

CITY OF FREDERICKSBURG CITY COUNCIL MEETING

MONDAY, JULY 2, 2018 ~ 6:00 p.m.

Law Enforcement Center ~ 1601 East Main Street

Linda Langerhans, Mayor
Charlie Kiehne, Council Member
Jerry Luckenbach, Council Member

Gary Neffendorf, Council Member
Tom Musselman, Council Member
Kent Myers, City Manager

(REQUEST ALL PAGERS AND PHONES BE TURNED OFF, EXCEPT EMERGENCY ON-CALL PERSONNEL)

A G E N D A

CALL TO ORDER

PLEDGE OF ALLEGIANCE

Page Ref

1. EMPLOYEE RECOGNITIONS

2. PUBLIC COMMENTS

3. PUBLIC HEARINGS

A. PUBLIC HEARING - Voluntary Annexation of Approximately 11.282 Acres of Land Located on the South Side of US Highway 87 North, and North of US Highway 290 West, for the Proposed Hotel/Conference Center (2nd of two required hearings) 1-9

B. PUBLIC HEARING - 2019 City Budget 10

4. ORDINANCES - RESOLUTIONS- ACTION ITEMS

A. Consider Resolution for Atmos Energy Rate Increase 11-20

B. Consider Amendment to the Lease for the University Center Property 21-54

5. INDIVIDUAL ITEMS FOR CONSIDERATION AND POSSIBLE ACTION

A. Receive and Consider CIP Presentation 55-56

B. Receive and Consider Water/Wastewater Rate Presentation 57-82

6. ITEMS FOR FUTURE AGENDA

7. CITY MANAGERS REPORT

A. Budget Workshops

B. Seven Hills Resort and Conference Center

C. City Secretary Position

8. COUNCIL COMMENTS

9. **EXECUTIVE SESSION** - Council reserves the right to adjourn into executive session at any time during the course of this meeting to discuss any of the matters listed above, as authorized by Texas Government Code Sections 551.071 (Consultation with Attorney), 551.072 (Deliberations about Real Property), 551.073 (Deliberations about Gifts and Donations), 551.074 (Personnel Matters), 551.076 (Deliberations about Security Devices) and 551.086 (Economic Development).

A. Executive Session - Consider and discuss the purchase, exchange, lease, or value of real property located in the vicinity of Lady Bird Johnson Municipal Park (Sec. 551.072)

B. Executive Session - Consider and discuss the purchase, exchange, lease, or value of real property located in the vicinity of Old San Antonio Road (Sec. 551.072)

C. Executive Session - Consider and discuss the purchase, exchange, lease, or value of real property located in the vicinity of Industrial Loop (Sec. 551.072)

10. **TAKE ACTION ON EXECUTIVE SESSION ITEMS, IF NECESSARY**

11. **ADJOURN**



CITY COUNCIL MEMO

DATE: June 25, 2018

TO: Mayor and City Council

FROM: Brian Jordan, AICP

SUBJECT: Public hearing on the voluntary annexation of approximately 11.282 acres of land located on the south side of US Highway 87 North, and north of US Highway 290 West, for the proposed Hotel/Conference Center (2nd of Two required hearings)

Summary:

The property is located on the south side of US Highway 87 North, north of US Highway 290 West (see the attached exhibit). The entire Hotel/Conference Center site is approximately 22 acres. This annexation request will incorporate the remaining portion of the project site. The required public hearings are scheduled for June 18 and July 2, 2018. The Planning and Zoning Commission will be considering the zoning on the property on July 5, 2018.

Recommendation:

Conduct the Public Hearing and receive comments. No action is required.

Background / Analysis:

The applicant has submitted their request for the PUD zoning on the entire 22 acre site. The PUD will include the proposed Hotel and Conference Center, as well as a retail village and Sunday Houses. An annexation agreement is being prepared and will accompany the final annexation consideration.

The City of Fredericksburg

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Attachments:

