

SPECIAL CITY COUNCIL MEETING

August 2, 2007, 8:30 a.m.

CITY COUNCIL OF THE CITY OF ABILENE, TEXAS

The City Council of the City of Abilene, Texas, met in the Basement Conference Room of City Hall, 555 Walnut Street for a Workshop on August 2, 2007, at 8:30 a.m. Mayor Archibald was present and presiding with Councilmen Anthony Williams, Sam Chase, Stormy Higgins, Joe Spano, and Councilwoman Celia Davis. Also present were City Manager Larry Gilley, City Attorney Dan Santee, City Secretary Jo Moore, and various members of the City staff. Councilwoman Laura Moore was absent.

1. Mayor Archibald called the meeting to order.
2. Mayor Archibald gave the invocation.
3. Councilman Chase led the Pledge of Allegiance to the Flags of the United States of America and the State of Texas.
4. Mayor Archibald requested that City Manager Larry Gilley brief the Council on today's presentations. Mr. Gilley stated the Council workshops are being held to provide Council with an overview of City departments and to provide information to assist the Council, specifically during the budget preparation process. Mr. Gilley then introduced Director of Aviation, Don Green who presented the following information on the Aviation Department:

What We Do

The Abilene Regional Airport serves the citizens of Abilene and those in a 32 county area. The Airport provides a well-maintained, safe, secure and cost effective airport that hosts two airlines – American Eagle and Continental Connection – with an average of 10 departures and 10 arrivals daily.

- The Airport served 90,918 revenue passengers in the calendar year 2006.
- The Airport is home to Eagle Aviation Services, Inc. (EASI), a maintenance base for American Eagle; Abilene Aero, the airport's fixed base operator; Southwest MedEvac, an air ambulance operator; and various corporate and private aircraft owners. Federal Express, DHL and UPS all have daily cargo flights here.
- The Airport is a primary diversion airport for Dallas/Ft. Worth International Airport.

How We Do It

The Airport has a dedicated team of 19 full-time and 4 part-time City employees who are hired with the mindset of developing capability, coachability and a commitment to service.

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Airport Operations

- Provides 24/7 Aircraft Rescue and Firefighting (ARFF) services and performs airfield safety and security inspections.

Airport Maintenance

- Maintains the airside in accordance with FAA standards. On-call 24/7 to repair terminal and airfield systems and perform snow/ice removal.

Airport Parking

- Attendants collect parking fees, maintain a daily count of parked vehicles and assist customers with dead batteries, flat tires and, occasionally, directions to good BBQ.

Airport Administration

- Provides administrative support for Maintenance, Operations and Parking. Develops and implements the strategic capital improvement and business development goals for the airport.

Capital Projects

- General Aviation Taxiway Construction
- General Aviation Ramp Rehabilitation
- Terminal Phase IV
- Taxiway D (Phase 2)
- Air Carrier Ramp Reconstruction (Area A)
- Air Carrier Ramp Reconstruction (Area B)
- Runway 17L/35R Lighting Rehabilitation
- Parking Lot Expansion

Director Green concluded the presentation and noted the reason the Airport renders the service it does is due to their commitment to continue to build a community of the highest quality for present and future generations.

Council and staff discussion included: 1) the 4% growth the Airport has experienced to date for the 2007 calendar year; 2) the “service area” of the Airport being incredible; 3) the impact the current and future construction at the Airport will have on the general public and how those issues will be handled; 4) the baggage check area (time spent in waiting on luggage) being the airlines responsibility but staff is working with them on ways to improve this; 5) construction currently being slow but quality of contractors work is good; 6) Terminal Phase IV expected to be completed by early February and will coincide with parking lot construction; 7) both curb sites will never be closed at the same time during construction, and; 8) public relations, information and signage will be critical for the public during the construction time.

No Council action was required.

