Honorabile Mary Denny  
House of Representatives  
State of Texas  
P.O. Box 2910  
Austin, TX 78768-2910  

March 22, 2005

Dear Representative Denny:

Thank you for taking the time on March 10 to discuss the good work that Upper Trinity does to ensure safe and reliable water supplies for people in the Denton County area. Also, the meeting provided an opportunity to dispel misinformation being circulated by opponents to Lake Ralph Hall. As we discussed, planning for future water supplies is a complex task; and, operating a regional water system involving 30 communities is equally complex.

Upper Trinity is a non-profit government agency composed of twenty-seven directors -- all appointed by the elected governing body of Member entities. Twenty-one of the directors represent towns and cities, four represent water districts, and two are appointed by Denton County.

Upper Trinity and its 26 Member entities are quite proud of the regional water system and other programs -- all developed in a cooperative manner to serve this rapidly growing area. As you know, most of the cities in your District rely on Upper Trinity for their future water supply - - and we will not let them down.

In the meeting, you indicated you had received some complaints from Flower Mound about Upper Trinity's plans for future water supply. The Flower Mound Town Manager is a member of the Upper Trinity Board of Directors, having been appointed by the Town Council. He also serves on key committees, including: the Water Supply Committee and the Rates and Charges Committee. Lake Ralph Hall is a vital water supply project that the Water Supply Committee had recommended for this region. The Upper Trinity Staff and the Board of Directors have made considerable effort to communicate the facts, to discuss the Town's concerns, and to meet with the Town Council.

Attached is a summary of Issues & Facts, which clarifies the work of Upper Trinity, addresses the benefits of Lake Ralph Hall and covers questions recently raised by Flower Mound. If there are further questions, or if we can assist you in any way, I hope that you or your staff will contact me personally.

Sincerely,

[Signature]

Thomas E. Taylor  
Executive Director

Encl: ISSUES & FACTS  
cc: Legislative Delegation  
    Representative Ben Campell, Sponsor of Enabling Legislation  
    Officers of Upper Trinity Regional Water District  
    David Brune, Special Counsel
ISSUES & FACTS
CONCERNING THE REGIONAL WATER SYSTEM

March 22, 2005

**Issue:** Who is Upper Trinity Regional Water District (Upper Trinity)?

**Fact:** Upper Trinity is a regional, non-profit government agency created by the State of Texas in 1989 to provide towns, cities and utilities with a safe, reliable, long-term water supply. It is comprised of 25 municipalities and utilities who joined voluntarily. Also, Denton County is part of Upper Trinity. Current Upper Trinity services include treated water, non-potable water, wastewater treatment, and collection of household hazardous wastes.

**Issue:** Who governs Upper Trinity and oversees its programs?

**Fact:** As a regional entity, each of the local governments (towns and utilities) who join Upper Trinity have the right to appoint one representative to the governing board. The County of Denton appoints two representatives. Since members are responsible for all costs incurred, they oversee Upper Trinity activities very carefully.

**Issue:** Which areas of North Texas does Upper Trinity serve?

**Fact:** Upper Trinity serves its members plus other customers. The boundaries of Upper Trinity include all of Denton County, plus limited portions of Collin and Dallas Counties.

*Towns and cities currently receiving Upper Trinity services include:*
- Argyle, Aubrey, Bartonville, Carrollton, Celina, Copper Canyon, Corinth, Cross Roads, Denton, Double Oak, Flower Mound, Hickory Creek, Highland Village, Irving, Justin, Krum, Lake Dallas, Lewisville, Lincoln Part, Oak Point, Pilot Point, Ponder, Sanger and Shady Shores.

*Other member entities include:*
- Denton County, Lake Cities Municipal Utility Authority, Denton County Fresh Water Supply District No. 1A, Mustang Special Utility District and Denton County Fresh Water Supply District #7.

**Issue:** Does Upper Trinity really need new water supplies such as Lake Ralph Hall?

**Fact:** Population of the service area for Upper Trinity will grow from 200,000 to approximately 1,000,000 over the next 50 years. Such growth requires that new water supplies be developed.

