

**MINUTES OF WORKSHOP MEETING OF THE CITY COUNCIL OF THE CITY OF  
LUFKIN, TEXAS, HELD ON THE  
3<sup>rd</sup> OF DECEMBER 2003**

On the 3<sup>rd</sup> day of December 2003 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:

Louis A. Bronaugh	Mayor
Jack Gorden, Jr.	Mayor pro tem
R. L. Kuykendall	Councilmember, Ward No. 1
Rose Faine Boyd	Councilmember, Ward No. 2
Lynn Torres	Councilmember, Ward No. 3
Don Langston	Councilmember, Ward No. 4
Dennis Robertson	Councilmember, Ward No. 6
C. G. Maclin	City Manager
Atha Martin	City Secretary
Bob Flournoy	City Attorney
Keith Wright	City Engineer
Kenneth Williams	Director of Public Works
Douglas Wood	Director of Accounting

being present when the following business was transacted.

1. Mayor Bronaugh called meeting to order.
2. **PROPOSAL FROM THE LOWER NECHES VALLEY RIVER AUTHORITY –  
FINANCING OF REGIONAL WATER TREATMENT PLANT – SAM RAYBURN  
LAKE**

Mayor Bronaugh stated that Council had met today to discuss a proposal from the Lower Neches Valley River Authority for financing of a regional water treatment plant on Sam Rayburn Lake.

City Manager Maclin stated that he would give a brief introduction of why this meeting has been called for today and what he hopes will be accomplished today. Mr. Maclin stated that a few years ago the City performed a feasibility study relating to going to Sam Rayburn for surface water to augment the City's ground water. Mr. Maclin stated that the feasibility study showed that at current growth rates we would reach a point in the future when we would arrive at our maximum peak pumping capacity for our groundwater and would then be forced to look at other alternatives to augment or supplement our water supply. Mr. Maclin stated that in a moment he has asked Keith Wright, City Engineer, to do a brief overview since it's been a few years since we've gone through all that data to bring Council back up to speed as far as the results of that feasibility study and what was accomplished with that study.

Mr. Maclin stated that recently the City staff visited with representatives from the Lower Neches Valley River Authority and explored the opportunity of working with them for financing through the Texas Water Development Board of a regional type approach to our water system as it relates to Rayburn and hopefully then through the economies of scale to obtain additional participants who would purchase water and through those economies of scale thereby reducing the cost for everyone by cost sharing some of the very expensive capital outlay that is required for a surface water treatment plant and related installations necessary to begin to take water from Rayburn, treat it, pump it back to Lufkin and make it a part of our City water supply.

Mr. Maclin stated that after Keith finishes a brief review of our past feasibility study and elements that were concluded from that study, then he will turn the program over to Robert Stroeder, the Executive Director of the LNVA and he has some other folks with him to include engineers, financial consultants, Board members from the LNVA Board. Mr. Maclin stated that after their completion they will be looking to the Council to consider whether or not we would like to participate in this application to the Texas Water Development Board. Mr. Maclin stated that there is a January 10<sup>th</sup> deadline to submit that paperwork.

Keith Wright, City Engineer, stated that this would be a brief summary of what the City did in 2002 with the study and basically what it outlined. Mr. Wright stated that he would be going over a copy of the study presented by the engineers when they presented the study to the Council. Mr. Wright stated that he wanted to remind Council that there were two cost estimates provided in the study; one was a \$46 million number and the other was a \$37 million number. Mr. Wright stated that the \$37 million number included removing some items and making some assumptions that we could work out with TCEQ. Mr. Wright stated that what he is providing today is the worst case scenario – the highest number that everything is based on. Mr. Wright stated that they have adjusted these figures and asked Goodwin-Lasiter and LNVA to adjust these figures to reflect today's costs.

Mr. Wright stated that the people from the Lufkin staff who participated in the study were: Mayor Louis Bronaugh, City Manager C. G. Maclin, Asst. City Manager James Hager; City Engineer Keith Wright and the Engineering Department staff; and Kenneth Williams, Director of Public Works and the Public Works Department staff.

Mr. Wright stated that the Engineers who were involved in the study were: Camp Dresser & McKee, Inc. (Larry Smith and Susan Crawford); Everett Griffith, Jr. & Associates, Inc. (Wayne Stolz and Rick Freeman); Goodwin-Lasiter, Inc. (Larry Lasiter and Mike Walker); and KSA Engineers, Inc. (Bob Thurber and Stephen Dorman).

