

**MINUTES OF CALLED MEETING OF THE CITY COUNCIL OF THE CITY OF
LUFKIN, TEXAS, HELD ON THE
12TH DAY OF JULY, 1999 AT 2:00 P. M.**

On the 12th day of July, 1999 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 Bronaugh	Mayor
Bob Bowman	Mayor pro tem
R. L. Kuykendall	Councilmember, Ward No. 1
Don Boyd	Councilmember, Ward No. 2
Betty Jones	Councilmember, Ward No. 3
Dennis Robertson	Councilmember, Ward No. 6
C. G. Maclin	City Manager
James Hager	Asst. City Manager/Finance
Atha Stokes Martin	City Secretary
Keith Wright	City Engineer
Kenneth Williams	Director of Public Work

being present when the following business was transacted.

1. Meeting was opened by Mayor Bronaugh.

2. **CAPITOL IMPROVEMENTS PROGRAM**

City Manager Maclin stated that this will actually be the third meeting for discussion of the Capital Improvements Program. Mr. Maclin stated that the initial discussion began at the Council Retreat in May, with a follow-up meeting in June. Mr. Maclin stated that Council requested that there be another followup meeting after the presentations by the Department Heads, which was completed last Thursday, specifically with the request and intent of finding a way to fund these Capital Improvements as listed in the first \$13.3 million worth of needs of the City without a tax increase. Mr. Maclin stated that staff has some ways to look at this which can't be guaranteed they would be without a tax increase, but there are ways to delay a tax increase.

James Hager, Assistant City Manager, gave a review of the Capital Improvements Program as discussed in previous meetings. Mr. Hager stated that the tax supported projects included four categories: General Government, Public Safety, Culture and Recreation, and Streets and Drainage. Mr. Hager stated that these four categories as recommended by staff, total \$13.3 million. Mr. Hager stated that these are the projects listed in detail - the Public Works facility, Police Communication System, Ambulance Program and pumper for the Fire Department, mechanical walls, bleachers and HVAC system for the Civic Center, Phases I, II and III of the Kit McConnico Park and the Hurricane Creek Detention Ponds.

In response to question by Mr. Robertson, Mr. Hager stated that staff is recommending the funding of the mechanical walls through the issuance of debt from the Hotel/Motel tax, and that would be repaid over a period of time.

Mr. Hager stated that also discussed was an option staff was recommending to Council regarding the tax rate. Current tax rate is 0.486977, which this year might be rounded off. Mr. Hager stated that the current O&M tax rate is 0.366310; the debt service tax rate is 0.120667.

Mr. Hager stated that governmental accounting is somewhat different from enterprising accounting in that within government you have separate entities called "funds". Mr. Hager stated, that as in other cities, we have an operating budget which Council has just reviewed, and that is typically the ordinary tax rate;

that is a separate fund and carries a separate fund balance from the debt service fund. Mr. Hager stated that the debt service fund takes a portion of the tax rate, in this case .012, and applies it to that debt service fund, which is restricted from the repayment of debt obligations only. Mr. Hager stated that when we talk fund balances, we are talking about debt service fund, and when we talk about O & M, we are talking about the fund balance in General Fund, which has a 90 day fund balance policy. Mr. Hager stated that our debt service fund has a policy that averages around \$100,000. Mr. Hager stated that it is not necessary to carry a fund balance in the debt service fund.

Mr. Hager stated that staff is recommending taking one cent from the O & M tax rate and shifting it into the debt service tax rate, which would shift approximately \$117,000 from the operating budget to the debt service fund in order to pay the debt service on the staff recommendations.

Mr. Hager stated that we also discussed at that point the \$13.3 million proposal adding an additional 3/4's of a cent in order to fund all of the \$13.3 million, issuing that debt over a five year period.