Maps of Area, Draft PUD Exhibits, Annexation Petition



Department Approval



City Manager Approval

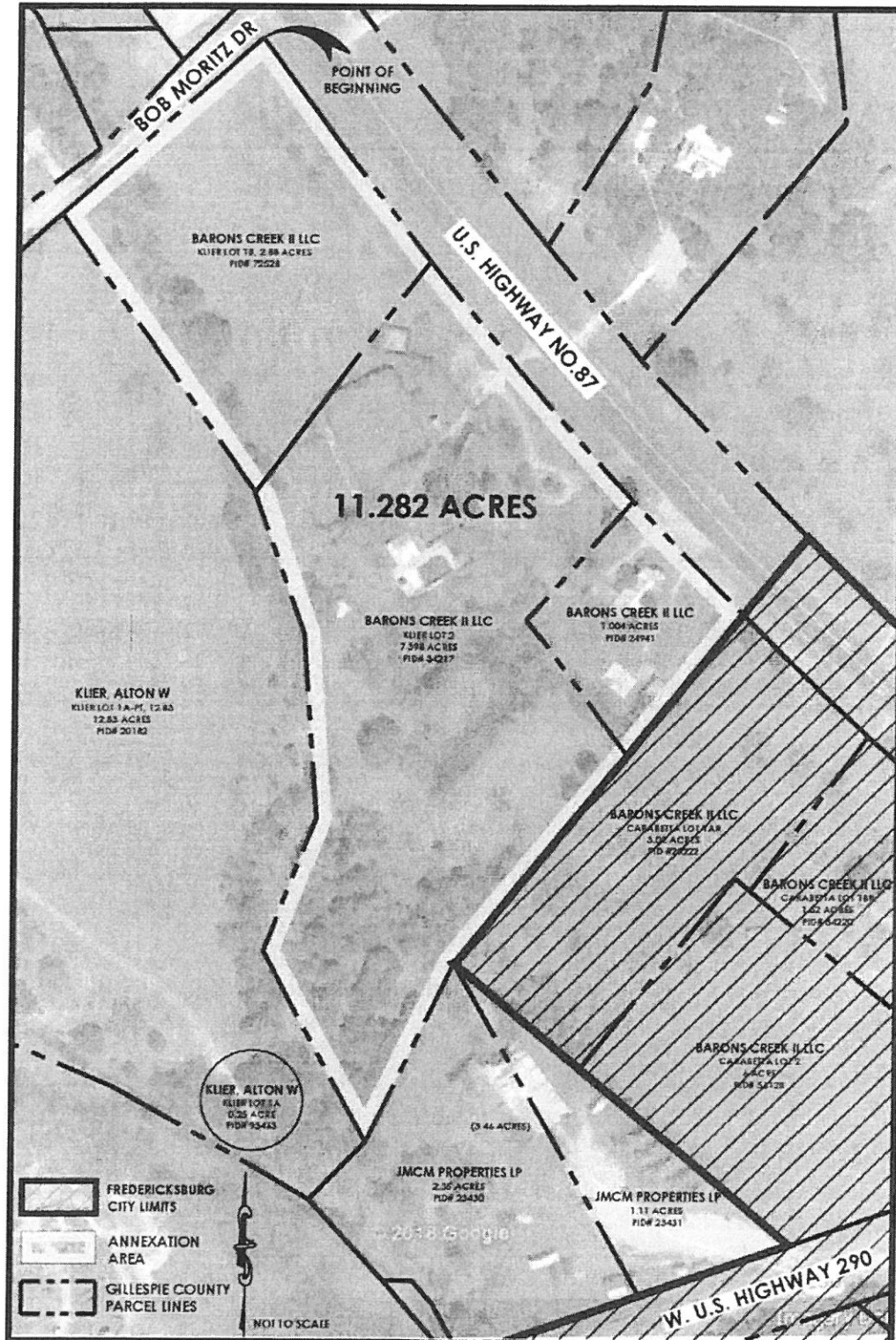
City Attorney Approval

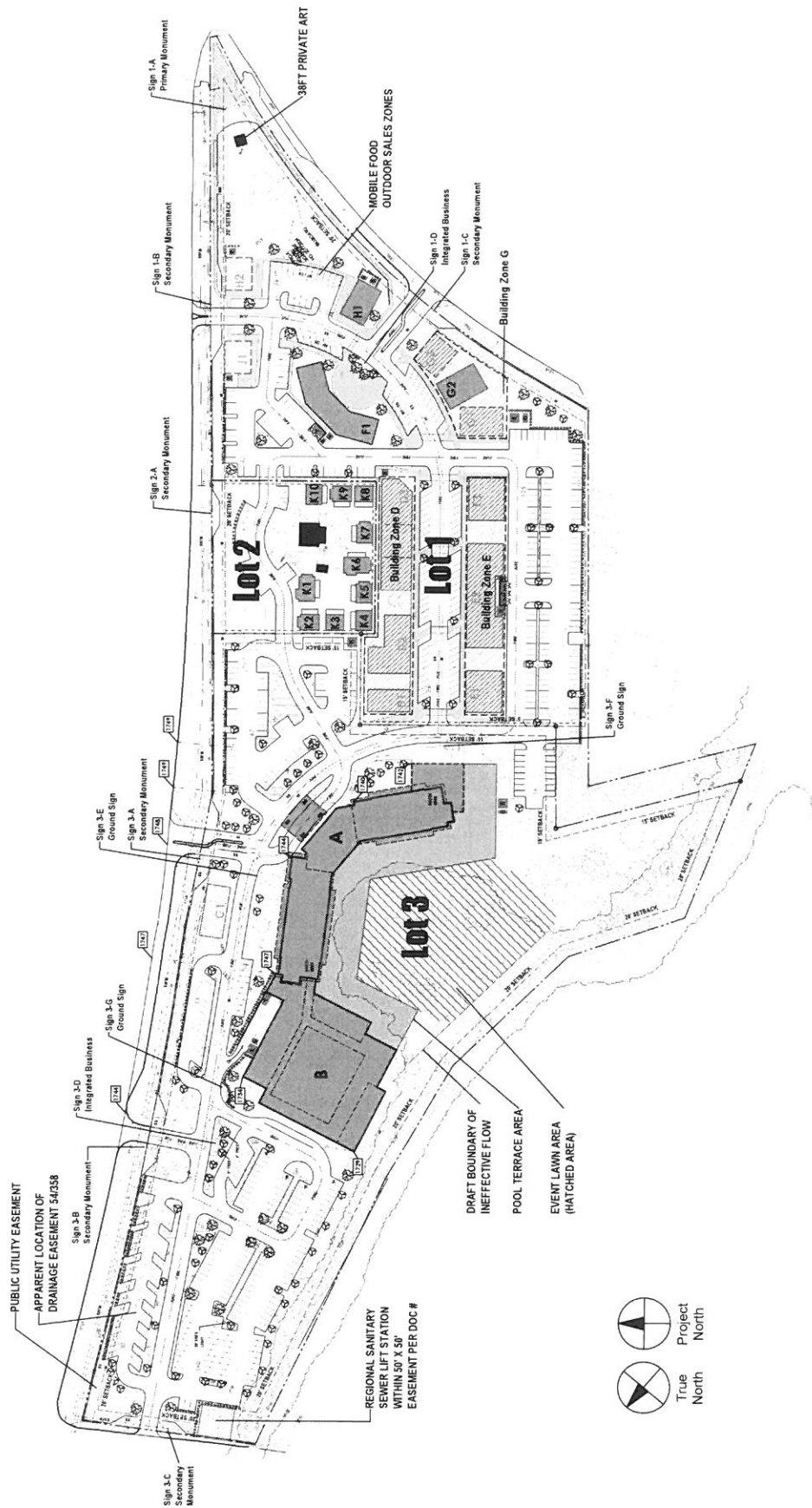
The City of Fredericksburg

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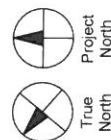
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EXHIBIT "A"





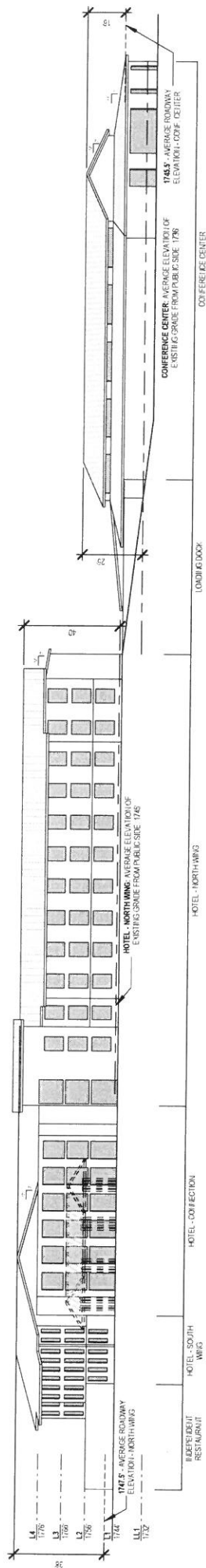
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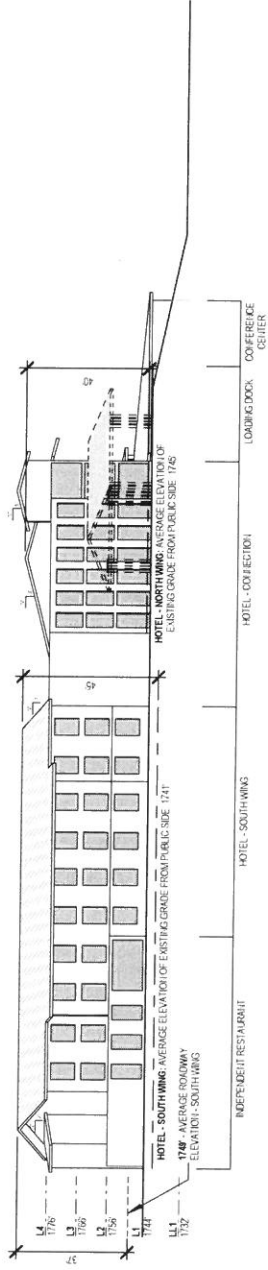


Seven Hills Resort & Conference Center

1" = 160'-0"

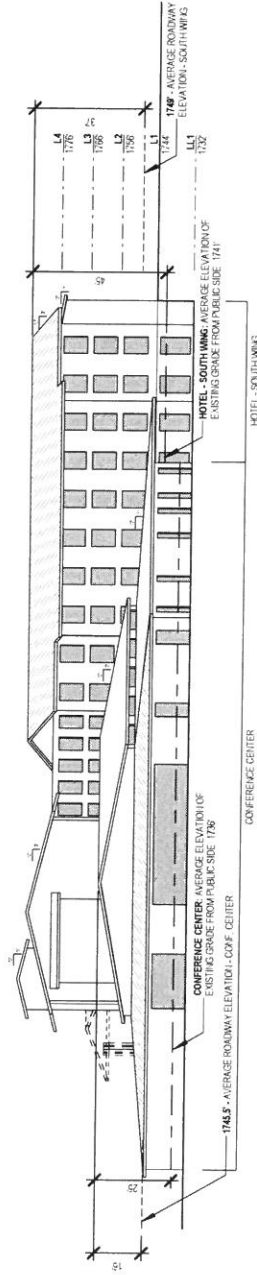
PUD Plan





2 SOUTH ELEVATION
SCALE: 1" = 40'-0"

6



1 NORTH ELEVATION
SCALE: 1" = 40'-0"

Seven Hills Resort

1" = 40'-0"

PUD Elevations

BECK

PETITION TO ANNEX

STATE OF TEXAS §
 §
COUNTY OF GILLESPIE §

To the Honorable City Council of the City of Fredericksburg, Texas:

BARONS CREEK II, LLC, a Texas limited liability company, being the sole owner of the hereinafter described 2.88 acres (PID# 72528), 7.398 acres (PID# 34217 & 20183) and 1.004 acres (PID# 24941) of land in Gillespie County, Texas, hereinafter described and shown on attached as EXHIBIT "A", on which less than three (3) qualified voters reside, respectfully request that the combined 11.282 acres, contiguous and adjacent to the City of Fredericksburg, a home rule city, be annexed to the City of Fredericksburg, Texas, said tracts to be annexed described as follows:

Lot No. 1B, Klier Subdivision, situated in Gillespie County, Texas, according to the map or plat of record in Volume 2, Page 144, Plat Records of Gillespie County, Texas (PID# 72528).

Lot No. 2, Klier Subdivision, situated in Gillespie County, Texas, according to the map or plat of record in Volume 2, Page 64, Plat Records of Gillespie County, Texas (PID# 34217 & 20183).

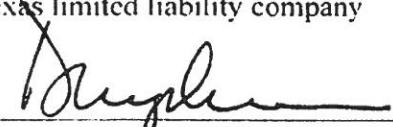
BEING 1.004 acre of land, more or less, situated in Gillespie County, Texas, part of Block III; as said Block is shown on the map of Fredericksburg, Texas, and Environs by the German Emigration Company; said 1.004 acre tract of land is described by metes and bounds on EXHIBIT "B", attached hereto and made a part hereof (PID# 24941).

WHEREFORE, the undersigned respectfully asks that the above described tracts of land be annexed to the City of Fredericksburg, Texas.

EXECUTED this the 7th day of May, 2018.

OWNER:

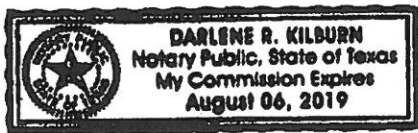
BARONS CREEK II, LLC,
a Texas limited liability company

By: 

Dennis E. Murphree, Manager

STATE OF TEXAS §
 §
COUNTY OF Harris §

This instrument was acknowledged before me on this the 7th day of May, 2018, by Dennis E. Murphree, Manager of BARONS CREEK II, LLC, a Texas limited liability company, on behalf of said entity.



Darlene R. Kilburn
Notary Public in and for The State of Texas

Seven Hills Hotel and Conference Center - Annexation Schedule

June 6, 2018	Notice in the Newspaper for June 18
June 18, 2018	Public Hearing
June 20, 2018	Notice in the Newspaper for July 2
July 2, 2018	Public Hearing
July 23, 2018	Institution of Annexation Proceedings (Special Meeting, start of 90 day clock)
October 23, 2018	Completion of Annexation (may be completed any time prior to this date)



CITY COUNCIL MEMO

DATE: June 25, 2018
TO: Mayor and City Council
FROM: Kent Myers, City Manager
SUBJECT: Public Hearing-2019 City Budget

Summary:

A public hearing on the 2019 City Budget is scheduled during Monday's City Council meeting.

Recommendation:

Prior to the presentation of this year's Budget we have scheduled a public hearing to solicit citizens input on what changes they recommend to the 2019 City Budget. It is recommended that the Council listen to this input and offer your appreciation to any citizen who provides comments

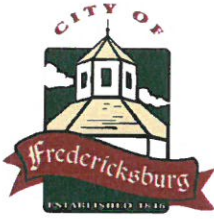
Background / Analysis:

Attachments:


Department Approval


City Manager Approval

The City of Fredericksburg



CITY COUNCIL MEMO

DATE: June 25, 2018

TO: Mayor and City Council

FROM: Kent Myers, City Manager

SUBJECT: Atmos Rate Increase

Summary:

Atmos Energy Corporation is seeking an increase of \$4.5 million to Atmos Texas Municipalities (ATM) which is comprised of about 50 cities including Fredericksburg. This represents an increase in annual revenues of about 8%. The change to an average residential bill would be about 4.82% including the cost of gas. Commercial customers would realize a decrease of about 1.35% including the cost of gas.

Recommendation:

It is recommended that the Council adopt the attached resolution suspending the rate increase for 90 days to allow the law firm retained by ATM to fully evaluate the rate request.

Background / Analysis:

Additional background information is available in the attached Agenda Information Sheet.

