lufkin had been a part of that history for fifty-nine (59) of those years. Mr. Miles stated that since April of 1950, the City of Lufkin had been a participant in the TMRS program. Mr. Miles added that the City's program had been well funded throughout its history and had always paid in the full contribution rate needed to make sure that the City was adequately funding the retirement program that was in place for city employees. Mr. Miles stated that for the three hundred seventy-four (374) individuals that were paying into the program, and for the one hundred forty-four (144) retirees drawing

a pension, the City had designed a plan that was in range of other cities the size of Lufkin and in the region. Mr. Miles added that there was nothing that the City did in the history of being in TMRS that were extraordinary changes to the program that wouldn't be expected of a city the size of Lufkin and with a workforce the size of Lufkin. Mr. Miles stated that he wanted reiterate that the 2010 valuation would be coming out in the next couple of weeks, and would give the design on the rates as TMRS moved toward 2010. Mr. Miles stated that he also wanted to reiterate a point that everyone had probably heard over the last year or so. Mr. Miles stated that this was the changes that TMRS had made in their approach to the program. Mr. Miles explained that three (3) major changes were made the previous year. Mr. Miles stated that TMRS began to diversify their portfolio. Mr. Miles added that nobody thought that they would be bragging about how little they had lost, and pointed out that in 2008 TMRS performed in the top one percentile (1%) of public pension plans in the Country. Mr. Miles added that TMRS was not beating its chest because they knew that moving forward a diversified strategy was the best approach for a pension plan like TMRS. Mr. Miles stated that TMRS still had approximately eighty-eight percent (88%) of their trust fund invested in the bond market. Mr. Miles added that TMRS began the process of diversification last year, and that this was one (1) of the three (3) major changes and would continue, pending the outcome of the Legislative package. Mr. Miles stated that the other changes that were made had to do with the design of the plan itself, and the actuarial accounting methodology was changed that was in place for certain provisions in the program. Mr. Miles added that one (1) of the handouts that he had given the City Council was a snapshot of the City of Lufkin's plan. Mr. Miles stated that as he went through the plan that there could be some issues that would need to be discussed, and that he might be able to help the Council figure out how the provisions impacted the City of Lufkin's rate. Mr. Miles stated that one (1) of the changes that was made was changing the actuarial accounting methodology that was used to calculate the cost of the City's retirement plan. Mr. Miles added that one (1) thing that TMRS did was to go from the traditional unit credit methodology to an accounting standard known as a projected unit credit method. Mr. Miles explained that with that method TMRS was no longer looking on a year by year basis at a city's plan depending on the provisions that the city had in its retirement plan, but were going to take a yearly look and were also going to take a prospective view. Mr. Miles stated that TMRS would look at what they should anticipate coming forward, should the city's plan design stay as it currently was. Mr. Miles added that from TMRS's fiduciary prospective they thought that was a more sound and responsible approach to calculating the cost for the cities. Mr. Miles stated that TMRS also changed the amortization schedule and had closed the amortization schedule rather than having an open or rolling amortization schedule, which TMRS had in the past. Mr. Miles stated that this meant that the City of Lufkin would continue to fund the plan and pay off the liabilities on a fixed twenty-five (25) or thirty (30) year schedule, depending on the city's plan and its rates. Mr. Miles explained that the City of Lufkin was currently on a thirty (30) year closed amortization schedule. Mr. Miles stated that one of the handouts had some numbers that looked very similar to the numbers in the Comprehensive Financial Report in 2008, because it was taken from the last valuation that TMRS had. Mr. Miles added that once TMRS received the new valuation he could give the Council better numbers, but that the handout would give the Council an idea about how TMRS arrived at those rates and how the changes that were made impacted the unfunded actuarial liabilities. Mr. Miles stated that this was really the driver of the rate increase that the Council was briefed about, and that TMRS had been communicating to the City over the past year. Mr. Miles explained that this was a proactive step from the TMRS fiduciary perspective to make those changes, which was changing the actuarial accounting methodology, closing the amortization schedule and moving toward a more diversified investment portfolio. Mr. Miles stated that those three (3) changes were pending before the Legislature to make sure that TMRS could move forward with the changes for the upcoming year. Mr. Miles added that for the first time since Lufkin had been a member of TMRS, the City would have a net pension obligation. Mr. Miles explained that TMRS had provided the City with necessary GASB disclosures that the City would need as it moved forward. Mr. Miles added that because of the changes that TMRS made the main change that affected the City's rate had to do with the actuarial accounting methodology change, where TMRS began looking at the repeating Ordinances that the City might have for the provisions related to updated service credits and cost of living adjustments. Mr. Miles added that TMRS wanted to make sure that the cities were prefunding those benefits as they moved forward. Mr. Miles stated that this was what the cities had been briefed about over the past year. Mr. Miles explained that prefunding the benefits meant an unusually higher rate for the City of Lufkin than the City was used to in TMRS. Mr. Miles stated that the impact upfront was substantial, and that TMRS understood