5. Winstead Consulting Group – Legislative Update. City Manager Larry Gilley stated Abilene has engaged legislative consultant services and present today to present the 80th Legislative Session Summary are representatives from the Winstead Consulting Group (WCG). Mr. Gilley introduced Janis Carter who distributed the summary and Ms. Carter then introduced Wendy Foster and Joe Valenzuela. Ms. Carter stated the WCG covers every legislative hearing they think Abilene would be impacted by, or interested in, and Ms. Carter also noted the Abilene

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Reporter News provides great coverage of the legislative sessions. The 80th Legislative Session Summary was then reviewed and discussed. Ms. Carter presented legislative issues which included the following:

Introduction

While there were 18 percent more bills filed this session, hundreds of bills died and a fewer percentage of bills made it through the gauntlet of the legislative process. Even though bills died, there were still several key pieces of Legislation that did pass, which will mark this session a success. Some of those items include funding the historic property tax reductions promised in the recent special session, extending the tax reductions to the elderly and disabled, fully funding public education, creation of the Texas Tomorrow Fund II, passage of a package of water bills which protect, manage and conserve water, long term funding for the state parks system and the Historical Commission, increased funding for Homeland Security to fight border crime and for coordination of homeland security activities, funding of long term cancer research in Texas, the passage of Jessica's law, and Medicaid reforms that will provide better healthcare to both adults and children.

Budget

While the State started with a \$14 billion surplus, Legislators were also facing a \$14.2 billion appropriation to fund the property tax relief agreed to in the special session. The Texas Constitution limits the growth rate of certain appropriations to the rate of growth of the Texas economy, estimated to be 13.11 percent over the next two years. In order to have revenue to spend on other needs, the legislature voted to amend the State's spending cap for a one-time measure and transferred the \$14 billion to the TEA to cover revenue that school districts will no longer receive from local property taxes due to the property tax reduction. Of that, \$8 billion came from the Property Tax Relief Fund (comprised of revenue from the cigarette tax, liar's affidavit and newly reformed franchise tax) and \$6 billion from surplus general revenue.

The budget also includes a \$10 billion increase (a 7 percent increase), over the current biennium budget with \$8.8 billion of the \$10 billion coming from general revenue of the State. This is a fiscally conservative budget compared to the economic growth estimate of the State of 13.11 percent. Significant drivers for the increased budget included, but are not limited to, health-care related costs, a 22.4 percent growth in public school attendance, a 23.5 percent growth in higher education enrollment at general academic institutions, a 41 percent increase at community colleges, and a 17.9 percent growth in the inmate population.

Additionally, Texas lost a 14-year old Medicaid lawsuit known as Frew vs. Hawkins. The class action lawsuit, originally filed in 1993, alleged failings in the State's efforts to ensure all children enrolled in Medicaid were receiving appropriate preventive and specialty care services available to them via the federally required edicts. \$1.8 billion was appropriated in HB 15 to fund the proposed agreement; \$707 million will come from general revenue.

In the end, Texas legislators left \$2.5 billion unappropriated to carry forward to the following biennium in anticipation of revenues needed to continue funding the property tax reduction. The

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Rainy Day Fund is estimated to accumulate \$4.3 billion by the end of FY 2009. The two sources combined total \$7.8 billion that the legislature will have to put toward the continued cost of the property tax reduction when they return in 2009.

Highlights from the budget:

❖ Health and Human Services

Funding in this area accounts for 35 percent of the total budget and increased by a total of \$2.3 billion.

❖ Education

In addition to the property tax replacement funds, \$1.19 billion was added in Public Education and \$2.79 billion was added in Higher Education.

❖ Criminal Justice

An increase of \$370 million was funded for population increases, increased rehabilitation costs and operating costs. An additional \$108.1 million was added for border security operations.

❖ Transportation

A \$1.0 billion increase in funds was added due to increases in the Texas Mobility Fund and State Highway Fund Revenue Bond proceeds.

❖ Employee Pay Raise

The number of full-time state employees increased by about 7,000 employees for a total of 232,622. State employees will receive a 2 percent pay increase for 2008 and a 2 percent increase for 2009, with a \$50.00 a month minimum.