Mr. Hager stated that with a 3/4's of a cent increase in taxes, that would be a very nominal amount of increase on the homeowner. On a \$40,000 house it would be \$3.00, on a \$100,000 house it would be an increase of \$7.50. Mr. Hager stated that our project schedule outlined sales of \$3.3 million, \$4.8 million, \$2.9 million, \$2 million, and \$121,600. Mr. Hager stated that as discussed in the previous presentation if the City sold debt in that order, we could not afford it with that current outlay, the shift in the one cent tax rate. Mr. Hager stated that he had taken the schedule and equalized it over a period from the year 2000 to 2004 and sold \$2 million each. Mr. Hager stated that during that presentation Mr. Gorden had expressed concern regarding the 3/4's of a cent. Mr. Hager stated that he went back to determine how we could issue debt and avoid that 3/4's of a cent right now. Mr. Hager stated that what we could do is reschedule the construction programs, which means that we would do \$2 million in the year 2000, \$2.2 million in 2001, and \$2.4 million in 2002, \$500,000 in 2003, and finish it in 2004, which would require the City to sell bonds in that revised bond sale schedule. Mr. Hager stated that the projects would then be structured in the following manner: The first items that staff would recommend funding would be the Police 800 MHZ system for \$1.5 million, the fire pumper, consider the bleachers in year 2000 at \$375,000 and begin the Hurricane Creek detention ponds. Mr. Hager stated that this would allow us in the detention pond area to purchase land and do some engineering work. Mr. Hager stated that in the year 2001 we would purchase an ambulance, the HVAC system for the Civic Center, and the remainder of that \$2.2 million we would begin construction of the Hurricane Creek detention pond. Mr. Hager stated that in 2002 we would propose beginning construction on the Public Works facility and completing work on the Hurricane Creek detention ponds. Mr. Hager stated that in 2003 we would finish the Public Works facility, buy another ambulance and begin Phase I of the Kit McConnico Park. In year 2004, we would finish each of those phases in Kit McConnico Park and buy another ambulance. Mr. Hager stated that this schedule would allow the City to stay within that one cent tax shift during this five year period. Mr. Hager stated that this is our debt service fund balance as it builds and begins to decline as we issue those amounts of bonds that were just discussed. Mr. Hager stated that in year 2004 our fund balance would be \$43,400. Mr. Hager stated that the graph shows the existing debt in the dark blue and the new debt that would be issued, as discussed. Mr. Hager stated that the debt would peak in the year 2009 with a total of \$2,433,000. It would rise to close to that peak in 2005. In 2004 the debt service is \$2.2 million, which means we would be looking at approximately \$200,000 in increased debt service to meet in the year 2005. Mr. Hager stated that the point that he wanted to try to make in this is that we would probably be looking at, based upon our current projections, an increase in our debt service tax rate at that point in time, and it would be in the neighborhood of 1 1/2 to 2 cents.

Mr. Hager stated that the considerations the City faces are in the fiscal year after FY

2004 we will in all likelihood require a debt service tax rate based upon the \$13 million bond program that staff is recommending for Council to approve. Mr. Hager stated that keeping in mind that in the year 2001 the Library becomes the responsibility of the City, and he is estimating \$200,000-\$250,000 which will equate to 2 to 2.5 cents on the tax rate or reduction in operating expenses in other areas or eliminating altogether the decision packages that Council has previously considered. Mr. Hager stated that, as Council knows, decision packages range from \$1 to \$1.5 to \$2 million per year, with a lot of those items being pretty nice to have funded. Mr. Hager stated that the other thing to consider is the debt service tax rate is not subject to roll back. Mr. Hager stated that when you shift that one cent into the debt service fund from the operating fund, you lower your tax rate in your operating fund and subject yourself to the 8% rollback more quickly than a larger number would. Mr. Hager stated that there is no rollback on debt service tax rate, Council has full authority to adjust the tax rate without that fear.