Mr. Wright showed the current water well locations that are in northern Angelina County. Mr. Wright stated that the red dots are the Lufkin wells; the light blue dots are Champion (Abitibi); dark blue dots are Lufkin State School; and, the pink dots are Central WCID. Mr. Wright stated the problem with the well locations is one of the problems they are running into. Mr. Wright stated that according to hydro geologist reports that he has, a 1 ½ mile spacing is needed between the wells in order not to have a lap effect from one well to the other as they are running. Mr. Wright stated that this is called "a cone of depression". Mr. Wright stated that several of the City's wells are too close together. Mr. Wright stated that the wells that are closer into town are high hydrogen sulfite content and the further north we get to the river the lower the hydrogen sulfite content. Mr. Wright stated that the City, Central WCID and Redland Water Supply Cooperation have another well each that are not shown on this slide. Mr. Wright stated that this area has been saturated and the only area left is possibly on the other side of the Angelina River in Nacogdoches County, which will be difficult to accomplish.

Mr. Wright stated that the next slide shows a chart of the projected growth water usage study for the County and the City. Mr. Wright stated that the straight line with three dots at the top of the page shows where the City is today with the new well we've just drilled. Mr. Wright stated that if you project that out along the dark purple line with the "x's" that would be our peak demand for the City based on growth. Mr. Wright stated that he had passed out an 8 ½ x 14 sheet showing the City's pumpage from 1993 to this current year. Mr. Wright stated that there is a 40% increase from 1993 to 2000, and part of the reason for the increase in usage from 1997 to 1998 is when Pilgrim's Pride took on more capacity from the City. Mr. Wright stated that on average the City's water consumption increased about 3% every year. Mr. Wright stated that staff would estimate that the actual need for the plant would be in year 2010 based on current usage.

Mr. Wright stated that in 1968 the City entered into a contract with LNVA for water rights of 28,000 acre feet; and in 1969 in accordance with that contract the City entered into another contract with the Corps of Engineers for a water storage contract which provided a safe yield of 28,000 acre feet. Mr. Wright stated that the storage requirement for that 28,000 acre feet was 43,000 acre feet. Mr. Wright stated that the City is finalizing the payment to LNVA right now, paying it out early.

Mr. Wright stated that the next slide shows the water sampling location sites – site 1 is furthest north and is at the 103 bridge; site 2 is at Hanks Creek Marina; site 3 is just off the 147 bridge; and, site 4 is off of Calhoun Point. Mr. Wright stated that the City also tested at Popper's Creek, which will be the site for an in-take structure into a deep part of the channel. Mr. Wright stated that the City has bought the plant site at Cassels Boykin Park.

Mr. Wright stated that the next slide shows bench testing by the engineers. Mr. Wright stated that actual samples were taken of the water and bench testing was performed with chemicals to look at what kind of treatment might be required. Mr. Wright stated that this lake is no different than any other lake in East Texas as far as quality of water. Mr. Wright stated that it is a typical lake in that the quality of the water improves as you get further down stream, which is not unusual. Mr. Wright stated that conventional surface water treatment is appropriate for this water. Mr. Wright stated that the next slide shows the process for the recommended treatment method and the conventional treatment process. The process is to take the water out of the Lake, put it through a screen, then through the raw water in-take pumps, to a mixing area, to a settling basin, to filtration, to storage and then a pump to distribution.

Mr. Wright stated that the criteria staff looked at for the surface water intake evaluation was: TCEQ rules, Corps of Engineers criteria, Lake topography, treatment plant location, accessibility, power availability, and depth of water withdrawal. Mr. Wright stated that the lowest reported level they found was 151 feet on the lake. And, then the construction cost.

Mr. Wright stated that one of the biggest costs of the plant is to build the intake structure and when it is built it must be built for the total capacity – 25 MGD. Mr. Wright stated that the plant itself would be built in phases. Mr. Wright stated that they would construct the pump station on shore and would actually directional drill out in the lake to take the water. Mr. Wright stated that two 42-inch intake pipes will take water at elevations at 137.5' and 145'. Mr. Wright stated that Phase 1 of the pumping capacity of the water plant will be 10 MGD.

Mr. Wright stated that the next slide shows the Intake and Treatment Plant and pointed out where the two facilities would actually be located.

Mr. Wright stated that the criteria for the transfer pumping and storage evaluation was to abide by the TCEQ rules, located near the treatment plant, the power availability, materials and methods of construction, hydraulic conditions to Lufkin, flexibility for expansion and the construction cost.