❖ Taxation

There was no one major overhaul tax bill this session. However, there were some less strident bills that passed this session on both property tax and sales tax that combined create some significant changes for some taxing entities.

Summary of some of the legislation that passed:

➤ Property Tax

- The Texas Economic Development Act was extended until 2011 (HB 1470), a cap on the value was added, the comptroller was made responsible for the evaluations and some job creation flexibility was added. An additional bill (HB 2994) qualifies certain nuclear projects for the tax valuation limitations.
- Two separate pieces of legislation require additional public notification if the taxing unit plans to adopt a budget or a tax rate that would require an increase in the tax rate or raise more revenue than the previous year (HB 3195 and HB 3495). HB 3195 also requires a city to post its budget on their website if they operate one and to take a separate ratification vote on a budget that will raise the property tax.

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- If voters approve a constitutional amendment this fall, HB 438 will go into effect prohibiting the appraised value of a residence homestead from increasing by more than 10 percent in any single year, including repairs to the homestead. Currently, in areas where homesteads are reappraised every two or three years, the appraised value of a homestead can increase 20 or 30 percent following a reappraisal.

- Sales Tax
 - Using the origin basis for local sales tax was restored on all taxable items (HB 3319) and for transit sales taxes (HB 142).
 - Authority of the 4A and 4B development corporations was expanded to allow sales tax revenue to be used for the operation of rail, light rail or motor bus transport (SB 1089). Any new street maintenance sales tax approved by the voters after September 1, 2007 is exempt from the automatic four year expiration (HB 3084). Cities may abolish the tax by an election.

- Franchise/margins Tax
 - HB 3982 made numerous technical changes to the margin bill.

- Other Tax Bills of Interest
 - The 1.25 percent tax assessment on telecommunications providers was repealed this session (HB 735). The repeal will save tax payers roughly \$200 million a year. The fund, Texas Infrastructure Fund, was also established to help fund the expansion of broadband services to rural areas and schools.

Other Legislation

Education

Legislators phase-out the TAKS test beginning with the freshman class of 2011-2012 and move to end of course exams in four core subjects. The test will count as 15 percent of the students' course grade and students will be required to obtain a cumulative score on the tests of 70 percent per subject matter in order to graduate (SB 1031).

A High School Completion and Success Initiative Board was established in HB 2237 to develop and manage a strategic plan that coordinates public and private high school improvement initiatives. The board will also administer a pilot program to provide grants to schools for activities for students at risk of dropping out.

WCG representative Wendy Foster presented information concerning various legislative bills including the following:

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Water Ran Through It

- HB 3 by Puente:

HB 3 establishes a statutory process to address the issue of environmental flows as a protection for the bays and estuaries of the state. The statute is a two prong approach through the Texas Commission on Environmental Quality (TCEQ) and locally driven science teams. Additionally, substantive changes to the Edwards Aquifer Authority were included in the bill.

- HB 4 by Puente:

HB 4 addresses water conservation needs of the State. The Texas Water Development Board (TWDB) is charged with implementing a state wide public awareness program relating to conservation and the Water Conservation Advisory Council is established to monitor the execution of water conservation strategies. Each water utility with 3,300 or more connections is required to submit, to TCEQ, a water conservation plan and a report on its progress in executing that plan. Each home rule city may regulate water conservation practices within the city and with its customers in the city's extraterritorial jurisdiction. TWDB's water assistance fund may be used for funding water conservation initiatives.

- SB 3 by Averitt:

SB 3 was the omnibus water legislation that was heavily debated and was a contentious bill down to its final vote. The controversial issue in the bill was the designation of various properties as unique reservoir sites. Ultimately, the bill passed with the designations in tact. Provisions of the bill included: 1) Identical provisions from HB 3 and HB 4 (environmental flows and water conservation); 2) Expands the public higher education exemption from paying municipal storm water fees to include private institutions; 3) TCEQ may decertify a city's Certificate of Conveyance and Necessity (CCN) that extends its service outside its ETJ if the city does not provide service to those customers within five years of the date the CCN was granted; 3) Landowner notification requirements of a CCN proceeding were changed in the bill. The acreage requirement that triggered landowner notification was decreased from 50 to 25 acres; 4) Landowners may lease back property that has been acquired for the purposes of reservoir construction for agricultural purposes, and; 5) Persons pursuing reservoir construction must attempt to mitigate future adverse environmental effects of the project by offering to contract with a property owner outside of the reservoir site to maintain through an easement. If such an attempt is rejected, the persons may obtain the fee title through eminent domain if necessary.