Attachments:

Agenda Information Sheet
Proposed Resolution

The City of Fredericksburg



Department Approval



City Manager Approval

The City of Fredericksburg

12

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AGENDA INFORMATION SHEET
ITEM NO. _____

**SUSPENSION OF ATMOS ENERGY'S PROPOSED EFFECTIVE DATE
FOR ITS PROPOSED INCREASE IN RATES**

BACKGROUND

On or about June 1, 2018, Atmos Energy Corporation ("Atmos" or "Company") filed a Statement of Intent with members of the coalition of cities known as the Atmos Texas Municipalities ("ATM") comprised of about 50 cities, of which the City is a member, to increase rates by approximately \$4.5 million, which equates to an increase of about 8% in annual non-gas-cost revenue in the ATM cities. On a system-wide basis, Atmos's proposed increase would be the equivalent of about \$46.0 million; this equates to an increase in annual revenue of about 7.3%.

Atmos proposes an effective date of July 6, 2018 for its change in rates. As is explained below, the proposed resolution related to Atmos's application to increase rates, if adopted, suspends Atmos's proposed effective date for the statutory time period of 90 days, to October 4, 2018.

BILL IMPACT:

Atmos proposes to *increase base rates for residential customers* and to *decrease base rates for commercial customers*. The effect on a customer's bill under Atmos's proposed rates is as follows:

Class of Customer	Change in Average Bill (excluding cost of gas)
Residential – Rate R	11.15% increase
Commercial – Rate C	4.22% decrease
Industrial – Rate I	12.39% decrease
Transportation – Rate T	12.39% decrease

Class of Customer	Change in Average Bill (including cost of gas)
Residential – Rate R	4.82% increase
Commercial – Rate C	1.35% decrease
Industrial – Rate I	2.14% decrease
Transportation – Rate T	2.33% decrease

REVENUE IMPACT:

Assuming Atmos's proposed increase is approved, the effect on the percentage change in *revenue* for each customer class is shown below:

Class of Customer	Change in Revenue (excluding cost of gas)
Residential – Rate R	11.18% increase
Commercial – Rate C	5.17% decrease
Industrial – Rate I	9.20% decrease
Transportation – Rate T	9.20% decrease

CURRENT BASE RATES VERSUS PROPOSED BASE RATES:

Atmos proposes to increase the fixed customer charge for the Residential class, while charges based on consumption would be reduced. For commercial customers, Atmos proposes a decrease in the customer charge and the commodity charge. The table below shows Atmos's current base rates and its proposed base rates:

Rate R - Residential		Current	Proposed	\$ Change	% Change
	Customer Charge per month	\$18.35	\$20.25	\$1.90	10.35%
	Consumption Charge (per CCF)	\$ 0.13734	\$0.15701	\$0.01967	14.32%
Rate C - Commercial					
	Customer Charge per month	\$41.95	\$41.85	<\$0.10>	<0.24%>
	Consumption Charge (per CCF)	\$0.08746	\$0.07729	<\$0.01017>	<11.63%>
Rate I & T – Industrial & Transportation					
	Customer Charge per month	\$752.00	\$752.00	\$0.00	0.0%
	Consumption Charge (per MMBTU):				
	First 1,500	\$0.3172	\$0.2390	<\$0.07820>	<24.65%>
	Next 3,500	\$0.2322	\$0.1901	<\$0.04210>	<18.13%>
	Over 5,000	\$0.0498	\$0.0498	\$0.00000	0.0%

Because of the material increase to the Residential class and decreases to the commercial and industrial and transportation classes, the City should evaluate Atmos's proposed allocation of costs to the customer classes.

Atmos's application represents its first general rate case since 2012 (GUD No. 10170). Prior to this filing, Atmos sought annual increases in rates pursuant to the Rate Review Mechanism ("RRM"). However, the RRM tariff has since expired, thus necessitating

Atmos's application. Note that Atmos is seeking an increase in rates in those cities that continued the RRM tariff.

ACTION REQUIRED BY July 6, 2018

The City must take action on Atmos's Statement of Intent before July 6, 2018. Absent such action, Atmos's rates are deemed approved by operation of law.

ATMOS TEXAS MUNICIPALITIES

The Atmos Texas Municipalities ("ATM") was organized by a number of municipalities, served by Atmos. Alfred R. Herrera with the law firm of Herrera Law & Associates, PLLC, has previously represented the City as part of ATM in rate cases involving Atmos.

CITY JURISDICTION TO SET ATMOS'S RATES

Unless a city ceded its original jurisdiction to the Railroad Commission of Texas, the Gas Utility Regulatory Act § 103.001 grants a city exclusive original jurisdiction over a gas utility's rates, services, and operations within the city limits. But even if a city has ceded its jurisdiction, to the Railroad Commission, the Gas Utility Regulatory Act § 103.023, grants a city the statutory right to participate in rate proceedings before the Railroad Commission.

RATE CASE EXPENSES

Cities by statute are entitled to recover their reasonable rate case expenses from the utility. See Gas Utility Regulatory Act § 103.022. Legal counsel and consultants approved by ATM will submit monthly invoices to the coalition-designated city that will be forwarded to Atmos for reimbursement; the City of Longview has served in that capacity for several years. No individual city's budget is negatively affected.

SUSPENSION

Atmos's rate-filing package is voluminous containing thousands of pages of data. In order to have time to review the rate-filing package, the Council is requested to suspend Atmos's proposed effective date for ninety (90) days as provided by GURA. It is a virtual impossibility for the City to set just and reasonable rates without suspending the rate request for ninety days; suspension of Atmos's proposed effective date will permit its special regulatory counsel and experts an opportunity to perform a better review of Atmos's application. Further, should Atmos's notice prove to be deficient, then the statutory period would be extended; also by agreement between the City and Atmos, the statutory suspension period may be extended.

RECOMMENDATION

It is recommended that the City continue its participation in the Atmos Texas Municipalities and retain the law firm of Herrera Law & Associates, PLLC to represent the City's interest in matters related to Atmos's rate case and to advise the City with regard to Atmos's application, and that, if Atmos either submits its application to the Railroad Commission of Texas, or appeals the City's final decision to the Railroad Commission, the City intervene in the proceeding before the Railroad Commission of Texas, should such proceedings develop, and court appeals, if any.

The recommendation is also to suspend Atmos's proposed effective date of July 6, 2018, for its proposed increase in rates as set forth in Atmos's Statement of Intent for 90 days. Assuming Atmos's notice meets the statutory criteria for sound notice, the suspension period runs until October 4, 2018.

The City must take action no later than July 6, 2018. If the City does not take action by July 6, 2018, Atmos's proposed rates will be deemed approved by operation of law, subject to the City's right to hold a hearing to address Atmos's rate application.

RESOLUTION NO. _____

RESOLUTION BY THE CITY OF FREDERICKSBURG, TEXAS (“CITY”), SUSPENDING THE EFFECTIVE DATE FOR NINETY DAYS IN CONNECTION WITH THE RATE INCREASE FILING MADE ON ABOUT ON JUNE 1, 2018 BY ATMOS ENERGY FOR ITS MIDTEX DIVISION; FINDING THAT THE MEETING COMPLIES WITH THE OPEN MEETINGS ACT; MAKING OTHER FINDINGS AND PROVISIONS RELATED TO THE SUBJECT; AND DECLARING AN EFFECTIVE DATE

WHEREAS, Atmos Energy (“Atmos” or “Company”) filed a Statement of Intent with the City on or about June 1, 2018, to increase its annual revenue by approximately \$4.5 million in the cities known as Atmos Texas Municipalities (“ATM”), which equates to an increase in annual revenue of approximately 8.0 percent, and is the equivalent of an increase of about \$46.0 million on a system-wide basis; and

WHEREAS, the City is a regulatory authority under the Gas Utility Regulatory Act (“GURA”) and under Chapter 104, §103.001 et seq. of GURA has exclusive original jurisdiction over Atmos’s rates, operations, and services within the municipality; and

WHEREAS, in order to maximize the efficient use of resources and expertise in reviewing, analyzing and investigating Atmos’s rate request and its changes in tariffs it is prudent to coordinate the City’s efforts with a coalition of similarly situated municipalities; and

WHEREAS, the City, in matters regarding applications by Atmos to change rates, has in the past joined with other local regulatory authorities to form an alliance of cities known as Atmos Texas Municipalities (“ATM”), and hereby continues its participation in ATM; and

WHEREAS, Atmos’s rate request consists of a voluminous amount of information including Atmos’s rate-filing package, exhibits, schedules, and workpapers; and

WHEREAS, Atmos's rate application is the Company's first general rate case since about 2012, and follows annual increases approved under the now-expired tariff known as the "Rate Review Mechanism" ("RRM"); and

WHEREAS, Atmos proposed July 6, 2018, as the effective date for its requested increase in rates; and

WHEREAS, it is not reasonably possible for the City to complete its review of Atmos's filing by July 6, 2018; and

WHEREAS, the City will need an adequate amount of time to review and evaluate Atmos's rate application to enable the City to adopt a final decision as a local regulatory authority with regard to Atmos's requested rate increase; and

WHEREAS, the City will require the assistance of specialized legal counsel and rate experts to review the merits of Atmos's application to increase rates; and

WHEREAS, if Atmos submits a corresponding application with the Railroad Commission of Texas or appeals the City's action to the Railroad Commission of Texas, the decision of the Railroad Commission of Texas will have a direct impact on the City and its citizens who are customers of Atmos, and in order for the City's participation to be meaningful it is important that the City intervene in any such proceedings at the Railroad Commission of Texas related to Atmos's application to increase rates.

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF FREDERICKSBURG, TEXAS THAT:

Section 1. The findings set out in the Recitals are in all things approved and incorporated herein as if fully set forth.

Section 2. Atmos's proposed effective date for its proposed increase in rates is hereby **SUSPENDED** for ninety days beyond July 6, 2018.

Section 3. The statutory suspension period may be further extended if Atmos does not provide timely and meaningful, and proper public notice of its request to increase rates, if its rate-filing package is materially deficient, or by agreement.

