

CITY OF SANGER, TEXAS

MINUTES: CITY COUNCIL WORK SESSION
February 06, 2017, 7:00 PM
502 Elm Street, Sanger, Texas

COUNCIL MEMBERS PRESENT: Mayor Thomas Muir, Councilman Bill Boutwell, Councilman Lee Allison, Councilman David Clark, Councilman Allen Chick

COUNCIL MEMBERS ABSENT: Councilman Gary Bilyeu

Mayor and Four Members present constituting a quorum.

STAFF MEMBERS PRESENT: Mike Brice City Manager, Cheryl Price City Secretary, Alina Ciocan Director of Economic and Community Development, Clayton Gray Finance Director

1. Call Meeting to Order.

Mayor Muir called the meeting to order at 6:00 p.m.

2. Overview of 2016 Audit for Fiscal Year End 2015/2016.

John Watson from the independent audit firm Brooks Cardiel was recognized to present the September 30, 2016 Audit. He provided a Power Point presentation and began with a general overview of the audit process. He went through the Annual Financial Report and summarized the different components of the report. He noted that City Staff was very cooperative and provided any information they requested in a timely manner. Mr. Watson advised that as far as their audit opinion, while they are responsible for the content of the whole report and it's consisting of GAP. The City received an "Unmodified Opinion" which is the highest level of assurance it can receive. Basically, it means they are not aware of any material errors or inconsistencies from GAP. The GFOA says that Cities operating expenditures should have at least three months assigned to general fund expenditures; the City has almost 50% expenditures which is about six months. When cities are low in this area it is a red flag, as there can also be a red flag when they are over 100% and some monies should be spent for special projects, so the City, being at 47% is very sound. He provided a basic pie chart showing a summary of Revenues for governmental activities excluding water and sewer: Property Tax 46 percent; Sales Tax 22 percent; Charges for Services which are primarily Sanitation services 23 percent; and, other ancillary activities for around 3 percent. Everything is working in a surplus. Overall it is positive and there is no deuteriation in this area. As far as budget to actual we also came out surplus. He summarized the TMRS Retirement accounts and noted that they had an increase. Funded Ratio is 86% of the total pension liability and according to Standard and Poor that is considered above average and is also really solid. The City's rate is one of the lowest he has seen in this area. There was brief discussion on the Pension Fund. Mr. Watson pointed out the letters and noted that there are always two required letters you will get for any audit. They are just standard communication. For instance, if you were to identify fraud, that this is

where it would be reported verbalized as well as print. They did not come across anything, there are no suspicions or allegations. No new accounting pronouncements this year and no new significant changes in accounting this year. Everything went very well, management has been very forthcoming and transparent with everything they asked for. Nothing major to report. Mayor Muir noted the closing process noted on the letter and asked how often this process is included on the letter. Mr. Watson advised that it is included about 99% of the time and is very common. Management has been very receptive to their feedback and very involved in working with them and they only expect improvement in the future. There was brief discussion. Clayton Gray was recognized and noted he did not have any comments and noted as audits go, it is kind of like a doctor's appointment and but this was a pretty nice one. He noted Brooks and Cardiel have a very professional staff.

Due to computer technical difficulties for the presentation on Item 3, Update on Transmission Operator Designation was moved to discussion after Item 4 Capital Improvements.

4. Update of Capital Improvements.

City Manager Brice provided a summary of the Capital Improvements referencing the projects on the chart below it includes the breakdown of costs that Councilman Chick has been asking about. He noted that some of the figures are subject to change. This report will be included in the monthly financials from now on. The project figures will change based on the activity of the project.

McReynolds Road, Atmos came in and moved some of their lines and we identified some additional lines they will have to move and they are working on that. Century link has their line out to bid to move. All of the Greensprings water lines have been moved. We are basically waiting on Centurylink and Atmos to get the lines moved so we can begin construction.

Church Renovation is substantially complete, they did re-pour the handicap ramp and that was the last outstanding item on the project.

The West-I-35 Line is also substantially complete.

The East I-35 Wastewater line has been bid out and came in at \$1,549,118. They have been working on it and have completed the line from where it begins on the east side of the railroad tracks to about 1,000-1,500 feet north of FM 455 all the way up to where the bore goes under the railroad tracks. They are doing the bore right now and probably will complete it this week, tie it in and the rest will be on the west of the tracks going toward I-35 and then north.

The phase II is basically taking water and sewer from Lois Road north to View Road. That project has been on hold for some time. There is no reason to take it up there until there is someone there.

Water Wells (Delete-Ground Storage) are pretty much complete. We have to install

SCADA on the two wells and are working on pricing on that right now and should have that done in the next 30 days or so and get those wells online. SCADA is the radio system that controls the wells and it lets us talk to them and control them remotely. It was noted we have not painted Acker yet but do have the money in the budget to do it.

Waste Water Treatment Plant is out to bid we have pushed the bid opening to March 2nd at the request of some contractors. We also had a few addendums that went out and they needed some more time with those.

Cowling Road Lift Station Forced Main and Gravity Line is still in engineering and they are working on the layout of the force main and we believe we can take most of it along the right-of-way on Railroad. They are doing some surveying and looking at that.

Capital Improvement Plan is about 50% to update the Water and Wastewater tap fees. We have made quite a bit of progress on it.

The Nitrification plan is done and submitted to TCEQ and we are waiting for TECQ approval. There are some modifications that will have to be done at the Cowling Road entry point to mitigate the nitrification. Engineering has not been done on it yet and we do not have a cost estimate on it. This is where Upper Trinity comes into our system - we have to add chlorine to kill the chloramine that is in their water.

