

NORTH TEXAS MUNICIPAL WATER DISTRICT

MINUTES OF JOINT MEETING OF THE WATER AND POLICY COMMITTEES MAY 26, 2016

I. CALL TO ORDER

Water Committee Chairman Charles McKissick called the joint meeting of the NTMWD Water Committee and NTMWD Policy Committee to order at approximately 2:04 p.m. on Thursday, May 26, 2016, at the NTMWD Offices, located at 505 E. Brown Street, Wylie, Texas.

Water Committee members present included Chairman Charles McKissick, Don Gordon, Darrell Grooms, James Kerr, Bill Lofland, Richard Sheehan, and Shep Stahel. A quorum of the Water Committee was present.

Policy Committee members present included Chairman Joe Joplin, Joe Farmer, Marvin Fuller, Larry Parks, Richard Sheehan, and Lynn Shuyler. A quorum of the Policy Committee was present.

Vice President Terry Sam Anderson, Secretary Bob Thurmond, Directors Jack May, Wayne May, Jim Mellody, Richard Peasley, and John Sweeden were also present.

NTMWD staff present included Tom Kula, Mike Rickman, Joe Stankiewicz, Billy George, R.J. Muraski, Rodney Rhoades, Brian Brooks, John Montgomery, Melisa Fuller, Leann Bumpus, Shawna Helmberger, and Terina Turner.

Lauren Kalisek, Martin Rochelle and Sara Thornton with Lloyd Gosselink Rochelle & Townsend, P.C., David Medanich with First Southwest Company, Rick Ericson with The LeMaster Group, Parker Moore with Beveridge & Diamond, PC, City Manager Cliff Keheley, Deputy City Manager Jerry Dittman, City Attorney Ileana Fernandez, City Attorney Cythia Steiner with the City of Mesquite and Rod Hogan were also present.

II. DISCUSSION ITEMS

A. Review Background on Policy No. 8 – Additional Delivery Points and Transmission Line Extensions

Assistant Deputy Director Rodney Rhoades along with Lauren Kalisek from Lloyd Gosselink Rochelle & Townsend, P.C. presented background on Policy No. 8. Mr. Rhoades stated the policy was adopted in 1972 to respond to city requests to extend/expand the NTMWD Regional Water System. He indicated the policy applies to new pipeline extensions, new delivery points and additional volumes through new extensions/delivery points. He explained a project becomes part of the regional system and the costs are shared proportionately by all Member Cities.

Ms. Kalisek reminded the committees that the policy was amended in 2007 to address inconsistent language that referenced outstanding bonds at the same time the Board of Directors reviewed impacts of annual minimum adjustments presented in the 2007 R.W. Beck Analysis of Rate Methodologies Report.

B. Report from Policy Committee Meeting held March 8, 2016

Chairman Joe Joplin reported that the Policy Committee met on March 8, 2016, and the City of Mesquite (City or Mesquite) presented its request to amend Policy No. 8, Section III, to account for debt retirement or repayment of cash funded project and to reset the City's minimum to the actual contract required minimum once the project debt was retired or project costs recovered. Mr. Joplin noted that the Policy Committee discussed that since the City's request raised contract issues, the Policy Committee would benefit from the input of the Water Committee. Mr. Joplin concluded his report by noting that the Policy Committee voted to meet jointly with the Water Committee to consider Mesquite's request.

C. Review Background on Agreement with the City of Mesquite for Additional Treated Water Service at Point of Delivery No. 3

Assistant Deputy Director Rodney Rhoades presented background on the agreement with the City. He stated that in 2001 the City requested an increase in volume at Point of Delivery (POD) No. 3 (located near Eulane Drive and Sierra Drive) from 1.8 BG (5 MGD) to 6.1 BG (17 MGD). Mr. Rhoades said the additional volume was provided by construction of 2.6 Miles of 36" pipeline from US Highway 80 to POD No. 3 with an estimated cost of \$2,800,000. He reiterated that at the time of the request for POD No. 3, NTMWD and the City considered three financing options:

1. City provide cash
2. Special Facilities Contract
3. District Policy No. 8 Agreement

Mesquite chose to enter into a District Policy No. 8 agreement, and in June 2002, the City of Mesquite and the NTMWD executed an agreement for additional treated water service at POD No. 3. The agreement provided for the NTMWD to construct the pipeline, and the City to accept an additional annual minimum of 499,382,000 gallons (1.4 MGD). Mr. Rhoades said the City has not used the additional capacity (12 MGD) made available by the project. He stated the project cost has been funded as expansion of the NTMWD Regional Water System by all Members Cities, and that Mesquite's proportionate share of the cost was approximately \$250,000.