City Manager Maclin stated that he would like to summarize this presentation into a few options. Mr. Maclin stated that the first option that was requested was, is there a way to issue roughly \$13 million in debt without a current tax rate increase. The answer is, if you stagger and delay the projects from the original proposed schedule, which means the Public Works facility and some other items are being pushed back a couple of years in some cases. You avoid a tax increase now but you do commit to a tax increase in 2005, maybe as much as 2 cents, depending upon what happens with the economy between now and then. Mr. Maclin stated that an alternative obviously is instead of a 3/4 of a cent next year, Council could approve 1/2 cent this year and 1/2 cent next year. Mr. Maclin stated that if you get the tax increase up front you get to invest it and it goes further. Mr. Maclin stated that the further the tax increase is delayed the more you will have to kick in in the end, simply because you are missing those investment earnings. Mr. Maclin stated that the other factor that could impact us to some intent is inflation. Mr. Maclin stated that when you delay these projects, historically you have increased the price, and what might be a \$1 million project now, five years from now might be a \$1.4 million project just because of inflation. Mr. Maclin stated that basically he sees Council as having two or three options - 3/4's of a cent as originally submitted, breaking that down into a 1/2 cent per year for a couple of years, or delaying for basically four years but recognizing that there will be a tax rate hike that you will come into towards the end of that fourth year. Mr. Maclin stated that Council might decide to do one cent in 2004 and one cent in 2005, and that might be another way of delaying the tax rate hike. Mr. Maclin stated that when the debt is issued, the money has to come from somewhere, and that either means some substantial cutbacks in services or a tax rate increase. Mr. Maclin stated that going back to some discussions Council had in 1991, the philosophy, the consensus of opinion of Council has been consistently, that the public can handle smaller increases even though they may be a little more frequent than to wait and tag them with a large increase at one time. Mr. Maclin stated that in essence, this is what happened with the reevaluation with the CAD. Mr. Maclin stated that historically back in the '80's the City did not raise water and sewer rates and then all of a sudden we had to raise them 10% and the citizens had difficulty dealing with a double digit increase. Mr. Maclin stated that, likewise, that was the problem in 1988 when Council raised taxes above the 8% rollback and triggered the rollback election. Mr. Maclin stated that staff thinks it is prudent that Council consider the same philosophy that they have adopted in rate increases with tax rate increases and use the incremental small amounts that the public can handle easier in their budgeting process rather than perhaps waiting until 2005 and then having to bring on a two cent tax hike to cover debt requirements.

In response to question by Mayor Bronaugh, Mr. Wright stated that on the land for the detention facilities, the longer we wait there is no guarantee it will be there. Mr. Wright stated that staff has estimated the price of the land, but each year they delay in purchasing the land, the price will increase by 3% in value. Mr. Wright stated that large sites, as would be needed for a detention pond, are not easy to come by. Mrs. Jones stated that purchasing the land for the detention pond has got to be one

of the Council's priorities.

In response to question by Mayor Bronaugh, Mr. Maclin stated that these figures do not include any type of inflation per se. Mr. Gorden stated that he appreciated the work that had been done on the CIP program and he was in favor of moving forward.

In response to question by Mr. Gorden, Mr. Hager stated that basically assuming either a 5 to 5 1/2% interest rate on our debt on a 20 year retirement, about each \$85,000 would buy about \$1 million worth of debt. Mr. Hager stated that for \$250,000 it would be \$3 million, \$430,000 would be roughly \$4 million. In response to question by Mr. Gorden, Mr. Maclin stated that on the \$250,000 that would be taken from the current allocation in the Street Department and basically saying that we will transfer the money we have been budgeting in the Street Department for Street Department repairs and making it revenue neutral to where you are investing it in bonds as opposed to current projects which allows you then to do some major reconstruction projects and pay it out over 20 years. Mr. Maclin stated that right now the City is on a pay-as-you-go-basis each year.

Mr. Bowman stated that Council still needs to address the water issue in the near future. Mr. Gorden stated that if the City were in the middle of the drought as we were in last year, we might be addressing the water issue differently, we wouldn't be taking the engineer's word on adding one well per year. Mr. Gorden stated that he hoped that the City could move faster than that. Mr. Maclin stated that the contract has been signed with the engineers and they are moving forward with the engineer's study.