Section 4. The City shall participate in a coalition of cities known as the Atmos Texas Municipalities (“ATM”), and authorizes intervention in proceedings related to Atmos’s Statement of Intent before the Railroad Commission of Texas and related proceedings in courts of law.

Section 5. The City hereby orders Atmos to reimburse the City’s rate case expenses consistent with the Gas Utility Regulatory Act and that Atmos shall do so on a monthly basis and within 30 days after submission of the City’s invoices for the City’s reasonable costs associated with the City’s activities related to this rate review or related to proceedings involving Atmos before the City, the Railroad Commission of Texas, or any court of law.

Section 6. Subject to the right to terminate employment at any time, the City retains and authorizes the law firm of Herrera Law & Associates, PLLC to act as Special Counsel with regard to rate proceedings involving Atmos before the City, the Railroad Commission of Texas, or any court of law, and to retain such experts as may be reasonably necessary for review of Atmos’s rate application subject to approval by the steering committee of the ATM.

Section 7. The City, in coordination with the Steering Committee, shall review the invoices of the lawyers and rate experts for reasonableness before submitting the invoices to Atmos for reimbursement.

Section 8. A copy of this resolution shall be sent to Mr. Alfred R. Herrera, Herrera Law & Associates, PLLC, 816 Congress Ave., Suite 950, Austin, Texas 78701, and a courtesy copy to Atmos’s local representative.

Section 9. The meeting at which this resolution was approved was in all things conducted in strict compliance with the Texas Open Meetings Act, Texas Government Code, Chapter 551.

Section 10. This resolution shall become effective from and after its passage.

PASSED AND APPROVED this 2nd day of July, 2018.

Linda Langerhans, Mayor
City of Fredericksburg, Texas

ATTEST:

Shelley Britton, City Secretary

APPROVED AS TO FORM:

Daniel Jones, City Attorney



CITY COUNCIL MEMO

DATE: June 25, 2018
TO: Mayor and City Council
FROM: Kent Myers, City Manager
SUBJECT: Lease Amendment-University Center

Summary:

The attached lease amendment provides the City the authority to directly negotiate leases with two potential tenants of the University Center campus subject to final approval by the Foundation Board. These tenants were identified in the recent University Center Master Plan adopted by the City Council and University Center Foundation Board of Directors.

Recommendation:

It is recommended that the attached lease amendment between the City and the Texas Hill Country Higher Education Development Foundation be approved.

Background / Analysis:

Last year the City and Foundation Board approved a new Master Plan for the University Center Campus. This Plan included two potential tenants that are not directly associated with either Texas Tech or Central Texas College. This includes the Texas Center for Wine and Culinary Arts and the Performing Arts Center. The Foundation Board indicated that it was their preference for the City to enter into a lease with these third parties.

The City of Fredericksburg

(2)

The attached lease agreement incorporates the new Master Plan into the current master lease for the campus. In addition, the amendment provides that the City can lease property to these two third parties subject to final approval of the Foundation Board. It also includes provisions for future ownership of roadways on the campus and assigns responsibility for future maintenance and repairs to campus facilities.

Attachments:

First Amendment to Ground Lease


Department Approval


City Manager Approval

The City of Fredericksburg

22

FIRST AMENDMENT TO GROUND LEASE
BETWEEN
THE CITY OF FREDERICKSBURG
AND
TEXAS HILL COUNTRY HIGHER EDUCATION DEVELOPMENT FOUNDATION

WHEREAS, the Texas Hill Country Higher Education Development Foundation ("Tenant") and the City of Fredericksburg, Texas ("Landlord") entered into a Ground Lease ("Original Lease") on January 1, 2008, related to the development of a university campus ("Campus"); and

WHEREAS, the Landlord and the Tenant entered into a subsequent Ground Lease ("Vineyard Lease") on August 6, 2012, to include additional property as part of Phase 1 university campus development, for construction of a teaching vineyard; and

WHEREAS, the Landlord and the Tenant desire to enter into this First Amendment to the Original Lease ("First Amendment"), to adopt a modified master plan for the Campus, and to provide options for third parties to develop portions of the Campus.

NOW, THEREFORE, in consideration of the mutual agreements set forth in the Original Lease and this First Amendment, and other good and valuable consideration, the receipt of which are hereby acknowledged, the parties hereto agree as follows:

1. The Master Plan adopted and approved by the parties in the Original Lease is hereby replaced in its entirety, by the 2017 Hill Country University Center Master Plan Update, a copy of which is attached hereto as Exhibit A and incorporated herein by reference.
2. Section 1.045 is hereby added to the Original Lease, to read as follows:

1.045 **Third Party Future Phases.** Notwithstanding Section 1.04 herein, the Tenant agrees and grants to the Landlord the option to lease to a third party the areas of the Campus set forth on the map attached hereto as Exhibit B, for future development of improvements by said third party in a manner consistent with the Master Plan. Any lease to a third party under this paragraph is subject to the prior written consent of the Tenant. If Landlord does not enter into a lease with a third party under this paragraph on or before May 1, 2023, then the option to lease to a third party under this paragraph shall expire.

3. Section 5.055 is hereby added to the Original Lease, to read as follows:

5.055 **Ownership of Campus Roadways.** For the purposes of this

Section 5.055, "Campus roadway" shall be defined as any permanent roadway upon the Campus that provides the general public with vehicular access to the Campus, and excludes any Campus parking lots or parking spaces adjacent to the roadway. Following construction of any section of Campus roadway by Tenant, said Campus roadway section will enter a one year maintenance period, beginning upon the date of completion of the construction of the Campus roadway section. At the end of the one year maintenance period, the Campus roadway section will be inspected by Landlord, and if said Campus roadway section is constructed in accordance with the current City Ordinances and City Engineering/Construction Criteria for Local Streets, then said Campus roadway section shall be accepted by Landlord and will become the property of Landlord, free and clear of all claims of Tenant. Any Campus roadway section that becomes property of Landlord under this Section 5.055 shall be maintained by the Landlord and utilized as a City of Fredericksburg public road.

4. Section 6.02 of the Original Lease is hereby replaced in its entirety to read as follows:

6.02 **Maintenance and Repairs.** (a) Tenant shall make all reasonable repairs to the Premises, both interior and exterior, and both structural and nonstructural, and shall maintain and keep the Premises, including sidewalks, curbs, and the entire grounds in good order, repair, and condition. If any part of the Campus is leased by Landlord to a third party lessee, then the Tenant and any third party lessee shall enter into an agreement to pay a pro rata share of expenses, related to the maintenance and repairs of any common areas utilized by both the Tenant and third party lessee, as determined by the Tenant and third party lessee.

(b) Landlord shall have no obligation to maintain or repair the Premises.

5. All terms referred to and not defined herein shall have the meaning ascribed to them under the Original Lease. This First Amendment shall become effective upon execution by both parties.

6. In the event of any inconsistency or conflict between the provisions of this First Amendment and those of the Original Lease or Vineyard Lease, this First Amendment shall prevail. Except as specifically amended by this First Amendment, the Original Lease and Vineyard Lease shall remain unchanged and in full force and effect.

IN WITNESS WHEREOF, each of the parties hereto has executed this First Amendment, or caused the same to be executed by its duly authorized representative.

TEXAS HILL COUNTRY HIGHER EDUCATION DEVELOPMENT
FOUNDATION

By: _____ Date: _____

Printed Name and Title: _____

CITY OF FREDERICKSBURG, TEXAS

By: _____ Date: _____
Kent Myers, City Manager

EXHIBIT A

HILL COUNTRY UNIVERSITY CENTER MASTER PLAN UPDATE

ADOPTED 09.18.2017

**CITY OF FREDERICKSBURG
HILL COUNTRY UNIVERSITY CENTER FOUNDATION**



HILL COUNTRY UNIVERSITY CENTER

ACKNOWLEDGEMENTS

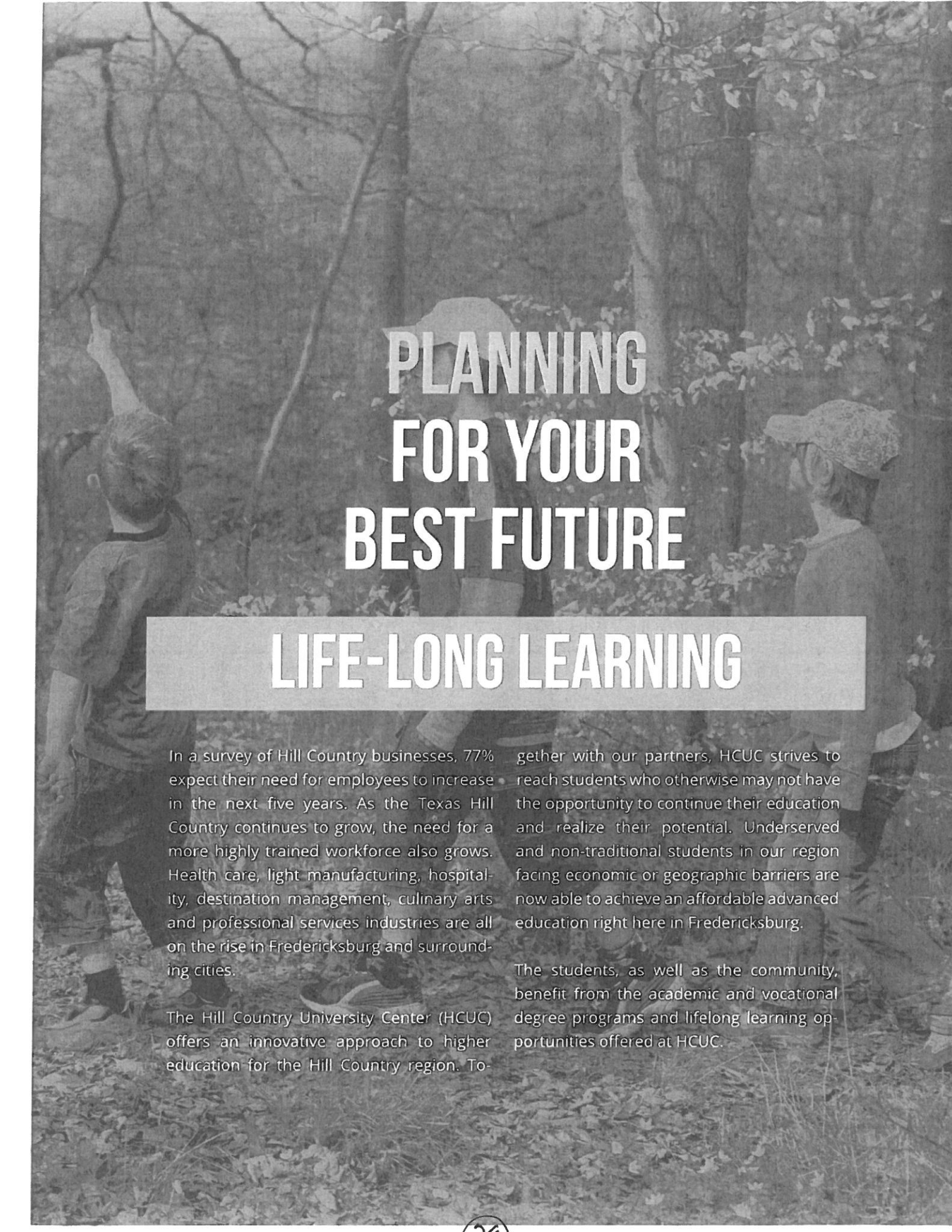
Thanks to the City of Fredericksburg's elected and appointed officials, the City's staff, the Hill Country University Center Foundation, Central Texas College, Texas Tech University, stakeholders and future partners who provided knowledge, assistance and insight for this master plan update.