Eminent Domain and Property Rights

- Eminent Domain

The Texas Legislature continued to address landowners' concerns of public and private entities initiating eminent domain proceedings to acquire private property under the

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premise of “economic development” through HB 2006. The language included: 1) A condemning entity must make a good faith effort to acquire the property through a voluntary purchase; 2) “Public use” is defined for the purposes of establishing the circumstances wherein eminent domain proceedings may be initiated by a public entity; 3) Public entities must take a public vote prior to the initiation of eminent domain proceedings; 4) Guidance relating to types of evidence may be included when calculating adequate compensation in an eminent domain proceeding; 5) Relocation costs, moving expenses, rental supplements and similar costs must be paid by the city taking the real property as a cost of acquiring it, and; 6) Subject to the passage of a constitutional amendment in the fall (HJR 30), property owners may repurchase their property that was taken through eminent domain for the price the condemner paid for the property if operation or construction of the project for which the property was taken has not begun after ten years from the date of the taking. Ms. Foster noted that she could provide the Council with a summary of the constitutional amendment.

- **Landowner Bill of Rights**

A “Landowners Bill of Rights” was created by HB 1495 requiring landowners to be notified of their rights when their property is in jeopardy of being taken by a governmental entity. Specifically, the Texas Attorney General will prepare a written statement expressing the rights of the property owner whose real property may be acquired through the use of eminent domain from a governmental entity. The bill of rights must be written in plain English and is required to be included in a condemnation petition to certify that a copy was provided to the property owner.

- **Castle Doctrine**

SB 378 passed this session explicitly states in law that a person has no duty to retreat if the person is attacked in a place where he or she has a right to be present, if he or she has not provoked the attacker, and if the person using force is not engaged in criminal activity at the time the force is used. The bill also creates a civil immunity to a civil action brought to apply to any force conduct justified by any portion of Chapter 9 of the Penal Code.

Procurement

A city’s procurement process is modified to authorize the use of competitive sealed proposals for the purchase of goods or services, including high technology items and insurance (HB 3517). With the passage of SB 1765, a city’s expenditure trigger for competitive bidding will be raised from \$25,000 to \$50,000. Advertising, other than legal notices, is exempt from the competitive bidding requirement.

State Parks

HB 12 relating to the Texas Parks and Wildlife Department (TPWD) removed the cap for the use of the proceeds from the sporting goods sales tax and mandates 94 percent of the revenue generated from the tax be provided to TPWD. HB 12 transfers 18 state historic sites from TPWD to the Texas Historical Commission (THC), and it earmarks the remaining six percent of

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state sporting goods sales tax to the THC. The bill also sets up a legislative task force to study sporting goods tax funding and make recommendations for the next session.

WCG representative Joe Valenzuela presented information concerning transportation related bills which included the following:

Transportation Related Bills

There were nearly 350 bills referred to the House and Senate Transportation Committees. Close to 200 were voted favorably. The legislation ranged from requiring seat belts on school buses, to regulating outdoor advertisement to placing a moratorium on toll projects in Texas.

- **Toll Moratorium**

Several versions of the toll moratorium were filed this session but only a couple of those bills made it to the Governor's desk. HB 1892 was the first of these bills to pass and was ultimately vetoed by the Governor within the override period, setting up a possible showdown between the legislature and the Governor.

- **SB 792 by Williams**

SB 792 was compromise that placed a two year moratorium on comprehensive development agreements between local toll authorities and private entities. The compromise exempted several pending toll projects and toll extensions to continue. SB 792 also creates a committee to study the policy implications of this transportation funding mechanism and make future recommendations for building roads to improve transportation.