Mr. Gorden stated that if staff wanted to spend the \$13 million with the 3/4 cent, it was fine with him. Mr. Boyd concurred.

In response to question by Mr. Bowman, Mr. Maclin stated that the 3/4 cent would generate approximately \$85,000. Mr. Boyd stated that he did not think the public would be opposed to a one cent increase.

Mr. Hager stated that he wanted to keep focused on the fact that this year we will have an addition to the operating budget to include the full cost of the Library, unless we have the opportunity to receive some of the donations and use them in the operating aspect of the Library. Mr. Hager stated that we will be looking at probably \$250,000 additional in operating costs in next year's budget.

In response to question by Mr. Wright if we go ahead with the 3/4 cent would this put us back on the old schedule where we could move the detention ponds up, Mr. Hager stated that that would allow the City to sell \$2.7 million per year, and there would be some adjustment in the schedule, but not quite as drastic as what has been done to avoid the 3/4's increase.

In response to question by Mr. Bowman, Mr. Hager stated that staff did not recognize any increase in the existing assessed values, which would be a re-assessment by the CAD, which is fairly conservative. Mr. Hager stated that assuming the City had future increases and Council did not want to increase the tax, or keep the tax the same but lower the tax, that had been built into that projection but have estimated on new growth about \$25 million per year, about 2% of our assessed value. Mr. Hager stated that that is where the increased revenues would come from. Mr. Hager stated that if the City had an increase in assessed values and Council kept the tax rate the same, obviously we would get more revenue than we projected. Mr. Maclin stated that one other point of clarification that had been discussed at the last meeting, this does not impact the General Fund fund balance (the 90 day operating portion). Mr. Maclin stated that this just decreases the fund balance in Interest and Sinking, but does not violate the 90 day policy that Council adopted last year as far as the minimum fund balance for the General Fund.

Mr. Gorden stated that if he were reading the projections correctly, in '99-2003 staff

was projecting a 10 cent increase just based on growth. Mr. Hager stated that would be based on 2% per year.

Mr. Maclin stated that in essence what staff would like to seek from Council today is some type of direction relating to the CIP Program being included in the budget draft that will be presented to Council on July 27th. Mr. Maclin stated that the Public Hearing will be held on August 3rd followed by first reading and consideration of a vote on the Ordinance on August 17th. Mr. Maclin stated that if there is a consensus to move forward with 3/4's of cent as part of the CIP, staff can include that in the budget draft that will be presented to Council on July 27th.

Mr. Robertson stated that he was still questioning the \$375,000 for bleachers for the Civic Center as to need of that degree. Mr. Robertson stated that this is an expensive item and being in that facility and other facilities without bleachers, he was not so sure that chairs could be bought and forego the expense of bleachers. Mr. Robertson stated that this would be \$375,000 that could be applied to something else which may be more needed than bleachers in the Civic Center. Mr. Robertson stated that he would like to see more evaluation of the bleachers before it is included in the CIP Program package. Mr. Maclin stated that staff would ask Ms. Thompson to prepare some reports that contrast cost of seating versus bleachers and possibly seek some comments from people who rent the building for concerts in particular as to how valuable they think the bleachers are. Mr. Maclin stated that Council members could evaluate Ms. Thompson's report before they decide whether or not to include the \$375,000. Mrs. Jones asked if there were another source of money to fund the bleachers. Mr. Maclin stated that staff could consider the Hotel/Motel Tax Fund after the mechanical walls are paid for. Mr. Maclin stated that payments for the mechanical walls could be spread out over 3 to 5 years and another 3 to 5 years for the bleachers and not impact General Fund, which is feasible at our current rate of tax collections from Hotel/Motel tax.