that. Mr. Miles added that because it was substantial, TMRS offered the cities an eight (8) year phase in to stair step up to the full contribution rate by 2016. Mr. Miles explained that by that time the City of Lufkin would be finished with the net pension obligations and would be a the City of Lufkin's full contribution rate. Mr. Miles added that moving forward TMRS should see level rates that the City of Lufkin had been more accustomed to in TMRS. Mr. Miles stated that the changes that TMRS made were proactive steps to make sure that TMRS continued to have in place a well funded, solid retirement program. Mr. Miles added that TMRS wanted to make sure that the City of Lufkin continued to adequately fund its plan for the plan design that the City had. Mr. Miles stated that TMRS thought that the changes that were made were a more responsible approach to fund the plan like the one (1) that the City of Lufkin had. Mr. Miles stated that because it was a comprehensive program, he would open up the floor for any questions that the Council had and reiterated that GRS, the new actuary, would be submitting its first valuation study, and that TMRS should receive that within the next couple of weeks. Mr. Miles added that the rate letters would go out the first or second week of May at the latest, and would be the upcoming rate for 2010. Mr. Miles stated that if everything stayed as it was for the City of Lufkin, the City would be in the second year of the eight (8) year phase in and moving toward the full contribution rate by 2016.

City Manager Paul Parker stated that as Mr. Miles had mentioned, last year the City Council adopted the first year of the phase in. City Manager Parker explained that this was where the City got the .52% increase that went into effect last year above the existing rate that the City had at that time. City Manager Parker added that the same increase was passed to the Firemen's Pension Fund. City Manager Parker stated that this year TMRS was looking at legislation before the Legislature, and added that if the legislation didn't pass the entire process would have to be drastically reviewed. City Manager Parker added that he wasn't sure what the cities would do because it would keep the cities' ability to go into the equities at twelve percent (12%). City Manager Parker stated that the primary purpose of the legislation was to allow TMRS to gradually go into the equity market, up to sixty percent (60%). Mr. Miles stated that City Manager Parker was correct, and that TMRS began in 2000 moving in to the equities market and currently invested in two (2) index funds. Mr. Miles added that TMRS was in the Russell 3000 and the Morgan Stanley EAFE Fund, which was an international fund investing in Europe, Asia and the Far Eastern developed countries. Mr. Miles added that this was the beginning of TMRS's venture into the equities market, and added that these were passively managed funds. Mr. Miles explained that TMRS began the process of moving out one percent (1%) a month, where at the end of 2008 TMRS had twelve percent (12%) of the fund invested in the equities market. Mr. Miles added that TMRS did suspend moving any further until the outcome was known concerning the current legislative session. Mr. Miles stated that it was critical that TMRS got the provisions in their bill. Mr. Miles explained that the main provisions that TMRS had pending before the Legislature was to make sure that TMRS could guarantee an interest deposit of five percent (5%) for the employees. Mr. Miles added that a lot of people had been under the impression that five percent (5%) was already guaranteed, and it wasn't. Mr. Miles stated that in statute it said that TMRS would pay five percent (5%) in the member's account as long as the fund could sustain the five percent (5%) interest deposit. Mr. Miles added that TMRS wanted to codify and put this in the statute that TMRS would pay at least five percent (5%) guaranteed, and that this was one (1) of the three (3) main provisions. Mr. Miles stated that TMRS also wanted to be sure that they could credit cities, as they moved toward a total return strategy in their investment allocations, unrealized gains and losses in those years that there would be a loss. Mr. Miles stated that TMRS also wanted to make sure that they could guarantee a five percent (5%) discount rate. Mr. Miles explained that was the transfer or annuity purchase rate. Mr. Miles explained that whenever TMRS converted a member's account along with the city's match to an annuity benefit at retirement, TMRS wanted to make sure that five percent (5%) was in place and guaranteed as well. Mr. Miles stated that this was what the TMRS legislative package looked like, and if it moved forward, TMRS would continue to venture out into the equities waters. Mr. Miles stated that TMRS had begun a process of really bringing their board up to date, and educating the board on more than simple indices to invest in. Mr. Miles added that before it was all said and done, the TMRS Fund would look more like a more traditional and institutional pension plans, when looking at TMRS's asset allocation. Mr. Miles stated that income was what TMRS needed to be able to pay simple annuity benefits that had been paid for all along the way. Mr. Miles added that all TMRS had to do was make sure they had the income to convert the annuities, and that in TMRS's old design it worked just fine. Mr. Miles added that it was a pay as you went process. Mr. Miles stated that with the design of TMRS's plans, covering more than ninety percent (90%)