Mr. Wright stated that they came up with 4.0 millions for total storage which would be required on site at the plant. Mr. Wright stated that one thing he wanted everyone to get out of this report and that is that it is very detailed and very in depth.

Mr. Wright stated that some of the things they looked at with the transmission line was the pipe hydraulics (the size and types), the pumping horsepower requirements; the topography and route distance, the route constraints, the potential for service to other suppliers, the construction cost, the flexibility for future expansion and the proposed U. S. Highway 69 improvements. Mr. Wright stated that the transmission line would be 36 inch pipe, which would handle the first stage of the required plant size. Mr. Wright

stated that ultimately there would be two of these 36" lines parallel on the same right-of-way. Mr. Wright stated that they looked at the various route going through U. S. Forest Service property and they are willing to allow the City to go through their property as long as we provide them with water. Mr. Wright stated that we would be utilizing the abandoned railroad right-of-way. Mr. Wright stated that the next slide showed the various routes.

Mr. Wright stated that the criteria for the booster plant would include distribution system needs, siting constraints, power availability, proposed I-69 route location, future City growth trends, flexibility for future expansion and the construction cost.

Mr. Wright stated that the next slide showed the location of the booster plant.

Mr. Wright stated that the estimated cost of the Phase 1 project is \$46.5 million which included that booster plant. The cost for 1000 gallons is \$1.18 to \$1.29 depending on the financing. Mr. Wright stated that the cost has gone up considerably due to inflation of about 2.7% each year since the study was done. Mr. Wright stated that the potential cost savings options staff looked at were a \$37.8 million project, and if you did not include the inflation probably what you would come back to Council with is a cost somewhere in between there. Mr. Wright stated that staff would come back to Council with a fine tuned number when they approach them for actually signing on the dotted line.

Mr. Wright stated that other water systems that would join in with the City would greatly reduce that cost.

Mr. Wright stated that the City Council approved the \$1 million amount to implement Step 1, and staff did some water rate consultations and the site acquisition. Mr. Wright stated that staff has been working on finalizing the water rights transfer between the City and LNVA and once that is completed the City will start working on the right-of-way where the lines will go all the way to Lufkin. Mr. Wright stated that they will work with LNVA and TCEQ on the actual diversion points and any permitting that will be required.

Mr. Wright stated that the time line is old compared to where we are. Mr. Wright stated that we are behind this time line and probably the actual construction completion date that is optimum for Lufkin would be about 2010.

Robert Stroeder introduced two members of their Board of Directors of the LNVA – Bill Clark and Dr. Brian Babin, the Chairman of the Project Committee. Mr. Stroeder stated that LNVA is one of over 20 river authorities in the State of Texas that was enabled by the State Legislature for the sole purpose of storing, conserving, protecting and distributing the water for the State. Mr. Stroeder stated that their area of responsibility is the Lower Neches Basin and they are the local sponsors at Sam Rayburn Reservoir and Steinhagen, which are United States Corps of Engineers facilities. Mr. Stroeder stated that Lufkin is one of the very few cities in the Neches Basin that have water rights and water rights in storage. Mr. Stroeder stated that the City is in a very unique and admirable position and this is something that Lufkin should explore even if they do not go forward with this project. Mr. Stroeder stated to just let that water stay in the lake and never utilize it would be a mistake.

Mr. Stroeder stated that LNVA has no taxing authority so every project or every venture they get into has to eventually pay for itself. Mr. Stroeder stated that this project is no different and he would let the Financial Advisor and Mr. Scott Hall demonstrate to Council how they feel this project could be a successful venture not only for the City of Lufkin and the LNVA but all the other communities that are willing to participate in this regional effort. Mr. Stroeder stated that the LNVA is charged by the Legislature to participate in regional efforts such as this whenever there is a need or an

expressed interest and that is why they are here today. Mr. Stroeder stated that on behalf of the Board he is pleased to have this opportunity.

Scott Hall stated that he would like to thank Keith Wright and Mike Walker of Goodwin-Lasiter for the assistance they have given the LNVA. Mr. Hall stated that they have not tried to reinvent the wheel, and as Mr. Wright stated the Council has a very detailed study in the 2000 surface water analysis. Mr. Hall stated that they have worked with Goodwin-Lasiter to update cost estimates to current date dollars and they did an admirable job on that. Mr. Hall stated that in that study it identified a potential cost savings to the City by regionalizing the plant. Mr. Hall stated that Mr. Wright has been of great assistance in developing those relationships with the outlying communities. Mr. Hall stated that in doing so they have been able to pull together a regional project of six communities and LNVA to help share the cost and bring down the expense to the City.

