

LONE STAR GROUNDWATER CONSERVATION DISTRICT

June 29, 2016

MINUTES OF BOARD WORK SESSION

The Budget and Finance Development Committee of the Lone Star Groundwater Conservation District hosted a “Board Work Session” at 9:00 AM, Wednesday, June 29, 2015. The workshop, open to the public, was held in the Lone Star GCD – James B. “Jim” Wesley Board Room located at 655 Conroe Park North Drive, Conroe, Texas, within the boundaries of the District at 9:00 AM, on Wednesday, June 29, 2016.

The roll call was called for members of the Board of Directors, to wit:

John D. Bleyl, PE
Gregg Hope
Jace Houston
Roy McCoy, Jr.
Rick J. Moffatt
Jim Stinson, PE
Richard J. Tramm
M. Scott Weisinger, PG
W.B. Wood

President Tramm called to order the board work session at 9:04 AM, announcing that it was open to the public.

All members of the Board were present, with the exception of Director(s) Bleyl, McCoy, and Weisinger, thus constituting a quorum of the Board of Directors. Also in attendance at said meeting were Kathy Turner Jones, General Manager, Mark Lowry, P.E., District Engineer; District staff; and members of the public. **Copies of the public sign-in sheets are attached hereto as Exhibit “A”.**

President Tramm noted for the record that a quorum of the Board was present and turned the meeting over to Director Wood, chair of the Budget and Finance Development Committee to preside.

Director Wood stated the purpose of this workshop was to review and discuss the 5 year budget forecast prepared by District staff. For fiscal year 2016, the District is facing a significant deficit. This is due to implementation of the District mandate for Large Volume Groundwater

Users (LGVU) to reduce water usage to 70% of the Total Qualifying Demand (TQD), effective January 1, 2016.

Director Wood asked Kay Martin bookkeeper for the District to present information from the Budget and Finance Committee meeting held on May 26, 2016.

Ms. Martin provided handouts and discussed the following:

1. Analysis of permits issued by the District in 2016
2. Analysis of effects of no rate increase vs a gradual rate increase
3. Five year forecasted expenses

Ms. Martin presented an overview of the customer base of the District including: joint and individual Groundwater Reduction Plan (GRP) sponsors, Small Volume Groundwater Users (SVGU), and agricultural permits. Ms. Martin's analysis illustrated permitted allocation, per 1,000 gallons, and the corresponding fees (\$0.06/1,000 gallons) charged in 2015, as compared to the same permittees in 2016. The decrease in allocations, due to the implementation of the GRP directives, resulted in an approximate reduction in revenue of \$561,126 in 2016 operating fees to the District.

Ms. Martin discussed the methodology she used to compute the expected permit allocations for the next five years (2017 to 2021). Ms. Martin explained that calculations were based on joint and individual GRPs, to determine projected future water needs. In addition, proposed calculations were reviewed by Mark Lowry as well. This resulted in projections for future water needs shown in Table 1:

**TOTAL ALLOCATIONS ALL PERMITS:
per 1,000 gallons**

2016	21,192,659
2017	25,506,667
2018	26,291,703
2019	27,106,844
2020	27,894,049
2021	28,682,401

TABLE 1

Ms. Martin provided projected expenses for the next five years with assumptions based on the following:

- a. Operating expenses, such as utilities, supplies, maintenance, etc., were based on an average of the amounts spent in the past five years (2011 to 2015);
- b. Education/Public Awareness expenses were increased 5% each year (beginning with 2015 total expense);

Director Wood noted the cash deficiency that would potentially result if rates are not increased. Directors discussed an adequate cash reserve that would be necessary to fund operations; whether it should be six or 12 months. Additionally, Director Stinson addressed the possible need to establish a reserve fund for future legal expenses.

Director Houston arrived to join the meeting at 9:27AM.

Following lengthy discussion, it was the consensus of those present to recommend the following revised water use rate structure as shown in Table IV below, as a tentative schedule, to achieve the needed cash reserve and capital to adequately fund District operations:

		REVISED GRADUAL INCREASE IN RATE				
		2017	2018	2019	2020	2021
rate-2017	0.075	\$ 1,913,000				
rate-2018	0.08		\$ 2,103,336			
rate-2019	0.085			\$ 2,304,082		
rate-2020	0.09				\$ 2,510,464	
rate-2021	0.09					\$ 2,581,416
other income		\$ 106,407	\$ 110,000	\$ 115,000	\$ 115,000	\$ 120,000
total income		\$ 2,019,407	\$ 2,213,336	\$ 2,419,082	\$ 2,625,464	\$ 2,701,416
total expense		\$ 2,249,963	\$ 1,968,137	\$ 2,019,810	\$ 2,096,466	\$ 2,154,231
net (loss)/income		\$ (230,556)	\$ 245,200	\$ 399,272	\$ 528,998	\$ 547,185
cash		\$ 680,998	\$ 450,442	\$ 695,642	\$ 1,094,914	\$ 1,623,912
						\$ 2,171,097

TABLE IV

Ms. Jones stated that the District is required to adopt an annual water use fee schedule at the July 2016 monthly board meeting in order to give sufficient time for permittees to include proposed increases in their 2017 budget.

Additionally, Ms. Martin discussed the benefit to the District if permittees redeem early conversion credits that have been issued between 2008 and 2015. The number of early conversion credits available for redemption is 10,298,738,509 gallons.

Director Wood recommended the District establish a line of credit, in the event of a cash shortfall. President. Tramm stated this would be discussed at the July 2016 Board meeting and emphasized again to the Board that this gradual rate increase proposed is a rolling five year plan, which will be adjusted as needed, based on future District needs.

Director Wood asked for questions and/or comments from the Board. Hearing none, Director Wood adjourned the board work session at 10:02 AM.

PASSED, APPROVED, AND ADOPTED THIS 12TH DAY OF JULY, 2016.


 Rick Moffatt, Board Secretary