of its membership in 2009, it would no longer do and was why TMRS began the process of diversification.

City Manager Parker asked if seven percent (7%) was the assumption rate that TMRS was using. Mr. Miles stated that seven percent (7%) was the assumption rate. City Manager Parker asked Mr. Miles if most cities were looking at the eight (8) year plan, and asked what the trend was statewide. City Manager Parker stated that he was aware that this was the first year for most cities. Mr. Miles stated that he didn't have available the exact number of cities that had opted to do anything other than the eight (8) year phase in, but that the overwhelming majority of cities that had been impacted were using the eight (8) year phase in. Mr. Miles added that there were several cities that had paid in additional contributions to help pay down some of that net pension obligation. Mr. Miles stated that if a city used the phase in that TMRS granted cities, the city was creating an obligation, but were also looking at the full contribution rate that cities would have by 2016. Mr. Miles added that if a city was currently paying that the net pension obligation would be gone, but cities would also have monies in the Municipal Accumulation Fund, which was where the cities' contributions went. Mr. Miles stated that this money could actually be invested and earning interest that it was losing out on, if the cities were not paying in more than the phase in amount. Mr. Miles stated that cities, who could afford to, were making additional contributions to pay down and knock off some of that unfunded actuarial liability, and also knock down some of that net pension obligation.

Mayor Gorden stated that it appeared that the Council would have two (2) topics of discussion at the Planning Retreat.

Councilmember Langston stated that Mr. Miles mentioned that the COLA (cost of living adjustment) that Lufkin chose caused a total rate increase. Councilmember Langston asked if that rate increase was one half of a percent (.5%). City Manager Parker stated that it was .52% the first year. Mr. Miles stated that this would continue to go up in approximate equal amounts over the next eight (8) years. City Manager Parker stated that on the last sheet that was given to the Council, it was shown and was where the 19.43% came from. Mr. Miles stated that if the City of Lufkin could swallow that bitter pill at this time, the 19.43% would be the full contribution rate. Mr. Miles added that in the mean time, starting with 2009, the 14.78% would move up in equal parts for the next seven (7) years, and would ultimately end up a little more than 19.43% because the City was using the phase in. Councilmember Langston asked Mr. Miles to talk a little about the funded ratio, which was 58.2%, to help the Council understand a little more about that. Mr. Miles stated that the funded ratio was a result of two (2) parts. Mr. Miles explained that TMRS looked at the City's Municipal Accumulation Fund and compared that to the liabilities that were anticipated. Mr. Miles added that they could see the changes that TMRS had made, and how it had affected those unfunded actuarial liabilities. Mr. Miles stated that the changes could be compared to prior methods. Mr. Miles stated that had TMRS stayed under the prior methodology, the City would have been looking at thirteen million one hundred thousand dollars (\$13,100,000) that could have been fully funded over a twenty-five (25) year period. Mr. Miles added that when this was compared to the liabilities, using the new cost methodology being used, it would add approximately seven million dollars (7,000,000) to the liabilities, because it was an increase in the rate of more than .5%. Mr. Miles explained that TMRS would then place the City on a thirty (30) year amortization schedule, and over the thirty (30) years the total of nineteen million seven hundred thousand dollars (\$19,700,000) would begin to move the percentage, or the funded ratio, upward toward one hundred percent (100%).