Mr. Hall stated that when they looked at the 2000 study and brought it into today's dollars, the \$46 million for the treatment plant transmission line including another \$1.8 million for the development of power costs, it escalated to \$54,400,000 million at a connection cost of almost \$24 per connection. Mr. Hall stated that is \$1.41 a thousand gallons after you back out the cost savings that you would experience from reduction in treatment at the ground water plants. Mr. Hall stated that by bringing that into a regional nature, seven participants sharing the cost, Lufkin's capital cost drops from \$54 million to \$43,890,000. Mr. Hall stated that these per thousand gallon connections include O & M cost to be about \$1.16 per thousand gallons. Mr. Hall stated that what they have proposed at this point is the City of Lufkin would take on 7,200,000 gallons a day capacity in a 10 MGD plant. Mr. Hall stated that the small outlying communities would pick up about 1.3 million and LNVA would hold a 1.5 million as reserve capacity that can be utilized and accessed by any of the entities to meet their peaking needs or/and allow for growth in these communities and Lufkin where that capacity could be purchased on an as needed basis, but spare Lufkin the up front cost of that.

Jim Gilley with Coastal Securities in Houston stated that the transaction that would be proposed by LNVA would not require the City of Lufkin to make any payments until the water is actually delivered. Mr. Gilley stated that the way that would be done is through capitalizing interest out of bond proceeds. Mr. Gilley stated that the State would provide financing on this project out of their Drinking Water State Revolving Fund and under the terms of that program Lufkin would be eligible for 20-year debt retirement and that 20-year debt retirement would begin one year after the project is completed. Mr. Gilley stated that the current rate today for the City's debt would be about 2.6% interest rate per annum. Mr. Gilley stated that rate will change as market conditions change but the State takes their rate to be about 150 basis points or 1 ½ percentage points below actual market rates for the City's credit. Mr. Gilley stated that that is a pretty significant savings. Mr. Gilley stated that the Drinking Water State Revolving Fund program is a federally subsidized program where the Federal government contributes money that the net effect of which the Federal subsidy buys down the interest rate. Mr. Gilley stated that this is the cheapest money you will find that he knows of.

Mr. Gilley stated that the benefits of this transaction are lower capital cost to Lufkin, lower connection costs, lower per thousand gallon of water costs, and the reason for this benefit to the City of Lufkin is LNVA expects to contribute \$3-5 million to the project and they are hopeful that the Corps of Engineers would also contribute a subsidy of \$2-3 million estimated that would be used to construct the in-take structure at the lake. Mr. Gilley stated that that is \$5-8 million that is going to in effect buy down the City's cost. Mr. Gilley stated that one other thing that is an advantage is what Lufkin is doing in this subsidy is by contributing this money they would be buying a reserve capacity that any of the participants could grow in to. Mr. Gilley stated that his limited understanding of the water project is that a project of this nature the City would build some excess reserve capacity that you would eventually grow into. Mr. Gilley

stated that the City would not have to pay for that capacity until they grow into it. Mr. Gilley stated that when the City grows in to it they will be paying for it at today's dollars instead of future construction dollars when the plant would have to be expanded.

Mr. Gilley stated that one of the significant benefits of financing through LNVA is the structure of the transaction and how it would affect the City and the other participants as well. Mr. Gilley stated that the City of Lufkin would be a requirements customer, i.e., under the contemplated structure the City would not be required to enter into a take-or-pay contract but would enter into a requirements contract for a certain amount of water. Mr. Gilley stated that the numbers that they have presented at 7.2 MGD, that payment as a customer to LNVA would be as an O & M expense of the City's water system. Mr. Gilley stated that payment would be a pro rata share of the City's water allocation out of the plant. Mr. Gilley stated that his understanding of the water study is if the City built the plant themselves they would be paying for 10 MGD. Mr. Gilley stated that under Lufkin's proposal the City would be paying for 7.2 MGD. Mr. Gilley stated that one thing that is very significant in this is that in that structure where the City pays as a customer, the City's payment is treated as an O & M expense of the water system and why that is significant is because the City does not have to generate any coverage on that payment. Mr. Gilley stated that if the City were to issue with their own bonds, water and sewer system revenue bonds, the City is required before it issues bonds to produce set rates to produce 1.25 times debt service on the City's outstanding debt plus the bonds proposed to be issued. Mr. Gilley stated that if the City's debt service on a two million gallon plant is about \$3.25 million then the City would have to generate 25% more of that in the rate structure to be able to issue those bonds. Mr. Gilley stated that on an annual basis – there is a rate covenant in the bond ordinances that requires the City each year to generate 110% of your annual debt service. Mr. Gilley stated that the city does not have to generate any additional excess coverage, but just have to generate enough revenue in the rate structure to pay for the payment to LNVA.

