

QUESTIONS AND ANSWERS ABOUT THE PROPOSED GRANITE SHOALS WASTEWATER TREATMENT PLANT

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EXECUTIVE SUMMARY

The City of Granite Shoals (GS) is proposing to construct a sewage collection system and wastewater treatment plant (WWTP) with a combination of grants and low interest loans in the total amount of \$16,495,000 for the first phase. The first phase of the WWTP will serve 500 houses and the commercial areas along RM 1431. Existing GS property owners will be able to tie into the system at no cost and once the system is running, will pay an expected \$35 per month. The city plans no tax increase to fund the first phase of the system, which, if the permitting and construction process goes as planned, will commence operations in 2014.

Why GS need a WWTP? Why now, and not later?

GS was developed in 1962 by developers who wanted to sell lots cheaply and quickly. Had they built a WWTP at the time, property values would have been higher (as they will be if the city builds a plant today), but the developers would have had to pay for the plant and collection system. Instead, thousands of septic tanks have been installed. The City's engineers believe that GS is the largest non-Colonia city in Texas without a WWTP. The lack of a WWTP has resulted in waster quality degradation, a practically non-existent retail service industry, placing most of the city's tax burden on waterfront residents and property owners.

The construction of a WWTP will have the following positive effects for Granite Shoals:

- Improved Environmental & Health Benefits: The GS geology is sieve-like granite gravel on top of solid granite bedrock. The average depth to the bedrock is 8 feet. The septic fields frequently drain onto the granite, and the effluent naturally drains to the lowest point, which is Lake LBJ. Older, as well as poorly maintained or installed, septic tanks

- An Increased Sales and Property Tax Base Will More Equally Distribute Tax Burdens Across the City: GS collects about \$65,000 per year in sales tax revenues, compared to \$6 million for Marble Falls. The reason for the slow commercial activity in GS is that the cost of building a septic system for a commercial business is prohibitive. A new WWTP will bring new commerce to GS, not only providing more convenience for citizens who will no longer need to travel to Marble Falls or Kingsland for their shopping, medical and food needs, but also generating more sales tax that will decrease the city's reliance upon property taxes, the bulk of which are paid by waterfront landowners. In addition to increasing sales tax collections, the new commerce will also increase the city's property tax base, especially in the commercially zoned areas. The increased commerce will also allow non-residents to contribute to city revenues rather than relying solely upon our own citizens and property owners.
- Lower Construction Costs: A residential septic system can run \$10,000-15,000 or higher, and aerobic systems can cost much more. Costs for commercial operations are far higher. Septic systems also require some maintenance themselves, whether it is adding agents to encourage bacterial action, or periodic pumping. Most septic systems have a useful life of about 20 years, and should be pumped every two years. Based on a \$10,000 price, a monthly amortization over the useful life of a septic system is \$50 a month, including pumping maintenance. Additionally, most new home construction projects now require two lots, rather than one, so that the septic system can be placed on a separate lot. Lower construction costs will encourage more homebuilding and commercial activity into the city, generating additional sales and property tax revenues, and spreading out the tax burden to more individuals.
- A Better Image for GS: Cities without WWTP's typically encourage and exhibit sub-standard development. Building a WWTP in GS will send a message to builders, families looking for a place to live, and commercial interests that GS is a viable and sustainable community. Today, that message is missing without a WWTP, and the current state of city development shows it.
- Control Over WWTP Services: If GS does not build a WWTP, developers of the proposed MUD (or other developers) may build their own system, and GS will lose control of providing wastewater services, and revenues that could be used for the benefit of city residents will be siphoned off to non-city uses. For example, Aqua Texas, a subsidiary of a large international company based in France, owns the small WWTP that serves Beaver Island, WEB Isle and Tropical Hideaway, and charges its customers a "regional tariff" rate of over \$100 per month, though the true cost to service these customers is undoubtedly far lower. The profits go overseas. Cities do not make "profits" but instead utilize revenues from such systems only for serving their own population.

- The City Has Negotiated Significant Benefits for the WWTP that Will Not Be Available if GS Puts Off the WWTP Construction: The City negotiated with area ranch owners, who desire to sell their development project to a third party, to donate 15 acres to the City on which to construct a WWTP, and 25 acres on which to irrigate with the effluent. Further, the City has also negotiated with those owners the right to utilize a proposed golf course as land to irrigate with the effluent from the WWTP, which will give the City enormous growth potential for decades to come. If the City does not build a WWTP and commence that process this year, it will lose those benefits.

What has GS done to keep costs low, but that the quality of the project high?

