

**MINUTES OF THE
CITY OF KAUFMAN
SPECIAL CITY COUNCIL MEETING
AND
CITY COUNCIL WORK SESSION
MONDAY, AUGUST 15, 2011 — 6:00 P.M.
KAUFMAN CITY HALL
209 S. Washington Street
Kaufman, Texas 75142**

CITY COUNCILMEMBERS

MAYOR	WILLIAM FORTNER
MAYOR PRO-TEM	JEFF COUNCIL
COUNCILMEMBER	TONY RADER
COUNCILMEMBER	CHARLES GILLENWATER
COUNCILMEMBER	KENNETH MUNDEN
COUNCILMEMBER	BARRY RATCLIFFE
COUNCILMEMBER	LOUIS TIJERINA

SPECIAL CITY COUNCIL MEETING

CALL MEETING TO ORDER: Mayor Fortner called the Meeting to order at 6:03 p.m. Councilmember's present were William Fortner, Tony Rader, Charles Gillenwater, Kenneth Munden, Barry Ratcliffe and Louis Tijerina. Mayor Pro-Tem Council was absent. Mayor Fortner declared a quorum present. Also present were City Manager Curtis Snow, ACM/City Secretary Jo Ann Talbot, Director of Finance Cathy Cummins and Director of Development Service Marcy Ratcliff.

1. CONSIDER FIRST READING AND APPROVAL OF ORDINANCE O-09-11 AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF KAUFMAN, TEXAS, ("CITY") APPROVING A NEGOTIATED RESOLUTION BETWEEN THE ATMOS CITIES STEERING COMMITTEE ("ACSC" OR "STEERING COMMITTEE") AND ATMOS ENERGY CORP., MID-TEX DIVISION ("ATMOS MID-TEX" OR "COMPANY") REGARDING THE COMPANY'S FOURTH ANNUAL RATE REVIEW MECHANISM ("RRM") FILING IN ALL CITIES EXERCISING ORIGINAL JURISDICTION; DECLARING EXISTING RATES TO BE UNREASONABLE; ADOPTING TARIFFS THAT REFLECT RATE ADJUSTMENTS CONSISTENT WITH THE NEGOTIATED SETTLEMENT AND FINDING THE RATES TO BE SET BY THE ATTACHED TARIFFS TO BE JUST AND REASONABLE; REQUIRING THE COMPANY TO REIMBURSE CITIES' REASONABLE RATEMAKING EXPENSES; REPEALING CONFLICTING RESOLUTIONS OR ORDINANCES; DETERMINING THAT THIS ORDINANCE WAS PASSED IN ACCORDANCE WITH THE REQUIREMENTS OF THE TEXAS OPEN

MEETINGS ACT; ADOPTING A SAVINGS CLAUSE; DECLARING AN EFFECTIVE DATE; AND REQUIRING DELIVERY OF THIS ORDINANCE TO THE COMPANY AND THE STEERING COMMITTEE'S LEGAL COUNSEL.

City Manager Curtis Snow informed the Council that the City, along with approximately 154 other cities served by Atmos Energy Mid-Tex Division ("Atmos Mid-Tex" or "Company"), is a member of the Atmos Cities Steering Committee ("ACSC" or "Steering Committee"). On or about April 1, 2011, Atmos Mid-Tex filed with the City an application to increase natural gas rates pursuant to the Rate Review Mechanism ("RRM") tariff approved by the City as part of the settlement of the Atmos Mid-Tex 2007 Statement of Intent to increase rates. This is the fourth annual RRM filing.

The Atmos Mid-Tex RRM filing sought a \$15.7 million rate increase. The City worked with ACSC to analyze the schedules and evidence offered by Atmos Mid-Tex to support its request to increase rates. The Ordinance and attached rate and RRM tariffs are the result of negotiations between ACSC and the Company to resolve issues raised by ACSC during the review and evaluation of ACSC's RRM filing. The Ordinance resolves the Company's RRM filing by authorizing supplemental revenue of \$6.6 million to be recovered through the customer charge component of rates to cover direct incremental costs associated with a steel service line replacement program approved as part of last year's rate adjustment. All other relief requested by Atmos Mid-Tex is denied.

The ACSC Settlement Committee and ACSC legal counsel recommend that all ACSC Cities adopt the Ordinance implementing the rate change.