Mr. Gilley stated, to summarize, the benefits to the City are primarily that they are receiving a subsidy from LNVA as are all the participants of \$3-5 million (the estimate that LNVA has said they would provide reserve capacity for), possibly an additional subsidy from the Corps of Engineers, if they would participate and they have indicated preliminarily at the staff level that they would be willing to participate in the intake structure. Mr. Gilley stated that the City would also benefit from this advantageous financing structure. Mr. Gilley stated that concludes his presentation.

Mr. Hall stated that there was another set of sheets that Council had before them that is the financial analysis that showed the various participants. Mr. Hall stated that the sheet shows how things are broken out. Mr. Hall stated that the various communities of Huntington, Four Way, Zavalla, M & M Water Supply Corporation, Angelina Water Supply Corporation are the participants that have expressed an interest in this project to date. Mr. Hall stated that at the bottom of the page it shows what their capacity interest in the project would be. Mr. Hall stated that these numbers have gone through some gyrations these past few days and they still have shown Lufkin at 7,500,000 gallon per day capacity instead of 7,200,000. Mr. Hall stated that in revising those numbers he noted that they had left a \$20.55 connection fee in there but have brought that down to \$19.60.

Mr. Stroeder stated that one of the things that he has had the privilege of working on is the intake structure with the Corps of Engineers. Mr. Stroeder stated that it appears that they are very receptive in participating on the intake structure because it will be located down at the lake itself. Mr. Stroeder stated that the Corps of Engineers work basically through Congressional authorization, and it will take a Congressional authorization for them to participate on this project. Mr. Stroeder stated that if they could obtain the Corps of Engineers participation on the intake structure, and depending upon what this structure comes under, it could come under continuing

authorization from Rayburn which would be a 75% participation by the Corps or one of the current programs, which might be a 50/50. Mr. Stroeder stated that based on which program that this project would come under, they could have as much as \$3-4 million in Corps participation, which would further lower the City's connection rate for all the participants. Mr. Stroeder stated that they did not put that in the presentation because this is based really on some future and nebulous authorizations by the Corps, but it is a distinct possibility. Mr. Stroeder stated that he has been communicating with folks from Headquarters and they are saying that this is the type of project that the Corps has participated in the past and in other states. Mr. Stroeder stated that he feels like we have a good chance of getting a Congressional authorization for participation in this project. Mr. Stroeder stated that he sees the cost per connection number going down as low as \$15-16 per connection pending the amount of money we get from the Corp participation.

Bill Clark, LNVA Board member, thanked the Council for allowing them to come up and work with them on this project. Mr. Clark stated that he thought it was significant for them to admit that LNVA has not always reached out, but it was a "good ole boy" organization that ran it since 1933. Mr. Clark stated that with the advanced awareness of the preciousness of water to this whole state, the edict of the Legislature is for us, the LNVA Board with the water rights to Rayburn and Steinhagen to reach out and help communities within our whole region of need. Mr. Clark stated that this is what they are doing. Mr. Clark stated that he would like to convey to the Council that the LNVA is delighted to work with communities such as this and if they could help Lufkin save money they would do everything they could.

Brian Babin, LNVA Board Member, stated that he wanted to echo what Mr. Clark has said in that they are a new bunch, appointed by the Governor. Mr. Babin stated that their mandate from the State is to make use of the water and help the outlying communities by getting good, clean water to them, and this is a project where this could take place in a very meaningful manner. Mr. Babin stated that as Council has heard Mr. Gilley and Mr. Hall, we can save Lufkin some money; this is our expertise in putting these types of things together. Mr. Babin stated that they are currently in the process of doing one in Bolivar, which is a similar situation. Mr. Babin stated that this is a project that the LNVA is interested in doing and he hoped that if they can be of service to the City of Lufkin they would do all they possibly can.