- **Traffic Cameras**

There were several bills filed to either outlaw or regulate the use of red light cameras by municipalities. These bills included: 1) HB 922 prohibits cities from implementing or using automated traffic control systems to enforce speed limits; 2) HB 1052 requires cities to post warnings if they implement photographic traffic monitoring systems to identify and issue citations for violators of traffic signals. These signs will notify drivers they are approaching an intersection that is monitored by a photographic system (red light cameras), and; 3) SB 1119 established standards and implements the photographic signal enforcement system, more commonly referred to as the red light camera program. SB 1119 establishes guidelines to ensure that they are not used as a revenue generating source, but for public safety. The bill also allows cities to pay for the operation and maintenance of the system and to remit 50 percent of the net revenues to the State for deposit in a Regional Trauma Account. The remaining 50 percent will be used for local traffic safety programs.

WCG representative Janis Carter presented the following information concerning energy issues and stated the energy bills are not detrimental to cities at this time:

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Energy Issues

Energy Efficiency:

- The Legislature through HB 3693 created energy efficiency mechanisms to encourage education in consumption and demand in peak energy times.
- Clean Energy:
An ultra clean energy grant and loan program created by HB 3732 gives the State Energy Conservation Office significant resources to encourage the development of ultra clean energy technology.
- Clean Air:
The Texas Emissions Reduction and the Low Income Vehicle Repair Assistance (LIRAP) programs were expanded by SB 12.

Ms. Carter concluded the presentation and reviewed various activities that occur during the interim period (i.e. interim studies, based on what the legislature requests, will be conducted, interim committees will be appointed, etc.). Ms. Carter noted WCG's work with new companies, including foreign companies (public/private partnerships) and stated the WCG could arrange meetings with the City and these companies so the City could hear what the companies have to offer. Ms. Carter thanked the Council for WCG having had the opportunity to present the 80th Legislative Session Summary.

No Council action was required.

Council recessed for a break at 10:10 a.m. and reconvened at 10:20 a.m.

6. City Manager Larry Gilley introduced Benefits and Risk Advisors Holmes Murphy and Associates who were contracted with to analyze the City's health benefits plan and design. Mr. Gilley stated today's presentation is an update on the City's Health Insurance Plan and that the performance of the program continues to be monitored. Mr. Gilley asked Director of Administrative Services Ronnie Kidd to introduce the representative from Holmes Murphy that will be presenting today's report.

Effective January 1, 2007 the City changed third party administrator (TPA) from the Texas Municipal League Intergovernmental Employee Benefits Pool (TMLIEBP) to Blue Cross Blue Shield of Texas (BCBS). Mr. Kidd noted the bottom line positive impact that today's report reflects and then introduced Holmes Murphy and Associates representative Jarrad Wills, who presented the six month Health Plan Performance report which included the following:

Health Plan Performance

Plan Year: January 1, 2007 – December 31, 2007

Claims Paid: July 1, 2006 – June 30, 2007

Health Plan Performance
Monthly Claims Experience

Rolling 24-Month Claims (Monthly Medical/Rx/Administration): Oct-05 to Sept-07

- Jan-Feb '07 claims spike
- May '07 large claimant paid as a run-out claim

Rolling 24-Month Claims (premium vs. expense): Oct-05 to Sept-07

Eligibility, Premiums, Expense and Administration:

Rolling 12-Months Claims: Jul-06 to Jun-07

Rolling 12-Months Claims: Jul-06 to Jun-07, Highlight Dec-06 to Jun-07

Paid Claims: Various Timeframes (last 12 mos., most recent 6 mos. Annualized and most recent 4 mos. Annualized)

Cost Projections (Original)

- In May, we illustrated original cost projections developed from the most recent 12 months claims experience through September 2006
- Used actual average employee participation
- Projected CY '07 expected claims spend for medical/Rx/admin of \$475 Per Employee Per Month
- Using \$475 Per Employee Per Month, CY '08 would have required an 11.5% increase, FY '07-'08 would have required a 7.9% increase