D. City of Mesquite Presentation of Request to Reduce Minimum

City Manager Cliff Keheley provided background on the reason for the request to reduce the City's annual minimum to provide relief to the Mesquite citizens. He indicated the request was presented to NTMWD in 2015 with a proposed resolution to amend or terminate the 2002 agreement to remove the sixth year minimum of 499,382,000 gallons. He reported that in 2002, Mesquite entered into a separate agreement for the new 36-inch transmission line for \$2.82 million, and entering into this type agreement was the only financing option the City had available at that time. He indicated that unfortunately the growth the City anticipated did not occur and during this time the City has seen a dramatic drop in usage.

Mr. Keheley stated that it is his understanding that District Policy No. 8 has been implemented 12 times, and Mesquite is the only city that has not met the minimum consumption level. He explained the City's position that it has paid an additional \$15,000,000 which far exceeds the \$2.82 million cost estimate for the pipeline. The City seeks resolution whether through a policy change or contract amendment.

Water and Policy Committee members discussed a desire to know the intent of the parties negotiating the contract between NTMWD and the City in 2002 and whether the City knew NTMWD would not issue debt at the time the agreement was executed. They also expressed concern that the other two options, cash funding or a Special Facilities Contract, were not reflected in a written NTMWD policy.

III. ACTION ITEMS

A. Review and Possible Action on the City of Mesquite's Request for Reduction of Total Annual Minimum dated February 17, 2016

Lauren Kalisek presented an initial list of options for recommendations to the Board of Directors include:

1. Approve request to amend District Policy No. 8 (Policy Committee)
2. Approve request and amend 2002 District/City agreement (Water Committee)
3. Table discussion and address request as part of the water supply contract discussions
4. Deny request

Water and Policy Committee members discussed the need to act fairly and reasonably with respect to Mesquite's request. The discussion focused on the need to clarify some of the language of Policy No. 8, the lack of information on the intent of the parties responsible for negotiating the agreement at the time, and whether it could be determined if other Member Cities benefitted from Mesquite's higher annual minimum. Mr. Rhoades indicated he could review the rate and usage information to help provide additional information.

On a motion by Director Larry Parks and a second by Director Lynn Shuyler, the Policy Committee, by a majority vote, tabled the item for further investigation of the ramifications of granting the request by the City of Mesquite. Director Marvin Fuller voted against the motion.

Director Marvin Fuller requested to hear from Ms. Kalisek regarding her recommendation. Ms. Kalisek summarized her previous recommendation, as reflected in an April 2016 memorandum distributed to the Committees and Mesquite, that if the District desires to address Mesquite's request, it do so through a contract amendment rather than reinserting the ambiguous language regarding bonds in Policy No. 8 (as initially requested by Mesquite). However, this would not preclude the Policy Committee from recommending and the Board acting on other revisions to Policy No. 8 that would help streamline and clarify the policy.

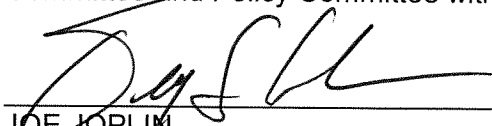
Director Fuller asked if the Committees could consider a motion to deny Mesquite's request to amend the policy originally presented on March 8, 2016. Due to the tabled motion, this action was not considered by the Committees.

The Water Committee discussed the desire to be fair and equitable to all Member Cities and agreed with the Policy Committee that additional information is needed.

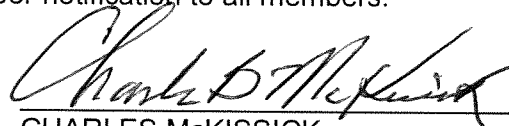
On a motion by Director Don Gordon and a second by Director Darrell Grooms the Water Committee by a majority tabled this item. Director Bill Lofland voted against the motion.

IV. ADJOURNMENT

There being no further business, the joint meeting of the Water and Policy Committees adjourned at approximately 3:25 p.m. The Chairmen will call the next meeting of the Water Committee and Policy Committee with proper notification to all members.



JOE JOPLIN
Policy Committee Chairman



CHARLES McKISSICK
Water Committee Chairman