In response to question by Mr. Maclin, Mr. Gilley stated that the bond attorney for LNVA is suggesting that this transaction be structured or the contract be a requirements contract. Mr. Gilley stated that it could be a take-or-pay contract, which is what they have done in Bolivar. Mr. Gilley stated that the reason he is suggesting this is that under GASB 34 it's his opinion that a take-or-pay contract would, by the auditors, be considered a debt that would show up on your balance sheet. Mr. Gilley stated that it is also his opinion that a requirements contract would not be considered a debt and therefore would not show up on your balance sheet and the difference would be a requirements contract in effect very similar to your purchasing chemicals or it would be simply a water purchase from LNVA. Mr. Gilley stated that the State Water Development Board is going to want to assure that you do indeed purchase that water so the way the contract would be written would be Lufkin would enter into a requirements contract whereby they would purchase a certain amount of water and therefore that purchase would be treated simply as an O & M expense of the City's water system very similar to a chemical or supply purchase that you would make. Mr. Gilley stated that under the requirements contract you would have a ratchet clause that would allow you if your usage exceeded 7.2 million (and that ratchet is subject to negotiation) you would then step up, which is how you would capture that reserve capacity that you would eventually need. Mr. Gilley stated that if he were sitting in the City's shoes and all things else being equal that would be attractive to him because the City doesn't have to finance that now. Mr. Gilley stated that LNVA is taking the risk on that.

Councilmember Robertson stated that he did not quite understand – we have the water rights for 28 million acre feet per year now, and how does this proposal affect that. Are we still allowed to take our volume out before we start paying on the other? Councilmember Robertson stated that he doesn't quite understand how that would fit in.

Mr. Hall stated that the capacity of the plant would be an ownership capacity of Lufkin and the plant and a utilization of the City of Lufkin of their water rights – the 28,000 acre feet per year, which is equivalent to 25mgd supply. Mr. Hall stated that the LNVA could supply out of its water rights the capacity to meet the outlying community's needs and Lufkin would be able to reserve storage capacity in the reservoir to meet future growth.

Mr. Wright stated that the City of Lufkin is not buying water; the contract is to buy the capacity in the plant, the actual construction to pay for the plant. Mr. Wright stated that this contract would not be to purchase water but to purchase for that portion of the plant that we would provide ownership in.

In response to question by Councilmember Robertson, Mr. Wright stated that we could provide the 28,000 acre feet out of our water rights or the additional water could come directly out of LNVA's water rights. Mr. Wright stated that the City could reserve our capacity for future industry or whatever we needed it for. Mr. Wright stated that the limit of the plant capacity of 10 million gallons in the initial phase – the study that staff looked at ultimately would be 25 millions gallons per day capacity, which would meet the requirements of our water rights. Mr. Wright stated that with LNVA being involved there are options on how we could do that, utilizing those rights.

Mr. Wright stated that what staff is asking Council today is to authorize them to move forward with an application to finalize the numbers. Mr. Wright stated that you have up to two years before you actually have a loan commitment. Mr. Wright stated that, in his opinion, staff could get these numbers lower and that is what they will be working for. Mr. Wright stated that every year that goes by, the numbers get higher. Mr. Wright stated that building a plant is not something you can do in a short period of time; it will take some time to get all the plans worked out.

In response to question by Councilmember Langston, Mr. Wright stated that if the City is paying 72% and LNVA is picking up 15% basically with the 1.5, which they would hold in reserve, which is lower than our cost, the rest of it would be the other communities. Mr. Wright stated that the other communities are paying for part of the transmission line to their take point. Mr. Wright stated that if they get the CAT grant from the Corps of Engineers, that would lower everybody's cost by another \$3-4 million.

Mr. Wright stated that we are talking about the year 2010 before we start paying a note and start pumping water. Mr. Wright stated that in the year 2000 the City had a drought and last year we had a very wet year. Mr. Wright stated that our water usage varies with those types of conditions.

Mr. Wright stated that the Texas Water Development Board's projections for Region I are based on average demand; we have to take into consideration peak demand and have to provide the peak water.

Mr. Maclin stated that basically we are looking at a way to help lower the cost to the citizens of Lufkin by sharing some of this cost with LNVA by them retaining the 1.5 million capacity and the 10 million. Mr. Maclin stated that also by hoping that we will be successful in working with our Congressman to achieve Congressional earmarks specially for the intake structure on Rayburn. Mr. Maclin stated that those are two things we can't get without LNVA. Mr. Maclin stated that we can get Texas Water Development Board financing, the City of Lufkin is financing \$16 million worth of A/C



pipeline replacements today and we get that same interest rate. Mr. Maclin stated that one of the advantages we are hoping is going to be included as a part of this financing application is the use of what's called indigent or low income service monies. Mr. Maclin stated that our customers we would be taking on in Zavalla and Huntington and some of the other rural water supplies would qualify for that which could get us anywhere from \$2 million to as high as \$4 million in grants, meaning we don't have to pay that back. Mr. Maclin stated that in some cases they get zero percent interest rate as opposed to the 2.6. Mr. Maclin stated that every one of those we get, it lowers the connect fee cost that our citizens would pay. Mr. Maclin stated that that is the "goal" here to find ways you make it more affordable.