Mr. Bowman stated that while the Council was looking at projects, he would like for someone to sell him on the Public Works facility. Mr. Maclin stated that he could take Mr. Bowman on a tour of the existing facilities at 7:30 a.m. tomorrow morning. Mr. Robertson stated that he had recently toured these facilities and he would vote for the new facility. Mr. Robertson stated that his philosophy on this is, that as a progressive city we ought to have some decent facilities for the different departments to work out of. Mr. Robertson stated that the old recreational barn out near Winston Park is about ready to fall down.

Mr. Gorden asked if the 3/4 cent would impact any other debt we might have to incur from the standpoint of status of the issuance of the bonds. Mr. Hager asked if Mr. Gorden was talking about the arbitrage requirements. Mr. Gorden stated that he was talking about the yearly limit of debt issuance that makes the tax free. Mr. Hager stated that that was part of the arbitrage laws. Mr. Gorden stated that arbitrage is part of making more than you are getting paid. Mr. Maclin stated that what Mr. Gorden is talking about is the \$10 million cap. Mr. Hager stated that there are ways of avoiding paying that money back to the Federal Government. Mr. Hager stated that the bond attorney will make sure that you issue tax exempt debt and we will live by the requirements to maintain tax exemption in the bonds, whether we issue \$5 million or \$50 million. Mr. Maclin stated that Mr. Gorden's concerns are legitimate concerns in terms of the bank qualification being \$10 million once we get into the issuance of the A/C pipe. Mr. Maclin stated that it does not separate by funds, it is based on debt issued as debt issued for qualification purposes only. Mr. Maclin stated that there are some advantages for staying under the bank qualification cap. Mr. Maclin stated that we need to get an answer to this question.

It was the consensus of opinion of Council that staff proceed with the 3/4's of a cent increase to fund the CIP Program (excluding the \$375,000 for the bleachers).

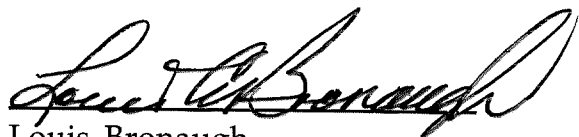
City Manager Maclin stated that he would like to seek one other consensus of opinion, and that goes back to the Street program. Mr. Maclin asked if

Councilmembers would like to see staff include in the budget a proposal to do a revenue neutral transfer where we take anywhere from \$250-\$350,000 out of the street fund repair budget and use it for debt issuance for anywhere from \$2.5 to \$4 million for reconstruction projects. Mr. Maclin stated that staff would then come up with a listing of how they would recommend, based on priority of need, that expenditure. There was a consensus of the Councilmembers to go forward with the Street program.

Mr. Hager stated that he had been thinking about transferring funds from the operating budget into the debt service fund, and one of the concerns he would have, and that staff should talk to Mike Byrd about is, that rating agencies may take a fairly dim view of that simply because the operating budget is dependent upon funding that debt. Mr. Hager stated that there is a risk there from an investor's standpoint and he would like to talk to Mr. Byrd and see what he would suggest. Mr. Hager stated that he felt that Mr. Byrd would suggest that if Council wants to do this that we decrease further the operating tax rate and increase the debt tax rate for an equivalent amount. Mr. Wright stated that this is above and beyond the bond voter packages that we talked about. Mr. Maclin stated that we are still looking at seeking Council's direction and leadership in the appointment of a blue ribbon type committee for bond election and to still move forward with that election next May, unless Council chooses otherwise. Mr. Maclin stated that in order to be prepared, we would need to decide by September, which would give us adequate time for a successful bond election.

In response to question by Mr. Gorden, Mr. Maclin stated that the City came in #16 in the TDBG grant, which will probably be funded, and we will probably be moved up two more levels when it is reviewed by the State. Mr. Maclin stated that based on current numbers, the top 16 grant requests will be funded.

3. There being no further business for consideration, meeting adjourned at 2:55 p.m.


Louis Bronaugh
Mayor

ATTEST:


Atha Stokes Martin - City Secretary