TABLE OF CONTENTS

ABOUT THE CENTER	5
PLANNING PROCESS AND PURPOSE.....	6
HCUC GOALS	9
FACILITIES AND PARTNERS PROGRAMMING SUMMARY.....	10
MASTER PLANNING CRITERIA.....	17
MASTER PLAN	18
NEXT STEPS.....	26



HILL COUNTRY UNIVERSITY CENTER



PLANNING FOR YOUR BEST FUTURE

LIFE-LONG LEARNING

In a survey of Hill Country businesses, 77% expect their need for employees to increase in the next five years. As the Texas Hill Country continues to grow, the need for a more highly trained workforce also grows. Health care, light manufacturing, hospitality, destination management, culinary arts and professional services industries are all on the rise in Fredericksburg and surrounding cities.

The Hill Country University Center (HCUC) offers an innovative approach to higher education for the Hill Country region. To-

gether with our partners, HCUC strives to reach students who otherwise may not have the opportunity to continue their education and realize their potential. Underserved and non-traditional students in our region facing economic or geographic barriers are now able to achieve an affordable advanced education right here in Fredericksburg.

The students, as well as the community, benefit from the academic and vocational degree programs and lifelong learning opportunities offered at HCUC.



ABOUT THE CENTER

BACKGROUND

The Hill Country University Center (HCUC) serves as a higher education hub for the 200,000 residents of Central Texas, from Junction to Brady, from Burnet to Blanco—from where you are to where you want to go!

The original HCUC master plan was developed in 2003 and outlined a long-range growth and development framework for a 50-year planning period. In 2010, HCUC opened its 24,000 s.f. Academic Center on land leased from the City of Fredericksburg and with facilities owned and operated by the Texas Hill Country Higher Education Development Foundation (HCUCF).

ACADEMIC PARTNERS

HCUC has partnered with Texas Tech University (TTU) and Central Texas College (CTC) to offer master's, bachelor's and associate's degrees, as well as specialized certificates, in a wide range of disciplines designed to prepare our students to meet tomorrow's business needs and challenges. Another partner, the Osher Lifelong Learning Institute (OLLI) provides non-credit courses designed for adults 50+ interested in exploring exciting topics and pursuing new interests.

LOOKING AHEAD

Since the opening of HCUC in 2010, HCUCF has identified new opportunities for our students and for the communities we serve. The Foundation has teamed with new partners to bring these opportunities to reality, necessitating expanded development of the campus. Future plans for HCUC now include a new academic building to house the nursing program, a food, wine, and culinary arts center, a performing arts center, a visual arts education facility and housing for students and faculty. These new demands are the basis for revisiting the master plan. Having all academic partners under one roof helps to coordinate programs, share operating costs, and encourage students to focus on their educational pursuits.

PLANNING PROCESS AND PURPOSE



MASTER PLAN UPDATE

The purpose of this planning process was to illustrate a conceptual master plan for the Hill Country University Center (HCUC).

The conceptual master plan illustrates how to organize the HCUC to accommodate the identified partners. The concept plan considers new input from HCUCF, the City and interested stakeholders. Connections with the Fort Martin Scott and Rangers Heritage Center are also desired.

The plan is conceptual in nature and intended to assist the HCUCF in determining its build-out scenario to maintain the center's goals. Similar to the 2003 master plan, this update is a flexible planning framework to guide the long-term development of HCUC. The plan will need to be revisited and updated periodically.

FAST FACTS

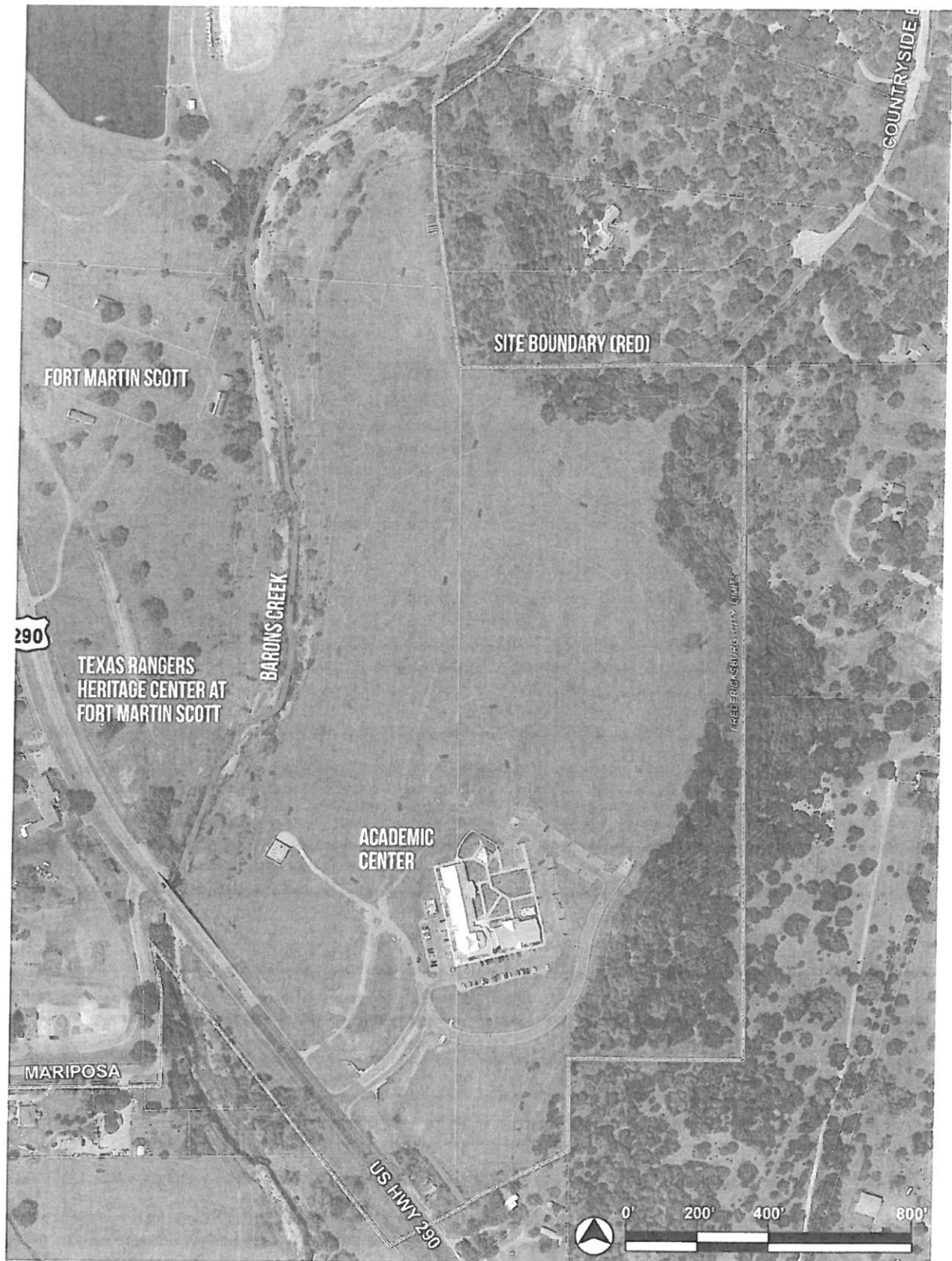
THE SITE

Owned by the City of Fredericksburg

Established 2003

68 acres

First building opened in 2010



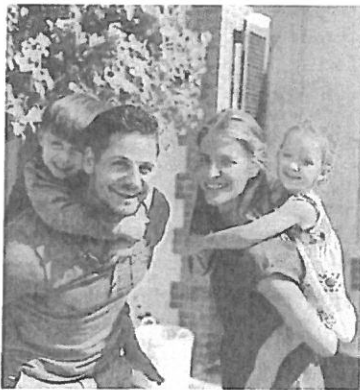
WHO WE ARE



HILL COUNTRY UNIVERSITY CENTER

MISSION

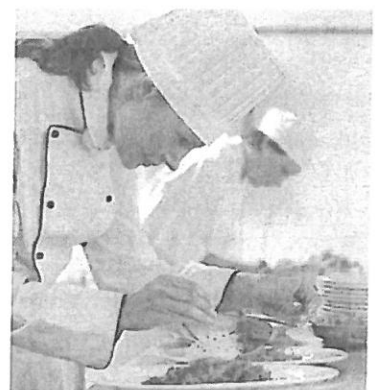
THE HILL COUNTRY UNIVERSITY CENTER PROVIDES AFFORDABLE HIGHER-EDUCATION OPPORTUNITIES FOR RESIDENTS OF THE TEXAS HILL COUNTRY.