**Fact:** Upper Trinity plans to rely on the City of Dallas for most of its water supply over the next 50 years. Upper Trinity plans to take the maximum amount of water authorized by its contract with Dallas - - and has requested an increase in the contract. Yet, in about 25 years, the available Dallas supply will not be sufficient for the growing service area of Upper Trinity.

**Fact:** Lake Ralph Hall can be developed within 25 years, just barely in time to meet the shortfall. Lake Ralph Hall is the right size project, at the right time and at reasonable cost.
Fact: With Lake Ralph Hall underway, Upper Trinity Member cities and utilities can look forward to 30 million gallons per day of safe drinking water for our families and businesses for generations to come.

Issue: Cost of the Lake Ralph Hall Project.

Fact: The Lake Ralph Hall Project (including pipelines, etc.), at $209 million, is the lowest cost source of new water available to Upper Trinity. On March 15, 2005, the Region C Planning Group (for this 16-county area) issued its independent estimate of $211 million for the Lake Ralph Hall Project, confirming Upper Trinity’s estimate. Flower Mound’s estimate of $293 million is questionable.

Fact: Region C conducted an independent comparison of all potentially new sources of water for this 16-county region. According to Region C, of new water sources available to Upper Trinity, Lake Ralph Hall is the lowest - - at $1.10 / 1000 gallons. This is in direct contrast with Flower Mound’s estimate of $2.24 / 1000 gallons.

Fact: Water from Lake Ralph Hall will generate more than $18 billion in economic benefits for our customers and the cities we serve in Denton, Collin and Dallas Counties. Fannin County will benefit, also.

Issue: Over-subscribed capacity in the regional water system - - capacity requested by and contracted to Flower Mound - - but, capacity not being used.

Fact: In 1999, Upper Trinity initiated regional improvements to meet the needs of Members for water supply for a five-year period - - that is, until the year 2005. The Town increased its subscription (by contract) in the regional water system from 10 million gallons per day (mgd) to 30 mgd. The Town was in the process of implementing "smart growth" program to slow down growth - - and the strategy has been very effective. It has been so effective, that the Town's engineering (KBR) report observes that the Town’s 30 mgd subscribed capacity is adequate for at least 25 years (from 1999) - - instead of the intended 5-year period.

Fact: Other Members of Upper Trinity who participated in the 1999 round of system expansions have hit their targeted capacity, right on schedule. But, Flower Mound has substantial unused capacity - - approximately 10 mgd. The rest of Upper Trinity members share in the cost of that unused capacity.

Fact: The 10 mgd of unused capacity is costing Flower Mound citizens $2,225,000 per year. The unused capacity is expected to cost the citizens of the Town about $25,000,000 in future years until fully needed. Such expense is a waste, since the Upper Trinity plans ahead for such capacity needs in 5-year increments, not 25-year increments. Upper Trinity has spare capacity available to all Members - - so, it is a waste and against Upper Trinity policy for individual Members to hoard capacity.

Fact: As part of the 200% increase in subscribed capacity in 1999, the Town requested Upper Trinity to build a large pipeline to the western side of Flower Mound near IH 35W. Further, the Town directed that 10 mgd of their 30 mgd subscribed capacity be targeted for the west side. In 1999, Flower Mound had no water customers in that newly incorporated part of the Town. Some 6 years later, apparently there are still no customers, since Flower Mound still has taken no water from this major pipeline completed by Upper Trinity.

Fact: Upper Trinity customers share the cost of the regional system on a pro rata basis. Other Customers are helping pay for the unused pipeline built at Flower Mound’s request.
**Issue:** Flower Mound’s subscribed capacity in the regional water system - - as contrasted with their actual usage.

**Fact:** At 30 mgd, Flower Mound has contracted for 43% of Upper Trinity’s water system capacity, and, is obligated to pay for 43% of “fixed costs” (like a mortgage payment) associated with capacity. The actual cost of water is charged on a volume basis when water is used. The Town only uses 27% of the water being delivered from the regional system. The difference between 43% and 27% represents the unused capacity and the extra cost being paid by Flower Mound citizens.