Mr. Maclin stated that today with the City having ground water and the ability to pump pretty close to 18 million gallons a day, we don't have an immediate need, but there will come a day and that day can come a lot quicker if a prospect came to Lufkin that was a large water user like a food processor or a power plant, etc. that could get us there a whole lot quicker in order to meet the needs of industry. Mr. Maclin stated that there will come a day, and Council talked about this four years ago when the study was performed, that whether it's the City of Lufkin or Redland or Central or Hudson, somebody is going to either drill a well and get nothing (it costs about \$500,000 to drill a well). Mr. Maclin stated that if you are Hudson or Central or Redland and you spend \$500,000 to drill a well and you don't get anything for it, there's going to be panic because that would mean that we have reached our maximum peak pumping capacity and when we get to that point where we can't take any more out of the ground on a given day, and in the case of Pilgrim's Pride where they are using two million gallons per day that would be devastating to their production and all the employees that work there. Mr. Maclin stated that although this is a visionary type project in that the City does not have an immediate need today, this does take time to get to the point where we can produce water from Rayburn. Mr. Maclin stated that each year that we wait will make it more expensive for future citizens. Mr. Maclin stated that it is kind of a way to cap the future costs per thousand of water by going in at a little earlier date than you absolutely have to. Mr. Maclin stated that, in his opinion, what would make that consideration viable for the Council to move forward with is the ability to lower the connect fee even more. Mr. Maclin stated that the lower we can get that connect fee the greater motivation we have to move forward with this now rather than waiting another three, four or five years and then seeing inflation and/or a lack of participation by LNVA and all of a sudden we're back up in the mid \$20's for our connect fee that the citizens of Lufkin would have to pay to get water from Rayburn. Mr. Maclin stated that when we get to that point where we can't get any more ground water we have to go somewhere and that's why the City has been paying for water rights on Rayburn since 1967 so we would have an answer to that problem when it arose at some point in the future.

Councilmember Robertson stated that this certainly looks like a win-win situation. Councilmember Robertson stated that it has been one of his concerns as to how the City meets their need in the future without having to worry about deficient ground water and running out of well space. Councilmember Robertson stated that one question he has that he is not sure he understands is are we talking about LNVA being able to produce a significant number gallons more or acre feet of water to supply the general area for what we are talking for Lufkin. Councilmember Robertson asked what was the top cap on the volume we take out of Rayburn. Mr. Shroeder stated that with LNVA's participation their water rights entitle them to remove 820,000 acre feet per year. Mr. Shroeder stated that, in his opinion, we have more water in this area than we will conceivably need in the future. Mr. Shroeder stated that a few thousand feet of that is already committed and there is still available an excess of 400,000 acre feet. Mr. Shroeder stated that there is a lot of available water in Rayburn that LNVA has water rights to that could be made available to this area.

Councilmember Langston stated that he certainly realized that previous Councils had a great deal of vision when they acquired water rights from Sam Rayburn and that has

always given us an opportunity for the growth that we know that only water can bring to us. Councilmember Langston stated that being new on the Council this is all relatively new to him as far as the cooperative effort and he is certainly not opposed to cooperating on a regional basis. Councilmember Langston stated that he is a little slow on absorbing the dollars and cents. Councilmember Langston stated that if the City has a need, and it's a real need, then certainly this is one opportunity that he should personally spend a little more time becoming more familiar with the opportunity on meeting that need at a lower cost to our citizens. Councilmember Langston stated that the question to him is the matter of immediacy of need and/or trade-offs that will make this even more palatable to our citizens in the way that we currently pump and treat water. Councilmember Langston stated that the City has a tremendous amount of money in wells in the ground now and if we are going to receive capacity from a different source that is going to alleviate and also increase the aquifer, which in turn will create opportunities for other local water sources with or without us to meet their needs. Councilmember Langston stated that he thinks that we need to move forward with this but has a few more questions that he is going to probably have to develop and get answers to.

In response to question by Mayor Bronaugh, Mr. Wright stated that once we issue the first set of bonds and lock in our interest rate, we can delay some on finishing the project. Mr. Wright stated that it is hard to know the day we are going to have to have the water. Mr. Wright stated that it will take a minimal of four years to construct the water plant. Mr. Wright stated that he and the City Manager were looking at 2010 to be the target date to actually pump water because that is just before where we are projecting our peak usage to exceed our capacity. Mr. Wright stated that number is always flexible – if the economy keeps going up and keeps growing that date will need to be earlier in the future.