The RRM tariff was approved by ACSC Cities as part of the settlement agreement to resolve the Atmos Mid-Tex 2007 system-wide rate filing at the Railroad Commission. Atmos Mid-Tex's current action represents an extension to the three-year trial project known as the Rate Review Mechanism ("RRM") process. The RRM process was created collaboratively by ACSC and Atmos Mid-Tex as an alternative to the legislatively authorized GRIP surcharge process. ACSC opposed GRIP because it constituted piecemeal ratemaking, did not allow any reasonableness review, and did not allow any reasonableness review, and did not allow participation by cities or recovery of cities' rate case expenses. The RRM process has allowed for a more comprehensive rate review and annual adjustment as a substitute for GRIP filings during the three-year trial period specified by the tariff.

Purpose of the Ordinance:

Rates cannot change and the Settlement Agreement with Atmos Mid-Tex cannot be implemented without passage of rate ordinances by cities. No related matter is pending at the Railroad Commission. The purpose of the Ordinance is to approve rate tariffs ("Attachment A") that reflect the negotiated rate change pursuant to the RRM process and to ratify a Settlement Agreement recommended by the ACSC Settlement Committee and Executive Committee.

As a result of the negotiations, ACSC was able to reduce the Company's requested \$15.7 million RRM increase to \$6.6 million, allowing only incremental revenues necessary to cover direct costs associated with the steel service line replacement program approved by ACSC Cities in 2010. Approval of the Ordinance will result in the implementation of new rates that increase Atmos Mid-Tex's revenues effective September 1, 2011.

Reasons Justifying Approval of the Negotiated Resolution:

During the time that the City has retained original jurisdiction in this case, consultants working on behalf of ACSC cities have investigated the support for the Company's requested rate increase. While the evidence does not support the \$15.7 million increase requested by the Company, ACSC consultants agree that the Company can justify an increase in revenues of \$6.6 million, a result consistent with Cities' approval of a steel service line replacement program last year. The agreement on \$6.6 million is a compromise between the positions of the parties.

The Settlement Agreement of 2010 which included an extension of the RRM process, included an allowance for recovery of direct costs, excluding overheads, of the steel service line replacement program. Current year recovery factors of \$00.15 for residential customers and \$00.41 for commercial customers per month were authorized last year. The 2010 Settlement Agreement contemplated that the steel service line replacement program would be adjusted annually, but shall be capped at \$00.44 cents for residential customers and \$1.22 for commercial customers. The increase in this case is consistent with the caps contemplated last year for the steel service line replacement program, and nothing more.

The alternative to a settlement of the RRM filing would be a contested case proceeding before the Railroad Commission on the Company's current application, would take several months and cost ratepayers millions of dollars in rate case expenses, and would not likely produce a result more favorable than that to be produced by the settlement.

The ACSC Settlement Committee recommends that ACSC members take action to approve the Ordinance authorizing new rate tariffs.

Steel Service Line Replacement:

Under pressure from the Railroad Commission to establish a comprehensive program to replace service lines that contain steel which is subject to corrosion and leaks, ACSC worked with Atmos Mid-Tex in 2010 to establish a risk based approach to steel service line replacement that accomplishes the following goals:

1. Replace all service lines throughout the Mid-Tex Region with the highest degree of risk within two years;
2. Coordination between ACSC city members and Atmos Mid-Tex to minimize disruption of rights of way without compromising safety;
3. To minimize and spread the rate impact on customers of the replacement program, the service lines with little relative risk of leaks should be replaced over a 10-year period; and
4. Current recovery of incremental (above and beyond normal maintenance and repair addressed in RRM proceedings) direct (excluding Atmos Mid-Tex overheads) cost of service line replacement should be permitted as an adder to customer charges.

Fulfillment of these goals in the 2010 case led to \$00.15 and \$00.41 added to residential and commercial customer charges, respectively. The annual customer charge added to cover the steel service line replacement program may not exceed \$00.44 and \$1.22 for residential and commercial customers, respectively, prior to the entry of a Final Order in the next system-wide Statement of Intent rate proceeding.

Changes to Customer Charges:

The Settlement Agreement approved in 2010 contemplated that incremental revenues to cover future steel service line replacement costs would be recovered through customer charges. Consistent with that approach, the \$6.6 million in additional revenues to be recovered following passage of the Ordinance is accomplished by increasing customer charges.