The Mayor asked if they could get a summary on what we are doing to improve the current Wastewater treatment situations. City Manager Brice noted that we have eliminated all of the filamentous bacteria and have all three plants back up and running. We have been adding sludge and adjusting. We have created a lab at the site so that we can test on a multiple time of day basis. We still have the engineers and some other people coming in on a weekly basis and reviewing what we are doing and giving us suggestions on what we can do. They are wasting a lot of sludge right now because the sludge has built up as we have been going through this process trying to get a balance with the bacteria. We are reproducing bacteria now and there are a couple of other things we are researching on doing to speed up the process. Because we have hauled in quite a bit of sludge from Denton, to re-seed the system, we have a lot of solids right now and that is where a lot of the odor is coming from right now-from the drying beds because of all of the solids. This is one of the issues that the renovations to the plant will really help because the sludge press will be inside of the building and there won't be anymore open drying beds. There was a brief discussion on the improvements being made.

3. Update on Transmission Operator Designation.

City Manager Brice advised he thought this would be a good time to update the Council on this issue. We have had some movement on this issue and has been going on since 2011. This has been a very convoluted and complicated issue. It is something that we have spent way too much time and money on, but have had no choice in the matter. He gave a summary of the item for Councilmembers that were not here when this started and are not familiar with this. How this all started was, if you remember back in February of 2011 when we had the huge cold spell and we had rolling blackouts. The rolling blackouts did not work very well and some areas kept getting blacked out some

areas did not. So, the Electric Reliability of Council of Texas (ERCOT) who is responsible for that began to write more rules. One rule that was in place, but they did not enforce, says basically that every distributor (which is us) had to designate a transmission operator. Brazos operates our transmission lines where the Electric comes into our system – they operate the substation it comes into. Once it comes into the substation it is ours. Which all seems reasonable and not a problem except ERCOT did not tell the transmission operators that as transmission operators what the list of qualifications are. There is no rule that says if you are a transmission operator that you have to be their transmission operator. Brazos told us that they were not going to do it and told that to eight different cities on their system. They flat refused to do it. They do it for the Co-ops' on the system – they do it for Co-Serv who come out of the same substation we come out of, but they won't do it for us or the cities on their system. Basically, what ERCOT said is sorry but you are going to have to figure something out. At one point, they turned it over to the PUC and the PUC was going to start fining us \$25,000 a day. We got the PUC to back off and Schneider Engineering is the engineer we hired along with the other cities to help resolve the issue. Schneider Engineering does all electrical work and the gentleman that is doing the bulk of the work is not only an Engineer, but an attorney. In the meantime, we have been working with ERCOT – Schneider filed an appeal on our behalf with ERCOT and that has been going through the ERCOT system for the last three years. We have not had a whole lot of luck with them. We have been able to table it to satisfy the PUC, but we have not pushed ERCOT for a decision because we know what their decision is; and that is, that we have to solve the problem and they are not changing their rules. Early on, we did an RFP for transmission operator services and we received one response back and they wanted \$250,000 a year from each of the seven cities. A lot of the cities that are in this boat with us are smaller than us and we could afford to do that and they certainly could either. In November of last year we issued a second RFP and we received three responses back from it. One we think may be viable from the Lower Colorado River Authority (LCRA). Basically, what they proposed is they will be our Transmission Operator for an interim basis for three years at \$25,000 a year. That is because it will take that long to work through the final solution with ERCOT and the PUC. Over the next three years LCRA will either acquire the Brazos Substation from Brazos (Which they indicated they do not want to sell) or they will build us another substation and then the cost at that point will be integrated into the distribution cost. Really the cost at that point is basically what we are paying Brazos now for the substation which is about \$13,000 a month. That cost would get shifted to LCRA at about the same price depending on whether they can buy the old one or build a new one. That is the best and most workable deal we have seen since 2011. There are a lot of hurdles we will have to go through to get there, but it is the best news we have had since this started. Some of the hurdles we have to get through is PUC and ERCOT approval. This will take a while and we are probably facing some objections from Brazos because they do not want to lose the business. This may work in our favor where we can say if you do not want to lose the business you need to be our Transmission Operator. The other thing is that we hope ERCOT will continue to table our appeal and they have indicated they will; however, if they don't and they act then that puts us back in to non-compliance with the PUC and we have to start working our way through the PUC which becomes much more expensive than working our way through ERCOT. If there is a wrench thrown in, we may be at the end of three years, be in the same boat we are in today. We, at that point, may be able to go

to ERCOT and the PUC and let them know that we have done everything we can, there is no market solution to this (which is what ERCOT told us to do- find a solution) There is no market solution so either tell Brazos they have to do it or tell us we don't need one. The truth is, we don't need one. The seven cities in this boat make up 3/1000 of the load in Texas. If they need to do rolling blackouts, they are not calling Sanger, Seymour, or Bridgeport, Texas. They will be calling the big operators because that is the only place they can cut enough power to keep the system from crashing. We have made those arguments with ERCOT. Where this is so difficult is that there are a lot of politics going on in the market that would like to see the municipalities go away. We continue to work our way through it. We have spent \$60,000 to date on this issue and don't know what we will spend from here on out but there will be more money expended on this. If we have to start dealing with the PUC we will have to pay a lot more attorney fees. That is an on the Transmission Operator issue. We see light at the end of the tunnel and can only hope it is not a train, but this has been such a difficult process that we can not make any promises of what we are going to face in the future. There was brief discussion regarding some of the issues brought up.

4. Overview of Items on Regular Agenda.

There was no overview of items on the agenda.

6. Adjourn.

There being no further items Mayor Muir adjourned the Work Session at 7:02 p.m.