The City went to full lengths to try to save an estimated \$5 million or more in costs related to the discharge of treated effluent. In the 1980's the predecessor agency to the Texas Commission on Environmental Quality (TCEQ), imposed a rule banning new discharges into any of the Highland Lakes. No other water bodies in the state have this restriction, and reclaiming water is a standard and accepted practice elsewhere in the state, worldwide, and even on the International Space Station. However, the TCEQ denied GS' request to allow highly treated and exceptional quality effluent to be discharged into a tributary of Lake LBJ.

The City also obtained a grant from the Texas Water Development Board to prepare a regional wastewater study to look at alternatives in the area, and the feasibility of a new WWTP in Granite Shoals. The City hired the long-established Texas engineering firm of Freese & Nichols, Inc. (FNI) to prepare the study. The research returned from the grant-funded study, as well as that which FNI learned in its assistance to the City in developing the City's 2010 Comprehensive Plan and its impact fee assessment study, will be dovetailed into the plans and designs for the new WWTP, saving the city significant funds by avoiding duplicated efforts. FNI was hired for this project, and the previous projects in accordance with the procedures of the Texas Professional Services Procurement Act, which requires the City's governing body to select the most qualified engineer for the city. FNI is partnering with Willis Environmental Services of Marble Falls, which is experienced in building a number of systems locally with the unique geology and terrain.

The City consulted its grant specialist to seek other grants. The only such grants available to GS are for installation of collection lines and hook-ups for underprivileged areas of the City. Thus, one of the areas that the City will first target for the first phase of service by the WWTP will be an underprivileged area on the east side of GS. Not all of the first phase will be eligible for grants, but the City will remain vigilant in searching for all grant opportunities in the future. This area is also located close to the new proposed plant, making service to that area more financially feasible in Phase 1.

Finally, the source of loans for this project will be guaranteed by the State of Texas, and are low-interest rate loans. The City applied for the opportunity to make a formal application for the funds last year, and has received an invitation to apply for a loan from the State, which is something that cannot be insured in the future should the project be postponed. The interest rate that the State will charge the City is roughly 3.8 percent. Further, interest rates are currently at all-time lows; delaying the project will likely cost GS residents in added interest costs.

What will the plant cost, and what will that initial cost cover?

The engineers have estimated that the first phase of the WWTP will cost approximately \$14,745,000. The first phase will be the most intensive phase of the project. It will fund the construction of the initial plant module, initial trunk lines that will serve not only areas in the first phase, but all future phases, the irrigation system for the first and some future phases. It will also pay for obtaining the necessary permits from the TCEQ and the associated environmental studies. Design, permit and construction costs for future phases will be much lower. The City will also borrow an additional \$1,500,000 to provide tie-ins to the system at no direct cost to existing GS properties, and to decommission septic tanks. Further, to complete Phase 1, the City intends to obtain \$250,000 in CDBG grant funds to provide collection lines in a disadvantaged area of the City. The total funds for Phase 1, including grants and low interest loans, will be \$16,495,000. Future phases will be less expensive.

Will my taxes go up and what is the city's planned charge for monthly services?

The City could fund the project in a number of ways, including only recovering the initial costs by a monthly service fee. However, that initial service fee would be cost prohibitive for many residents, and would likely exceed \$130 a month. The City proposes to utilize several funding sources, including monthly service fees, water revenues, increased sales tax revenues, and ad valorem taxes. The City currently expects the monthly service fee to be \$35. No resident will be charged the \$35 monthly fee until they are hooked into the system. Previous reported estimates for this project had the city increasing its property tax rate by up to 10 cents per \$100 of valuation (about \$100 a year on a \$100,000 home). However, the City's financial advisor has said that the city can possibly avoid having to levy additional property taxes for the system, provided that the city utilizes funds in the city's water system that are being used to supplement general revenue. The City will be further studying this issue and will provide taxpayers with a full pro forma analysis of a no, or very low tax increase option prior to the City Council's final vote this fall to either authorize or deny the WWTP project. Property owners whose homestead taxes are frozen because they are 65 years of age or more will NOT pay increased ad valorem taxes as a result the issuance of debt for the new WWTP. New tax increases, if any, will not be implemented before the 2013 tax year.

The current city tax rate is 0.4300 per \$100 in assessed valuation. This compares to 0.5852 for Burnet, 0.4999 for Cottonwood Shores, 0.6134 for Marble Falls, and 0.3300 for Horseshoe Bay. By comparison, Marble Falls School District's tax rate is \$1.285.

What is the City's planned charge for initial connections?

The City plans to offer initial connections within the already platted areas of the city at no cost when the lines are initially installed. After an initial sign-up period expires, the City will charge a one-time connection fee to cover the cost of installation and for the materials and equipment. That amount has not yet been determined, but it is anticipated that the cost will be about \$1,500.

What will happen to my septic tank?