City Manager Parker stated that as a comparison this was very similar to the firemen's 38.2%. City Manager Parker added that this gave the Council the chance to look at the dilemma each way. Councilmember Langston commented that the Council and City had choices, which were to contribute more or cut back.

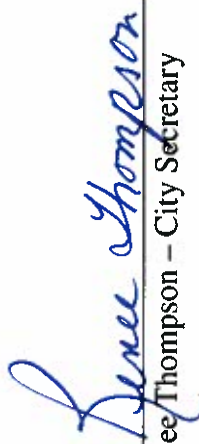
Mayor Gorden thanked Mr. Miles for taking the time to attend the Council Meeting and give an overview of TMRS and how it effects the City of Lufkin's employees retirement. Mr. Miles stated that it was a pleasure, and that he was sure that he spoke for the Executive Director of TMRS and all of its staff, that as the City of Lufkin moved forward if there was anything that TMRS could do to assist the City as it moves through its budget process they would be happy to help.

Mayor Gorden stated that he was aware that there was a ranking for the funding percentages for all of the cities in Texas, and as the Council moved through the budget process, and as the Council had their Council Retreat, it would be interesting to have that information. City Manager Parker stated that the City had the last book, but that it wouldn't have the proposed information. Mr. Miles stated that he didn't know when the retreat would be held. City Manager Parker stated that the Council Retreat would be held on April 29, 2009, and that the City of Lufkin might not have their information by then. Mr. Miles stated that he would have a better idea in the next week or two whether or not TMRS could compile the information by then, but would help the City any way they could. City Manager Parker stated that he was aware that several of the Council Members liked to follow the legislation and that he received an email from Eddie Solis, Legislative Director with TMRS, that said the Senate version of the TMRS Legislation, which was S.B. 908, would be heard Thursday before the Senate State Affairs, and that the House companion, which was H.B. 360 had already passed favorably out of the House Committee on pensions, investments and financial service and was recommended for the local consent calendar. City Manager Parker explained that the legislation was going well. City Manager Parker added that a long time was spent building a coalition of different associations such as police and fire to try to get some legislation that would be acceptable by everyone. City Manager Parker stated that there hadn't been a lot of opposition to the proposals. City Manager Parker added that without the proposals the City would be back with an entirely different version to discuss with the Council. City Manager Parker stated that if the proposals didn't pass it would really affect the City's ability to fund and maintain the fund.

17. CALENDAR NOTATIONS FROM MAYOR, COUNCIL MEMBERS, AND CITY MANAGER

Mayor Gorden stated that the next item for consideration was the calendar notations from the Mayor, Council Members, and City Manager. Mayor Gorden stated that there would be a ribbon cutting at the new Walgreens on Thursday, April 9, 2009. Mayor Gorden added that Friday, April 10, 2009, was the Good Friday holiday for the City of Lufkin. City Manager Parker stated that the first Saturday in May, which would be May 2, 2009, was the City Picnic and urged the Council to attend. Assistant City Manager Keith Wright stated that the Downtown Hoedown would be held on Saturday, April 18, 2009.

18. There being no further business for consideration, the meeting adjourned at 8:12 p.m.



Renee Thompson – City Secretary



Jack Gorden, Mayor