YOUR SCHEDULE



YOUR TIMELINE



YOUR DREAM

FLEXIBLE PLANNING FOR CONTINUOUS GROWTH

The Hill Country University Center (HCUC) will execute on the new master plan in a coordinated, flexible and phased manner. New buildings will be brought on as enrollment increases, new programs are developed, and funding is realized.

Growth of the HCUC campus will be guided by five key goals.



**DEVELOP A STABLE, ADEQUATE
STREAM OF OPERATIONAL FUNDING**



**MARKET OUR PROGRAMS TO
INCREASE ENROLLMENT**



**CREATE NEW, NICHE PROGRAMS FOR
DELIVERY THROUGH HCUC**



**PROVIDE PROFESSIONAL AND RESPONSIVE
STUDENT SUPPORT SERVICES TO CURRENT
AND PROSPECTIVE STUDENTS**



**IMPROVE EXISTING FACILITIES AND CONSTRUCT
NEW FACILITIES TO MEET PROGRAM NEEDS**

HILL COUNTRY UNIVERSITY CENTER

GOALS

FACILITIES AND PARTNERS PROGRAMMING SUMMARY



OVERVIEW

New site uses and building programming are based on the planning consultant's evaluation of the area and input provided by the City and various stakeholders. Local input was gathered during interview sessions with the City, the consultant team, and interested parties. Flexibility will be required in the final design.

2017 UPDATED PROGRAMMING ELEMENTS

Academic Building B/ Nursing Education Building
Visual Arts Education Facility
Texas Center for Wine and Culinary Arts
Student Housing
Vocational Training Center
Performing Arts Center

ACADEMIC BUILDING B/ NURSING EDUCATION BUILDING

PARTNERS

Central Texas College
Texas Tech University

FACILITY DESCRIPTION

The new classroom facility is envisioned to include a nursing program, simulation labs, general purpose classrooms, and faculty and staff offices.



PROPOSED DEGREE OFFERINGS

Associate Degree Nurse, LVN, RN

Besides the nursing program, the facility will house additional classrooms for existing degrees offered, including a Bachelor of University Studies, Bachelor of General Studies, Bachelor of Arts in Political Science, and a new proposed Master of Public Administration degree.



HCUC SITE CONSIDERATIONS

NEW BUILDING

- +/- 20,000 S.F.
- Projections similar to the existing Academic Center building

PARKING

- +/- 80 spaces
- Parking similar to the existing Academic Center building
- Per City requirements
- Could share parking with Academic Building with some scheduling considerations

ACRES

- +/- Two acres

OUTDOOR NEEDS

- Similar to the existing Academic Center building

ADJACENT CONSIDERATIONS

- Need adjacency consideration or relationship with the existing Academic Center building
- Could fit well in Academic Building courtyard

FREDERICKSBURG VISUAL ARTS EDUCATION FACILITY

PARTNER

TTU College of Visual and Performing Arts

FACILITY DESCRIPTION

Program offers graduate and undergraduate courses in studio, art history and theory. The goal is to permanently relocate the TTU summer art program to Fredericksburg. Planned community programs include:

- Seminars
- Lecture Series (open to the public and featuring both TTU faculty and local professionals)
- Continuing Education Units (CEUs)
- Certificate Program
- Studio Art Classes for Adults
- Studio Workshops
- Studio Demonstrations
- Artist-in-Residency Program
- Studio Courses for Youth
- Summer Art Camps (middle school and high school students)

PROPOSED DEGREE OFFERINGS

Master of Fine Arts

Master of Art Education

HOUC SITE CONSIDERATIONS

NEW BUILDING

- +/- 17,000 S.F. (plus a minimum 30 percent for general building requirements, 25,000 S.F. total)
- 1,800 S.F. kiln shed
- Secure storage building
- May consider modular type construction sections

PARKING

- +/- 100 spaces
- Per City requirements
- Parking similar to the existing Academic Center building

ACRES

- +/- Three acres

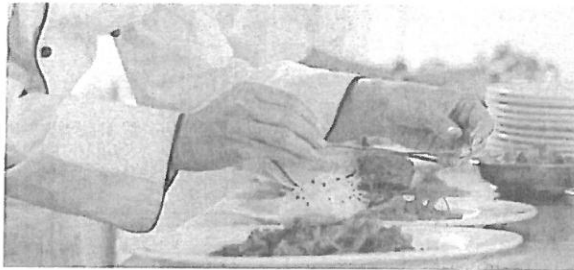
OUTDOOR NEEDS

- Outdoor space/shed for the kilns
- Storage and kiln areas need to be close to proposed building with smooth, flat access for moving artwork
- Shared outdoor space for art work
- Service/delivery area needed for large trucks

ADJACENT CONSIDERATIONS

- Need minor adjacency or relationship to the existing academic building
- Service areas, kiln, and ventilation needed
- Need adjacency consideration or relationship with vocational training

TEXAS CENTER FOR WINE AND CULINARY ARTS (TCWCA)



PARTNERS

TCWCA
TTU Plant and Soil Sciences Program
TTU Restaurant, Hotel and Institutional Management (RHIM) Program
Fredericksburg ISD
Hill Country Memorial Hospital
Central Texas College

FACILITY DESCRIPTION

The building is envisioned to house the TCWCA and programs relating to hospitality, including culinary arts, and hotel and restaurant management. It will also house an enology lab.

PROPOSED DEGREE OFFERINGS

Bachelor of Science in Plant and Soil Science
Master of Science in Plant and Soil Science
Bachelor of Arts and Applied Sciences in RHIM
Certificates in Viticulture and Enology
Specialization in Local Food and Wine Production Systems (e.g., vegetables, fruits, nuts, cheese and wine production systems)
Multidisciplinary Degree in Wine Tourism
Potential Associate Degree and Certificates in Culinary Arts

HIGH SITE CONSIDERATIONS

NEW BUILDING

- +/- 16,000 S.F.
- Potential for greenhouse or high tunnels and maintenance shed

PARKING

- +/- 100 spaces
- May need to exceed minimum City requirements
- Consider limiting the use of shared parking due to high demand
- Consider drop-off and parking for buses, coaches, and limos

ACRES

- +/- Three acres

OUTDOOR NEEDS

- Less than one acre garden space related to the degree program
- Potential for expansion of the existing vineyard
- Service/delivery/dock area needed for large trucks

ADJACENT CONSIDERATIONS

- Needs adjacency consideration or relationship with the existing Academic Center building
- Relationship to the existing vineyard is important
- Potential adjacency consideration or relationship with the performing arts center
- Seasonal noise associated with commercial aspects during harvest

STUDENT AND FACULTY HOUSING

PARTNER

Private Developer

FACILITY DESCRIPTION

These facilities are envisioned to be apartments to house enrolled students, interns, and faculty. This could be a mix of housing with both traditional and temporary options. In addition, both on-site and off-site scenarios are available.



HOUSING CLIENTS

Traditional semester long students

Short-term student and faculty housing for mid-semester (between winter and spring) and programs that run from one to six weeks

Visiting lecturers or professors

HCUC SITE CONSIDERATIONS

NEW BUILDING

- +/- 50,000 S.F.
- Target 50 units
- Modular or phased units are recommended

PARKING

- +/- 300 spaces
- Efficiency: 1 space per dwelling unit
- One Bedroom: 1.5 spaces per dwelling unit
- Two or more bedrooms: 2 spaces per dwelling unit

ACRES

- +/- Three acres

OUTDOOR NEEDS

- Common space with tables, grills, seating, lawn, and open areas

ADJACENT CONSIDERATIONS

- Need relationship with the existing Academic Center building
- Not located near private development facilities such as the performing arts center

VOCATIONAL TRAINING CENTER

PARTNERS

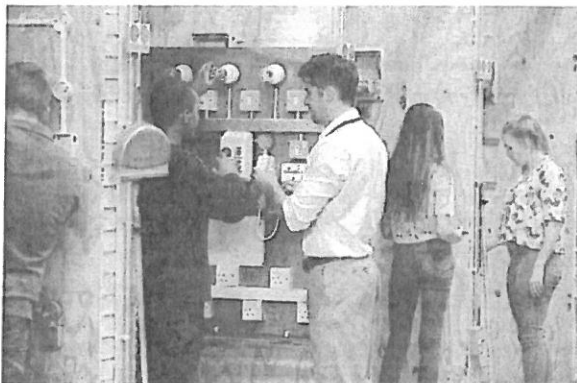
Central Texas College
Area School District Consortium
Fredericksburg ISD
Texas Workforce Commission

FACILITY DESCRIPTION

The building is envisioned to house general programs in vocational studies for adults, such as HVAC, electrical, construction trades, etc.

PROPOSED DEGREE OFFERINGS

Various associate degrees and certificates



HQUC SITE CONSIDERATIONS

NEW BUILDING

- New building with large growth potential
- Minimum 20,000 S.F. for vocational, manufacturing facility (welding shop, cabinet shop, secure tool storage, drafting classroom, and instructional classrooms)

PARKING

- +/- 100 spaces
- May consider parking to exceed City minimums to include delivery trucks and trailers and maneuvering
- Parking similar to the existing Academic Center building

ACRES

- +/- Three Acres

OUTDOOR NEEDS

- Secure outdoor storage or small yard
- Service/delivery area needed for large trucks

ADJACENT CONSIDERATIONS

- Need adjacency consideration or relationship with the existing Academic Center building for classroom spaces
- Need adjacency consideration or relationship with visual arts education
- Site uses may cause associated noise

PERFORMING ARTS CENTER

PARTNERS

Fredericksburg Theater Company

Private Developer

TTU College of Visual and Performing Arts

FACILITY DESCRIPTION

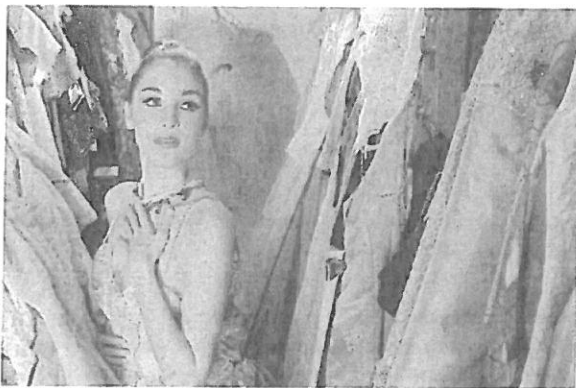
This facility will be a multiple purpose theater and music venue. The new facility could include a 300-seat main stage auditorium, classrooms, rehearsal room, a black-box theater, costume storage and state of the art equipment.

