



March 1, 2018

Dear Residents and Business Owners/Managers in Fate:

There has been a lot of discussion recently, and in the past, about water rates in Fate and I wanted to take some time to give you my thoughts on the North Texas Municipal Water District (NTMWD) contract and where we currently are with rates.

### The Contract

A question I get a lot in relation to the NTMWD contract is, whether we will ever be granted member-city status to get access to the rate-breaks those cities enjoy. The answer is no. The size of the existing board is already too large in many of the member cities' opinion and with so many customer cities, unless there is a fundamental change to the articles that created the NTMWD, by the members or the state, the existing governing system will stay in place.

Another question I get often relates to the take-or-pay contract and how our poor mismatch of water sales to required block water purchases can be corrected. Every year the NTMWD takes our numbers and adjusts them slightly on the take-or-pay amount. This is something we can continue to watch closely. While the contract gives us no ability to dispute the numbers, we can still question the methodology and provide other information to help the district make a fair assessment of our true water needs. What is actually happening is that we are selling more and more of the water that we are required to buy as we get more customers and approach the populations contemplated in the 2004 agreement, which was done to facilitate the Woodcreek development and provide for the future of the City's water needs. This is good news for us. More good news may come from the case currently at the Public Utility Commission (PUC) where a number of the member cities that are in bad take-or-pay contract situations, like Fate, have filed a case and asked for state level intervention to try to rearrange the price structure to a more pure cost-per-gallon system. If they are successful, that would really help us.

### Current Rates Situation

Rates are stabilizing after the big increases that were done to make the fund solvent about 1.5 years ago. This fiscal year began with the shifting of costs for the credit card fees to the users. This was a policy choice by the City Council and is common in city utility systems. We also used a rare arrangement to lawfully pay a portion of the water debt with property taxes, capitalizing on the increase in home values to help offset water costs. We could only do this for a little of the total water debt part of the budget, but that, along with the credit card fees cost shift, avoided a rate increase.



Another good question I get a lot is about changing suppliers or looking for different suppliers in the future. At this point, the NTMWD is the best supply option. They have invested heavily in new treated water lines and ground storage to supply our area, and there really isn't any other viable large source of water to move to. We have discussed a potential water contract with the City of Greenville, for them to sell us some of their surplus water, but that would require the construction of either a new pipeline from Greenville to Fate, or the extension of a smaller pipe that runs to Caddo Mills currently. Royse City was not able to participate in a cost share, so the cost of the line would have all been ours. The size of the line and its pumping capacity compared to the cost did not initially make sense for us to alter our plans, but this option is available to us in the future, so we'll have to look at it from time to time. Another option is to go back to well water. According to farmers that have used wells for crop irrigation in Rockwall county, wells are hit and miss here. One bonus is that there is currently not a groundwater district that regulates all the groundwater, so as long as the City could find and develop a well field, then pump from the well field into the system, that is a possible source. We have discussed a major irrigation and well system in the context of our sports complex economic development ideas, but not for potable water use. This could be an option going forward, but it could be cost prohibitive. It is definitely an option if costs keep rising for the NTMWD water, or it may be a way to delay the Pump Station 3 projects and new contract.

Also, as noted above, the best thing going for us now is our customer growth. While this brings bad news to the long term General Fund side of the City for costs like public safety, it has been good news for the Utility Fund. Customer growth is exceeding predictions made in the rate study, meaning there is more revenue coming in. We will be updating our rate study this year, like we do each year, and it will reflect the current development rates in the short term. Does that mean rates will go down someday? Probably not. Now, if we are able to sell a lot more water from our contract due to the customer growth, or the contracts from the NTMWD are rearranged, there is a possibility that we can hold off on rate increases until we reach the limit of our take-point contracts and their physical capabilities to carry water. If we can fund our annual and accumulated depreciation and save for the next water contract and pump station project we will be well prepared for the future and be able to eliminate or minimize new debt.

I hope I have given you a lot of good information and insight into our current water issues for Fate. Thank you for reading and for conserving water!

Sincerely,

Michael Kovacs  
City Manager