With an initial connection as lines are installed, the City will also pay for decommissioning the septic system. In most instances the septic system will be disconnected, and the large septic tank will be filled with sand and/or granite gravel. If the landowner wishes to remove the septic tank to facilitate future construction, the removal will need to be at the landowner's expense.

Why can't the City cover the entire city in one project rather than phasing-in the system?

Providing sewer services to an already built-out community of the size of GS is a monumental task. The cost of sewerage the entire city at once would be cost prohibitive, and would require increasing property taxes by significant amounts. While the city hasn't determined the actual cost of building out the entire system at once, its engineers and financial advisor believe that the city would have to increase its property tax rate by 30 to 40 cents per \$100, which would place GS' property taxes at the top of the list in Burnet County for having the highest tax rate. The City proposes to build the system in phases to minimize the initial costs of the system, while allowing growth to help pay for later phases as sewer and tax revenues increase with new activity in the City brought about by the new sewer system.

Which areas will be served by the first phase?

The project is in its early planning, but the City's preliminary proposal for the first phase will include all of the property in the city limits along RM 1431, with the intended effect of bringing in more retail and service facilities for the city, increasing property tax assessments on 1431, and increasing the sales tax to more equally distribute the tax burden across the city. The first phase is also planned to include some areas in the Churchill, Kingswood, Elm Creek, Prairie Creek areas (where grant funding is possible), and to some waterfront areas along E. Briar and E. Castle Shoals, and Clear Cove.

How long will it take to complete the first phase?

From start to finish, the first phase should be complete in late 2014.

When can we expect future phases to be put in?

The City proposes to build the entire system three phases. As property values and sales taxes increase, and expand the City's capacity to incur additional long term debt, the City will continue adding new service areas. The City's expectation is that Phase 2, which will cover most of the remainder of the City east of Phillips Ranch Road, will commence in late 2014, and Phase 3, will commence by 2018, and will cover the remaining portions of the city south of RM 1431, primarily West of Phillips Ranch Road.

How can the city guarantee that future phases will be built?

By law, the current city council cannot bind future city councils to start future projects. However, as explained earlier, building the entire system in one project would not only be cost prohibitive, it would also be financially irresponsible because doing so takes away the city's

ability to use growth to help pay for future phases while keeping the financial commitment by property owners to a minimum. One certain way to ensure that future phases not be built is for the city to be prohibited from building Phase 1. Without the first phase, there will be no growth and no new revenues to help build the next phases. Because a WWTP is essential to the city's viability, citizens who are not being served in the first phase will no doubt keep the pressure on future city councils to ensure that the system is completed.

There is a proposed development for which the city signed a development agreement, which stated that the city will provide water and wastewater services. Will these people be served first? Is the plant being built for the development? What benefits do city residents receive from the development? What will the development cost the city?

The WWTP is being built for the City of Granite Shoals, not the MUD. While the City has agreed to provide service to the MUD, those new areas will only be served if the MUD is developed, and only after the development installs, at its sole expense, its own water distribution and sewer collection system. The development will also have to pay impact fees to the City to cover increased capacity that the development will require the City to provide. The owners of the MUD property have given the City not only the 15 acres for the plant itself (which the City receives regardless of whether the MUD is developed) and 25 acres for irrigation, but also an easement to provide trunk line collection services to the new development. The development, if it moves forward, will not cost the city, but will instead provide revenues for water and wastewater services, some property taxes for areas within the city, and sales tax revenues.

What other things is the City doing to generate revenue and keep expenses down?

The City has and will be taking all steps possible to seek additional revenues to cover the cost of the WWTP. Part of these steps were identified in the 2010 Comprehensive Plan, and the City has already implemented a subdivision ordinance that requires new developers and construction to pay for the cost of installing city utilities (water and sewer lines) to their properties.

Second, the City has engaged an engineer to develop an impact fee ordinance. An impact fee ordinance requires new developments, including the proposed MUD, to pay for the City's costs to be incurred in providing utility and transportation services to those developments. This is over and above paying just for the infrastructure costs required by the subdivision ordinance, and includes payment for increased capacity to provide those services.

Third, earlier this year, the City brought in a team from the Texas State Comptroller's office to discuss hotel/motel tax options and economic development sales tax revenues. The sales tax proposals will require an election by the voters, and the earliest available election date is November, 2010. Fourth, the city manager has directed all city departments to keep under budget this fiscal year and to only make expenditures for items that are absolutely essential; currently departments are on line to be \$250,000 below budget in 2010. The city council has begun the budget process and will be looking for additional cost saving opportunities.

Proposed Phases of the GS WWTP

Phase 1: Commences 2011 – Complete 2014

Phase 2: Commences 2014 – Complete 2017

Phase 3: Commences 2017 – Complete 2019