**Issue:** The cost of water service provided by Upper Trinity.

**Fact:** As a non-profit government agency, Upper Trinity charges actual cost (no profit) for services rendered, including water service. Flower Mound often cites Dallas as an example of low rates. Yet repeatedly, when Flower Mound has a clear choice between buying water from Dallas or Upper Trinity, they choose Upper Trinity - - apparently, because the total cost is less. The lower cost for Upper Trinity water is due in part to the fact that Upper Trinity has a very generous extension policy compared with other utilities.

**Fact:** The most recent example is when the Town wanted 10 mgd of water for the west side of the Town, they voluntarily chose Upper Trinity because Upper Trinity delivers the water where it is needed. To buy water from Dallas, Flower Mound at its own expense would have had to build a series of pipelines, pump station and storage tank to go to Dallas to get the water and to deliver it to the place of need. For Members, Upper Trinity provides an excellent service package, and Flower Mound has taken advantage of that policy.

**Issue:** Whether Upper Trinity Board meetings are open to the public.

**Fact:** As provided by law, all meetings of the governing body are posted - - not only at Upper Trinity offices, but at the County Court House. Members of the public are always welcome and regularly attend Board meetings.

**Issue:** Whether voting by Board Members is conducted in a valid manner.

**Fact:** The enabling statute for Upper Trinity established a dual-track voting system. On administrative and policy matters, each director has one vote. On capital expenditures, directors cast a weighted vote - - weighted according to level of participation in District programs. This system is extraordinarily fair to both small and large member cities. Upper Trinity with the extra voting rights is in contrast to most governing bodies (including water districts) where each member has only one vote on all matters.

**Fact:** Out of a total of 37 possible weighted votes that can be cast by all 27 directors, Flower Mound alone has 9 votes (because they are the largest water customer.) Previously, at Flower Mound’s request, the controlling statute was amended to limit the eligible votes for any Member to no more than 25% of all votes.

**Fact:** The dual-voting system works very well. All Members participate equally in policy, and Members with greater financial obligations have extra votes on capital expenditures.
ISSUES & FACTS: Concerning the Regional Water System
March 22, 2006
Page 4 of 4

Issue: Whether Members who are not participating in the water system should be allowed to vote on water projects.

Fact: Upper Trinity is a democratic regional organization. It functions like a co-op, with each member having a seat on the Board.

Fact: In a city, each member of the city council votes, even if the project in question is not for their own neighborhood. Likewise, at Upper Trinity, all directors of Upper Trinity participate in governance. The Flower Mound director votes on wastewater projects, even though the Town is not participating in Upper Trinity’s wastewater treatment program. Likewise, other directors vote on projects they are not participating in - - all in accordance with State law and Board policy.

Fact: The Board of Directors is in full compliance with the enabling statute concerning governance and voting.

Fact: To prevent any possible abuse of voting power, the Board of Directors many years ago adopted a rule designed to prevent the full Board from imposing any unwanted capital expenditure on participants in a given project. Because, the Board is sensitive to the concerns of participants, this rule has never been invoked by any representative on the Board.

Issue: Flower Mound filed suit in 2004 against the District on a variety of issues.

Fact: One week before Upper Trinity was scheduled to issue bonds to build a regional water treatment plant, Flower Mound filed a lawsuit, blocking the issuance of bonds. On September 2, 2004 Judge L. Dee Shipman, 211th District Court ruled in favor of Upper Trinity on all counts.

Fact: In the lawsuit, the Town complained that the Board of Directors had not implemented certain discretionary policies that the Town favored. The Judge determined that the Board of Directors had the discretion to implement policies it deemed to be in the best interest of all Members. For example, Flower Mound requested that the regional water system be split into two or more cost centers (a matter that was already under study). And, the Town requested that water rates be restructured to shift more cost of the Town’s over-subscribed capacity to other customers (a matter not under current consideration).

Fact: The lawsuit by Flower Mound cost water customers more than $500,000, and nothing was gained.