City Manager Maclin stated that if Diboll, Hudson or Central, who are the next three largest water consumers in the County, if they would join with us you would see an economies of scale of spreading or shifting the burden out to more entities thereby lowering the connection cost to the citizens of Lufkin. Mr. Maclin stated that another potential for lowering that connection fee would be a supplement from the economic development sales tax, should the 4B sales tax election be approved on February 7<sup>th</sup>. Mr. Maclin stated that one of the eligible items is for water treatment and that could be something in the future that could be used to augment or buy down that connection fee. Mr. Wright stated that also the CAP grant if it is approved.

Councilmember Boyd stated that the way she understands this is that if we don't join in with LNVA we will have to do this ourselves. Mr. Maclin stated that that was correct.

Mr. Wright stated that the Texas Water Development projections for the State is that we are going to run out of water – water is going to become a very valuable commodity.

Councilmember Langston stated that he would like to know in his mind what our current costs per gallon delivery is versus what our anticipated cost will be. Councilmember Langston stated that he would also like to know what our costs for developing our surface is versus a regional approach of cost sharing. Councilmember Langston stated that that is where he is struggling with the numbers; he is looking at 70% of capacity on a \$55 million project of being \$38.5 million and we are looking at \$44 million for our shared costs. Councilmember Langston stated that since he has not had the benefit of all the previous history he is trying to get in his own mind straight of just where we are and where we need to be in sharing the cost of developing this resource.

Mr. Wright stated that our cost today for water is very cheap because we already own the infrastructure and we are not having to finance any water plants or anything like that. Mr. Wright stated that it is about 59 cents per thousand gallons. Mr. Wright stated that we are estimating 39 cents of that would be an offset that would be savings

in current expenditures that would go to the surface water plant taking down that thousand gallon per day cost.

Mr. Maclin stated that if Council desires, this item could be put on the December 16<sup>th</sup> agenda.

Councilmember Langston asked if Council was able to take action today. Councilmember Langston stated that he would like to see Council move forward. Mr. Wright stated that LNVA is not participating on the transmission line at all; most of that cost is born by Lufkin as far as the larger percentage. Mr. Wright stated that this decision today would be just to put together the paperwork, spend some staff time in putting together the numbers, and submit the application.

In response to question by Councilmember Gorden, Mr. Maclin stated that what Keith was saying is that over the next two years, we will be able to work on lowering the costs in terms of our very conservative cost estimates now – we may be able to get more accurate in our detail and say instead of \$56 million we could shave that down to \$48 million. Mr. Maclin stated that we are also saying that there is the potential of Congressional earmarks through the Corps of Engineers to pay for the intake structure. Mr. Maclin stated that if the Corps of Engineers pays for the intake structure then that takes it out where the City does not have to pay for it and again lowers our costs. Mr. Maclin stated that staff could not get Council definitive answers on that within the next two weeks; it will take a little longer than that. Mr. Maclin stated that we have this two year window where we can get definitive answers to those questions.

Councilmember Gorden thanked the LNVA for coming today.

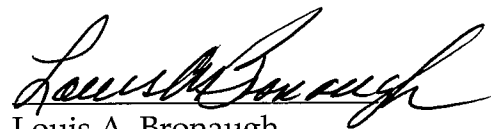
In response to question by Councilmember Gorden, Mr. Maclin stated that Council has passed a Resolution and their Board would have the Resolution on their next agenda and following their signature on that Resolution, we will present that to TCEQ and would hope that within 30 to 40 days following that we would have our permit.

Councilmember Robertson stated that if we could accelerate this somewhat and give other communities as well as us a good, dependable supply of water that maybe one of the best attractions that we can have in enticing development in the community right now.


Mr. Stroeder stated that the submission of an application is not a firm commitment. After the application is submitted any one of the participants can withdraw at any time and no hard feelings. Mr. Stroeder stated that until we get to the point where we sell bonds it's not a commitment. Mr. Stroeder stated that we need to get the application in by January 10<sup>th</sup>.

Motion was made by Councilmember Rose Faine Boyd and seconded by Councilmember R. L. Kuykendall to move forward on the loan application to the Texas Water Development Board. A unanimous affirmative vote was recorded.

3. Meeting adjourned at 3:03 p.m.

  
Louis A. Bronaugh  
Mayor

ATTEST:

  
Atha Martin  
City Secretary