PROPOSED DEGREE OFFERINGS

Supports degrees in Fine Arts and Music

Master of Music

Master of Music Education



HOOD SITE CONSIDERATIONS

NEW BUILDING

- +/- 20,000 S.F.
- An outdoor venue is also being considered

PARKING

- +/- 175 spaces
- May need to exceed minimum City requirements due to demand
- Consider limiting the use of shared parking
- Consider drop-off and parking for buses, coaches, and limos
- Peak parking would be 2 p.m. on Sundays

ACRES

- +/- Six to eight acres

OUTDOOR NEEDS

- Outdoor music venue
- Outdoor seating and gathering spaces
- Service/delivery area needed for large trucks

ADJACENT CONSIDERATIONS

- Need adjacency consideration or relationship with the existing Academic Center building for classroom space
- Outdoor site uses and programming may cause associated noise
- Need adjacency consideration or relationship to the proposed TCWCA
- Potential adjacency consideration or relationship with the visual arts education facility

MASTER PLANNING CRITERIA

The following criteria provided a basis for development of the 2003 master plan. The guidance below has been updated in accordance with the 2017 planning input.

Create a campus that relates to and draws upon the unique qualities of Fredericksburg and the Texas Hill Country.

Design a campus that has a clearly defined organization of buildings and open spaces.

The campus buildings and public spaces should have a human scale. The open space between buildings should be of a scale and design to be welcoming and comfortable for small groups of students and faculty.

The approach to the campus by vehicles should provide an attractive overlook of the campus. There should be a clear sense of arrival- "We are here".

Create a central, main public space- "The heart of the campus".

Design the campus to draw pedestrians through the public spaces on their journey from the parking lots to the buildings. This will populate the open spaces and ensure they are used.

The campus should be designed with a clear landmark or icon. There should be one building or feature that, over time, will come to identify the campus without words.

The campus will be built in many phases, and it should be designed so that it appears to be complete at each stage of its development.

The campus plan should allow for the option of long-range expansion beyond the requirements contained in this report.

The vehicular and pedestrian circulation should be clear and easily identifiable. Keep vehicles on the fringe of the campus. Do not make pedestrians cross roads.

Lay out the campus plan with the shortest possible roadways to reduce cost yet still provide two intersections with Highway 290.

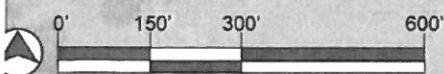
Design a logical and easily expandable network of underground utilities.

MASTER PLAN

LEGEND

-  Existing Building
-  Proposed Building
-  Academic Flex Building

- | | |
|---|------------------------------------|
| 1 Fredericksburg Visual Arts Education Facility | 10 Academic Quad Formal Open Space |
| 2 Performing Arts Center | 11 Monument Feature |
| 3 Academic Flex Building | 12 Vineyards |
| 4 Texas Center for Wine and Culinary Arts | 13 Garden Space |
| 5 Academic Building B/ Nursing Education | 14 Potential Trail Crossings |
| 6 Housing | 15 Enhanced Crosswalk |
| 7 Vocational Training Center | 16 Maintenance Building |
| 8 Existing Academic Building | 17 Possible Future Access |
| 9 Detention with Fountain | 18 Future Development Site |



OVERVIEW

This master plan incorporates a variety of campus planning principles that, when combined, create a seamless design that can be experienced by all who visit and attend the Hill Country University Center. These design elements are highlighted in the following sections.

INTEGRATED CIRCULATION SYSTEM

The proposed master plan encourages fluid movement of both the vehicle and the pedestrian. A loop road around campus quickly and efficiently moves vehicles from building to building and in and out of campus. Parking for each facility is located along the loop road to create a clear separate of vehicular space and pedestrian space. Inside the loop road resides the existing Academic Building, Academic Building B/Nursing Education Building, the Fredericksburg Visual Arts Education Facility, and additional academic flex buildings. Opposite these buildings are formal axial malls that allow pedestrians to circulate without disruption from vehicles. These axial malls intersect the loop road at key points with enhanced paving to allow the pedestrians to move to the buildings at the edge of campus: Texas Center for Wine and Culinary Arts (TCWCA), the Vocational Training Center, the Performing Arts Center, and housing at the northern edge of campus.

THE BUILT FORM AND LANDSCAPE

The close relationship between the building and the landscape is an identifiable characteristic of good campus planning. The sense of enclosure or creation of an outdoor room is essential in the development of placemaking on campus. Within the loop road, new buildings are arranged to create these outdoor living rooms in the form of the axial malls or lawns. The widening and narrowing of the malls creates visual interest and provides the opportunity for a variety of events.

LEARNING, RESEARCH AND SOCIAL INTERACTION

Tied to the built form and the landscape, this master plan is intended to create environments that promote learning, research and social interaction, both indoors and out. Rather than a sprawling campus, this compact master plan encourages people to cross paths and interact, share ideas, collaborate, and celebrate; a core element to a successful campus plan.

CONTEXTUAL DESIGN

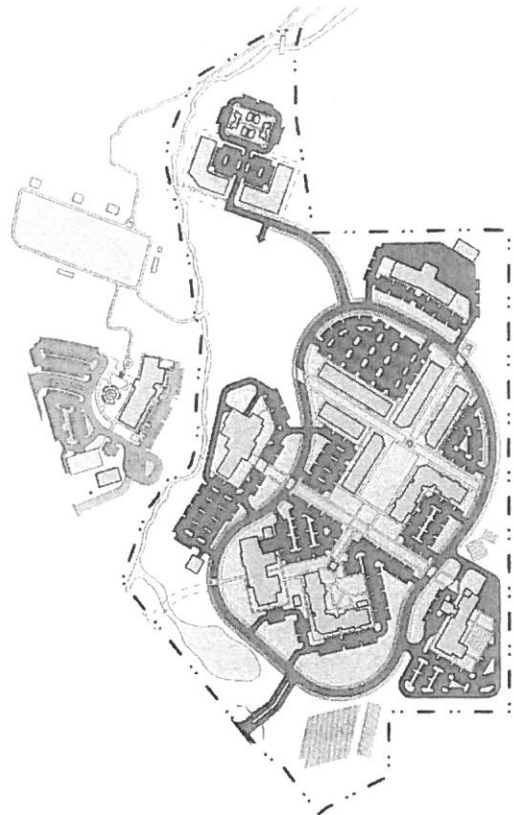
Contextual design is two-fold: the design should consider the land as well as the relationship between buildings. At this level of detail, this master plan addresses the first of the two contextual design issues. The organic nature of the creek to the west and the rolling topography to the east help define the circulation patterns and building placement. In addition to the built environment, both of these natural elements create places to engage directly with the land. The creek is an ideal spot to locate a trail while the rolling topography to the east provides an opportunity to create terraced gardens for the TCWCA.

While building materials are not addressed at this stage, it is important that the next steps consider the overall aesthetic of the campus and how the buildings relate to each other in the form of architectural design standards. Producing a pattern book for the Hill Country University Center will ensure buildings create an identifiable and memorable campus experience.

SPACE TYPOLOGY DIAGRAMS

VEHICULAR CIRCULATION

A loop road defines the campus and serves as the main vehicular circulation. Parking and delivery service are accessible from the loop road and serve each building, while balancing the needs to create an internal campus or formal quad setting. A potential secondary access from US Highway 290 is dashed in if the primary access does not become signalized. A potential connection across the creek to Fort Martin Scott is also dashed in for later consideration.



PEDESTRIAN CIRCULATION

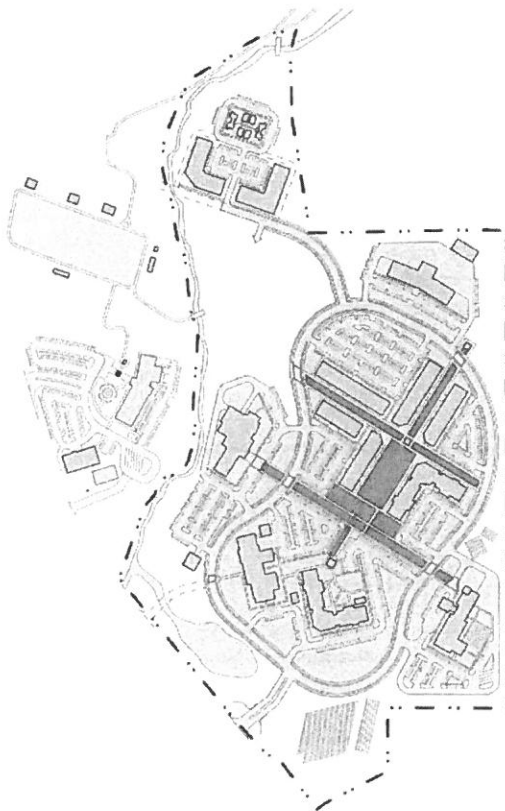
The pedestrian circulation consists of sidewalks, enhanced crosswalks and connections to the proposed Fort Martin Scott hike and bike trail system. This strategy blends the formal with the organic to create an interesting and dynamic pedestrian experience. Within the campus, pedestrians will experience a traditional and linear circulation pattern to efficiently move from one spot to the next. Connections to the Fort Martin Scott hike and bike trail at the edges of the property offer relief from the formal setting and allow people to explore in a passive, leisurely manner.