The tariffs to be approved by the Ordinance set monthly customer charges at \$7.50 and \$16.75 for residential and commercial customers, respectively.

The commodity portion of the commercial rate will decline slightly from existing rates.

Explanation of "Be It Ordained" Paragraphs:

1. This paragraph approves all findings in the Ordinance.

2. This section adopts the attached tariffs ("Attachment A") in all respects and finds the rates set pursuant to the attached tariffs to be just, reasonable and in the public interest. Note that only new tariffs or existing tariffs being revised are attached to the Ordinance. Existing tariffs not being changed in any way are not attached to the Ordinance.
3. This section requires the Company to reimburse ACSC for reasonable rate making costs associated with reviewing and processing the RRM application.
4. This section repeals any resolution or ordinance that is inconsistent with this Ordinance.
5. This section finds that the meeting was conducted in compliance with the Texas Open Meetings Act, Texas Government Code, Chapter 551.
6. This section is a savings clause, which provides that if any section(s) is later found to be unconstitutional or invalid, that finding shall not affect, impair or invalidate the remaining provisions of this Ordinance. This section further directs that the remaining provisions of the Ordinance are to be interpreted as if the offending section or clause never existed.
7. This section provides for an effective date upon passage.
8. This paragraph directs that a copy of the signed Ordinance be sent to a representative of the Company and legal counsel for ACSC.

After discussion, Councilmember Gillenwater moved and seconded by Councilmember Tijerina to approve the first reading of Ordinance O-09-11 an Ordinance of the City Council of the City of Kaufman, Texas, ("city") approving a negotiated resolution between the Atmos Cities Steering Committee ("ACSC" or "Steering Committee") and Atmos Energy Corp., Mid-Tex Division ("Atmos Mid-Tex" or "Company") regarding the company's fourth Annual Rate Review Mechanism ("RRM") filing in all cities exercising original jurisdiction; declaring existing rates to be unreasonable; adopting tariffs that reflect rate adjustments consistent with the negotiated settlement and finding the rates to be set by the attached tariffs to be just and reasonable; requiring the company to reimburse cities' reasonable ratemaking expenses; repealing conflicting resolutions or ordinances; determining that this ordinance was passed in accordance with the requirements of the Texas Open Meetings Act; adopting a savings clause; declaring an effective date; and requiring delivery of this ordinance to the company and the steering committee's legal counsel.

Mayor Fortner called for a vote with all voting AYE, the motion carried.
Mayor Pro-Tem Council was absent.

ADJOURNMENT.

The Special City Council meeting was adjourned at 6:10 p.m.

**CITY COUNCIL WORK SESSION
MONDAY, AUGUST 15, 2011
KAUFMAN CITY HALL
209 S. Washington Street
Kaufman, Texas 75142**

CALL MEETING TO ORDER: Mayor Fortner called the Meeting to order at 6:10 p.m. Councilmember's present were William Fortner, Tony Rader, Charles Gillenwater, Kenneth Munden, Barry Ratcliffe and Louis Tijerina. Mayor Pro-Tem Council was absent. Mayor Fortner declared a quorum present. Also present were City Manager Curtis Snow, ACM/City Secretary Jo Ann Talbot, Director of Finance Cathy Cummins and Director of Development of Service Marcy Ratcliffe.

NOTE: A Work Session is used to explore matters of interest to one or more City Council Members or the City Manager for the purpose of giving staff direction into whether or not such matters should be placed on a future regular or special meeting of the Council for citizens input, City Council deliberation and formal City action. At a work session, the City Council generally receives informal and preliminary reports and information from City staff, officials, members of City committees, and the individual or organization proposing council action, if invited by City Council or City Manager to participate in the session. Participation by individuals and members of organizations invited to speak ceases when the Mayor announces the session is being closed to public input. Although Work Sessions are public meetings, and citizens have a legal right to attend, they are not public hearings, so citizens are not allowed to participate in the session unless invited to do so by the Mayor. Any citizen may supply to the City Council, prior to the beginning of the session, a written report regarding the citizen's opinion on the matter being explored. Should the Council direct the matter be placed on a regular meeting agenda, the staff will generally prepare a final report defining the proposed action, which will be made available to all citizens prior to the regular meeting at which citizen input is sought. The purpose of this procedure is to allow citizens attending the regular meeting the opportunity to hear the views of their fellow citizens without having to attend two meetings.