Cost Projections (Reforecast)

- We have re-forecasted cost projections using the most recent 12 months claims experience through June 2007 (blend of TML and BCBS)
- Illustrated actual and budgeted employee participation
- Have experienced higher than expected claims in the first several months of the plan year caused predominantly by higher benefit utilization and payment due to plan changes, seasonality, and a large claimant

Cost Projections
CY '08 (Reforecast)

Assumptions, Enrollment, Self-Insured Medical, Self-Insured Rx, Total, Cost PEPM, and Cost Annual for CY 2007(Actual EEs), CY 2007 Reforecast (thru June '07), CY 2008 (Actual EEs). Increase to CY 2007 PEPM: 9.4% CY Reforecast thru June '07, and 11.6% CY 2008 Actual EEs

Cost Projections
FY '07-'08 (Reforecast)

Assumptions, Enrollment, Self-Insured Medical, Self-Insured Rx, Total, Cost PEPM, and Cost Annual for FY '06-07 Actual EEs, FY '06-'07 Reforecast thru June '07, and FY '07-'08 Actual EEs. Increase to FY '06-07 PEPM: 16.9% FY '06-'07 Reforecast thru June '07, and 12.7% FY '07-'08 Actual EEs.

Retiree Benefits
Old Experience: Retirees <65

- Claims Paid: Oct-05 – Sep-06
- The City and its employees were subsidizing roughly \$109,000 of the cost of retirees <65 health care

Retiree Benefits
Old Experience: Retirees 65+

- Claims Paid: Oct-05 – Sep-06
- The City and its employees were subsidizing roughly \$147,000 of the cost of retiree 65 + health care

Retiree Benefits
2007 Action

- Retirees <65
 - Stayed on the Active Plan
 - Increased Contributions to Cover Projected Cost, reduced GASB liability
- Retirees 65+
 - Increased Retiree Contributions to Projected Cover Cost, reduced GASB liability
 - Offered Aetna Medicare Supplement Plans with attractive medical and Rx benefits at affordable rates
 - Continue to monitor Aetna performance and other possible retiree solutions

Retiree Benefits
New Experience: Retirees <65

- Claims Paid: Jul-06 to Jun-07
- The City and its employees are no longer subsidizing the cost of retirees <65 health care.
- Participation remains relatively level

Retiree Benefits
New Experience: Retirees 65+

- Claims Paid: Jul-06 to Jun-07
- The City and its employees continue to subsidize roughly \$142,000 (most recent 4 mos. Annualized) of retirees 65+
- Participation dropped significantly in Jan-07, adverse selection has occurred.

Retiree Benefits
2007 Results YTD

- Retirees <65
 - Rate adjustments from Jan-07 are currently covering cost
 - Participation dropped slightly
- Retirees 65+
 - Promotion of Medicare Supplement alternative created a shift of approx. 100 retirees off of the active medical plan
 - Cost remain high due to adverse selection
 - Effective Jan-08, retirees 65+ will only have the option to participate in a City-endorsed Medicare Supplement plan eliminating the adverse selection and GASB liability

Next Steps

- Explore Marketing Opportunities for 2008 – Medicare Supplement for Retirees
- Review Plan Design for 2008
- Discuss Contributions Strategy for 2008
- Other

Discussion included: 1) an explanation of what “run-out” claims are; 2) BCBS being under a different network than TML; 3) the potential for an increase in employee health insurance cost; 4) how to implement “healthier” lifestyles; 5) increased cost impact on retired employees; 6) continuing to monitor health plan and submitting monthly reports to Council; 7) most recent 4 months annualized information viewed as positive, and; 8) the City will continue to monitor the plan and take necessary steps to avoid deficits.

No Council action was required.

There being no further business, the meeting was adjourned at 11:05 a.m.

Danette Dunlap
Interim City Secretary

Norm Archibald
Mayor

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