

GRP Review Committee
Minutes of Special Budget and Rate Workshop
May 8, 2017

The San Jacinto River Authority (SJRA) GRP Review Committee Special Budget and Rate Workshop was held at 2:00 p.m., May 8, 2017, at the San Jacinto River Authority GRP Division Operations Building located at 11998 Pine Valley Drive, Conroe, Texas, 77304. A notice of said meeting was posted per GRP Contract requirements. Committee members Jackie Chance, Mike Mooney, Scott Taylor, Kerry Masson, Joe Sherwin and Melanie White were present. GRP Division Manager Mark Smith, Senior O&M Utility Manager Don Sarich, Compliance & Administrative Manager Matt Corley, Deputy General Manager Ron Kelling, Administrative Assistants Lisa Yohner and Tina Felkai and General Counsel Mitchell Page were in attendance.

1. CALL TO ORDER

The meeting was called to order at 2:03 p.m.

2. PUBLIC COMMENTS (maximum of 3 minutes per speaker)

There were no public comments.

3. DISCUSSION REGARDING FISCAL YEAR 2018 DRAFT BUDGET AND AMENDED RATE ORDER

Scott Taylor stated that most municipalities he has worked for performed an annual rate study. Mr. Taylor asked GRP staff why an annual rate study is not performed for the GRP rates. Mr. Kelling explained that rates are evaluated annually by utilizing a rate model developed by the independent rate analyst that performed a study of the GRP rates in 2014. Mr. Kelling further explained that the GRP Contract requires that an independent rate study be performed no more than every five years. Mr. Kelling stated that if the GRP Review Committee would like an independent rate study performed more frequently, it is something the Committee could decide to do. Mitch Page provided background information on why the contract was setup to allow for an independent rate study no more than every five years.

Mr. Smith presented a recap of the Fiscal Year 2018 Draft Budget and the amended GRP rates that were presented at the Regular GRP Review Committee Meeting on April 22, 2017.

Mr. Chance asked if we were going to work on a feasibility study related to the TRA Option Agreement. Mr. Kelling explained that a review was being performed by the SJRA's Raw Water Enterprise and that Raw Water Master Plan would be completed by December 2017.

Mr. Mooney asked about the line segment W2B pipeline failure and if a demand letter had been sent to the contractor. Mr. Kelling confirmed that a demand letter had been sent to the contractor asking for full reimbursement of the amount for repairs, including engineering and inspection expenses. The contractor has until Friday, May 12, 2017 to respond. Mr. Kelling confirmed that, based on SJRA's review of the testing data, the pipeline failure was not a material issue.

Mr. Chance questioned if surface water connections to new development could be paid for by the developer. Mr. Smith explained that the current policy has the GRP and the developer

splitting the cost of construction and the GRP Division paying for all engineering, inspections, and easements acquisition expenses. Mr. Smith further stated that if the GRP did not have funds, a developer could cover all costs.

Mr. Mooney asked if there was any update on City of Conroe litigation and Mr. Smith stated that there was none at this time.

Mr. Smith stated Phase II was on hold and expects the GRP rates to level out quicker due to Phase II not being included in the current rate model. The GRP hopes to have a balance of \$4.95 million at end of Fiscal Year 18, which is still below the GRP's six month target.

Mr. Chance asked how the GRP's Interest Income is calculated. Ms. Steiger gave an explanation of calculation and explained that the figures budgeted are very conservative.

Mr. Taylor asked if the GRP was fully staffed. Mr. Kelling explained that the GRP Division had three openings.

Mr. Taylor brought up the TRA Option Fee. He asked if we could save \$ 0.01 from the rate if we did not include it in the Fiscal Year 18 budget. Mr. Taylor asked if the Raw Water Enterprise would pick up the Option if the GRP let it go. Mr. Chance stated finding new water is difficult. Mr. Masson stated it's a very expensive water source. Mr. Taylor's concern is the Inter Basin Transfer. Mr. Chance stated it would have to make it into the Region H Plan. Mr. Taylor asked what the long range intent for this water was. Mr. Kelling replied that the water was reserved for Montgomery County. Mr. Kelling went on to say this water is not a top choice water for the Highlands customers. Mr. Masson stated it was his understanding in 2021 the rate changes and it would be a \$0.10 increase to customers. Mr. Page explained the reservation fee terms with TRA. Mr. Chance asked if it is possible, instead of spending this money on the TRA Option Fee, if we could instead spend it on silt removal from Lake Conroe. Mr. Kelling responded. Mr. Chance stated if we could remove silt from Lake Conroe and increase lake capacity it would be better water than the TRA water. After a brief discussion it was decided to leave the TRA Option Fee in the GRP Division Budget for Fiscal Year 2018.

Mr. Masson inquired about recouping monies from the line break and litigation costs. Mr. Kelling stated he is uncertain when and to the extent recovery will be realized by the GRP. The budget was calculated on not seeing a recovery in Fiscal Year 2018 as well as past-due amounts from the cities of Conroe and Magnolia. Mr. Masson asked that if we won any of the lawsuits would we decrease rate or would we put the funds in reserves. Mr. Kelling pointed out that as of September 1, 2018 the budget assumes City of Conroe will pay the \$0.18 rate increase plus the \$0.14 increase from last year. If they do not pay these increases, the GRP will be five months in arrears and short approximately 2 million dollars. Mr. Kelling stated that if we were repaid for the line break and legal costs, we would still be short of the GRP's reserve targets. Mr. Masson asked if we would be willing to consider amending the Rate Order if we recovered the costs of line break and litigation costs mid-year. Mr. Kelling explained the process of amending the Rate Order.

Mr. Mooney asked if was appropriate to put out a notice to customers and media explaining why the rate is going up. Mr. Kelling stated that the Fiscal Year 2018 Budget Presentation was on the GRP's website and confirmed that GRP could prepare a press release to be

reviewed by the Committee at the Regular Meeting on May 22, 2017. Mr. Chance requested that the GRP email the Fiscal Year 2018 Budget and Rate Presentation to all Participants. After further discussion, it was agreed that said documents would be posted on the SJRA website.

Mr. Chance stated that he would like representatives from City of Magnolia and City of Conroe to attend a meeting so they would understand that the rest of the Participant's customers are suffering because they will not pay. Mr. Kelling let the Review Committee know they had a meeting with City of Conroe and they are aware.

Mr. Chance stated the budget looked good and it was obvious the GRP staff had worked very hard on it. Mr. Masson stated it appeared we had done our due diligence on equipment, getting extended warranties, and obtaining maintenance contracts. He did not think we needed to panic on the reserves just yet, we still had time. Mr. Chance suggested that we needed to build reserves, not based on water sales, but on a per customer fee. Mr. Masson stated he would love to have a meeting this time next year, with no rate increase.

Mr. Kelling added that the SJRA performed additional testing of MUD 60's TTHMs and the concentration had dropped; the flushing worked.

Mr. Smith reminded everyone that the next meeting was May 22nd and we would be voting on Budget & Rate Order.

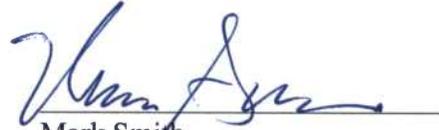
No action was taken following the discussion of this agenda item.

4. ADJOURN

Without objection, the meeting was adjourned at 3:20 p.m.



Matt Corley
Compliance & Administrative Manager



Mark Smith
GRP Administrator