1. The Kaufman City Council will hold a Budget Work Session for the City of Kaufman.

City Manager Curtis Snow presented the proposed Fiscal Year 2011-2012 Budget. He reported that there is a 2.8% growth in expenses. That amounts to \$201,870. Each one of the funds actually decreased except for the General Fund and the Water and Sewer Fund.

The Revenue side reflects only a \$172,793 increase on all of the funds. That is less than the growth in expenses. That means more use of excess fund balances. The reserves are still intact.

Mr. Snow informed the Council how our current year will end. He said that it was important because of his strategy over the years has been to slowly pull down excess reserves and invest them in capital infrastructure. This year we planned to use \$281,100 in General Fund balances. It is projected that we will only use about \$160,796. That is \$120,000 less. That is good because we can see where our fund balances are on the "Available to Spend" schedule.

The Utility Fund didn't go so well. We did fine on the revenue side, but we spent nearly \$50,000 in unanticipated failures in both water and sewer systems and the treatment plant. We will be adding \$20,456 to our working capital (or reserves). We are estimating that we will actually take another \$30,570 out of our working capital. We are running dangerously low in the Utility Fund. The reserves are still in place but excess working capital is estimated to be down to \$6,500.00

Mr. Snow reported that there is no major change in the General Fund revenues. The sales tax revenues increased \$130,000. There are no new property taxes and because of a loss in taxable value we will have a ½ cent increase in the effective rate. On the expenditure side, there is an \$110,000 increase in personnel costs but modest or no increase in the rest of the expenditures for the General Fund. He reported that \$344,833 is being used of fund balance. That amount is considerably higher than the budgeted \$281,100 for the current year. He noted that only \$160,000 was going to be used in this current year of fund balance. The General Fund budget for Fiscal Year 2012 is \$4,040,946, a 3.6% increase from current year of \$3,900,379. Totaling a \$140,567 increase.

The Utility Fund is significantly different. Revenues are up \$110,000, but that is not enough. North Texas Municipal Water District has increased their rates by 12 cents per one thousand gallons. The City has proposed 6 cents to keep above water. The 6 cents will generate \$21,000. Staff is currently working on changing water sales outside the City to 125% of the City rates. If that rate becomes effective, an additional \$50,000 of

revenue will be generated. On the Utility Fund expenditure side, everything is down except personnel costs and what goes to North Texas Municipal Water District. Currently we are proposing to spend \$70,000 more than what is budgeted this year. There is no capital in budget for the Utility Fund. The Utility Fund Fiscal Year budget for 2012 is \$2,978,374 a 2.5% increase from current year of \$2,906,698, an increase of \$71,676.

The only significant increase in expenses in both funds is a 3% raise for employees. There is another \$40,000 increase in the Utility Fund for the cost of water. What is missing from the Utility Fund are major repairs to the wastewater treatment plant and collection system. These repairs need to be done.

City Manager gave an overview on the General Fund covering each Department as well as the Departments in the Utility Fund.

A Work Session will be held September 12th. Council will review and discuss a water rate study to justify the increase of water rates and sewer rates. Also, through this budget process, staff will introduce to the City Council a bond proposal for major assessment and repairs on the water and wastewater systems. In addition, the funding for Highway 34 Bypass will be discussed. Items to be discussed will be essential for current and future needs.

Staff will provide the City Council a profile on police vehicles.

City Manager Curtis Snow reported that at the Work Session they will discuss a proposed bond issuance for improvements at the wastewater treatment plant, discuss water rate increase for outside city users, water and sewer rate study, and discuss the financing of the Highway 34 Bypass.

ANNOUNCEMENTS FROM CITY MANAGER.

City Manager Curtis Snow informed the City Council that Bob Wilkins with University of Texas Arlington, Director of Urban and Public Affairs was coming to Kaufman on Friday to tour downtown and give the City a proposal to conduct an assessment to improve the City's Downtown Business District. Mayor Fortner, Councilmember Rader and City Staff will join the tour.

REQUEST/COMMENTS FROM MEMBERS OF CITY COUNCIL.

Councilmember Rader asked for the Parking Study from the Police Department that was conducted around the square.

ADJOURNMENT.

There being no further business the meeting was adjourned at 7:26 p.m.

**WILLIAM FORTNER
MAYOR**

ATTEST:

**JO ANN TALBOT
CITY SECRETARY**