BUILDING FOOTPRINTS

The existing academic building and the Fredericksburg Visual Arts Education Facility act as the southern anchors to the campus. Once inside the loop, Academic Building B, academic flex spaces and student housing create a defined campus environment. This strong axis is coupled with a perpendicular axis from the Texas Center for Wine and Culinary Arts (TCWCA) to the Performing Arts Center. To manage the impacts of noise on the rest of the campus, the Vocational Training Center is located at the far northeastern side of the site.



FORMAL OPEN SPACE

Formal lawns in the heart of campus create visual site lines between key architectural and landscape elements, such as the Performing Arts Center, the TCWCA, and the Fort Martin Scott trails. Buildings line the formal lawns to create a sense of enclosure and definition. Monuments are placed at key points to anchor the formal feeling and further define the space. It is encouraged that ceremonial events take place within the formal lawn area.

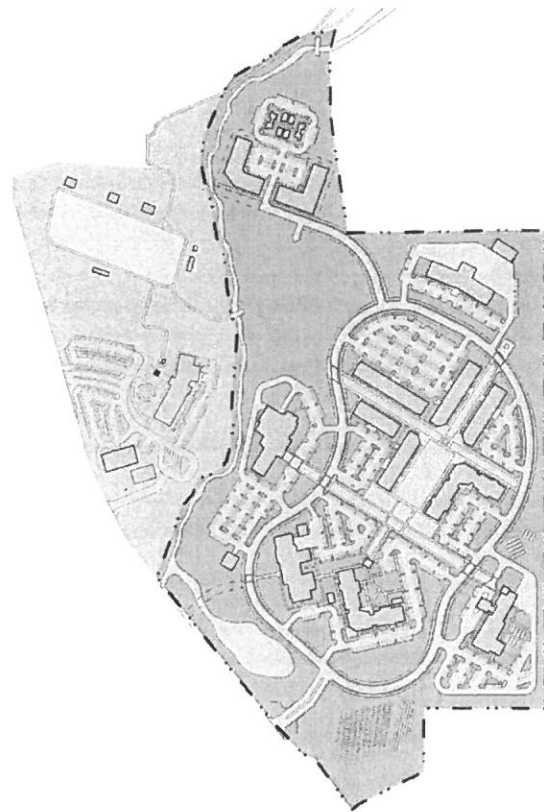
PRODUCTIVE LAND

To meet the needs of the TCWCA, productive land is dedicated for farming. In addition to the existing vineyards and farm land along US Highway 290, additional farm land is proposed in the courtyard space behind the TCWCA and land just north of the Center. The courtyard space is intended to be an interactive space between students and visitors of the TCWCA, while the land to the north is envisioned to terrace with the natural topography, creating unique landscape experience.



PASSIVE OPEN SPACE

Passive open space makes up a majority of the land within the property. Parking lots are proposed to be heavily landscaped to reduce the negative visual impacts of the automobile and offer shade from the strong Texas sun. The open space around the Fredericksburg Visual Arts Education Facility provides an opportunity for a sculpture garden or art walk, displaying a variety of pieces from local artists, students, and touring exhibits.





FUTURE ACCESS

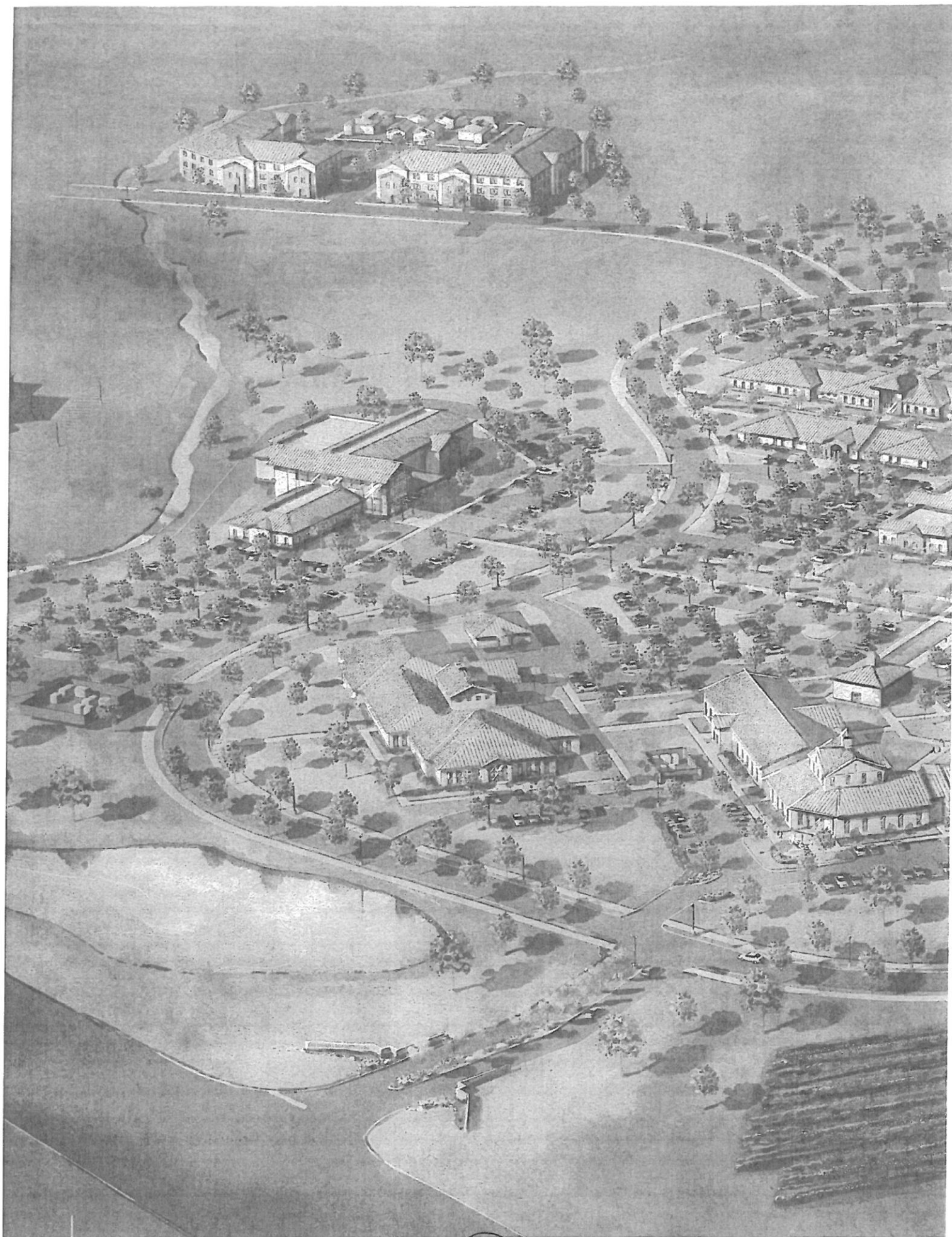
Depending on the future needs and demands of the Hill Country University Center, a second drive is recommended north of the existing drive along US Highway 290. Additionally a future connection is proposed to cross Barons Creek, leading to Fort Martin Scott. Two pedestrian bridges are proposed as crossing points, creating seamless access between Fort Martin Scott, the Texas Rangers Heritage Center, and the Hill Country University Center.



DRAINAGE AND GRADING

The site currently drains towards Barons Creek while the topography rises to the east. The master plan proposes a detention pond along US Highway 290, just northwest of the main entrance. Stormwater runoff from the campus is intended to drain to this detention pond and then into Barons Creek. It is envisioned that the drainage pond will be landscaped with native landscape materials and feature a fountain in the middle for visual interest.

The existing topography along the east side of the site will require significant grading to allow for the proposed development. Retaining walls will likely be necessary either in front of or behind the Texas Center for Wine and Culinary Arts and the Vocational Training Center.





NEXT STEPS



NEXT STEPS

There are a few important steps the Hill Country University Center may want to consider to get this plan implemented. First, it is recommended that development design standards be created for the campus. This will ensure that building materials, site planning, landscape materials, and other aesthetic details are consistent throughout the campus. In doing so, the Hill Country University Center will have a unified look and feel, rather than competing architectural and aesthetic elements. Second, it is critical to create an operational structure or plan. This plan will determine who the responsible parties are for funding shared amenities such as the roads, sidewalks and landscaping, as well as the overall maintenance of these amenities.

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HILL COUNTRY UNIVERSITY CENTER

PREPARED BY:
FREESE AND NICHOLS, INC.
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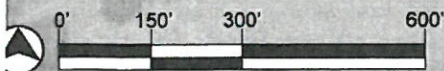
MASTER PLAN

EXHIBIT B

Area that may be leased to third party under Section 1.045

LEGEND

-  Existing Building
-  Proposed Building
-  Academic Flex Building
- 1 Fredericksburg Visual Arts Education Facility
- 2 Performing Arts Center
- 3 Academic Flex Building
- 4 Texas Center for Wine and Culinary Arts
- 5 Academic Building B/ Nursing Education
- 6 Housing
- 7 Vocational Training Center
- 8 Existing Academic Building
- 9 Detention with Fountain
- 10 Academic Quad Formal Open Space
- 11 Monument Feature
- 12 Vineyards
- 13 Garden Space
- 14 Potential Trail Crossings
- 15 Enhanced Crosswalk
- 16 Maintenance Building
- 17 Possible Future Access
- 18 Future Development Site



Area that may be leased to third party under Section 1.045



CITY COUNCIL MEMO

DATE: July 2, 2018

TO: Mayor and City Council

FROM: Clinton Bailey, P.E., Assistant City Manager/Director of Public Works and Utilities

SUBJECT: Capital Improvements Plan Presentation – Presentation I

Summary:

The 2019 Capital Improvement Plan will be presented during two City Council meetings this year according to the following schedule:

July 2nd

Presentation I - Water/Wastewater, Police, Fire/Emergency Management, Street and Park departments.

July 16th

Presentation II –Drainage, EMS, Information Technology, Electric, Sanitation and Golf departments.

Recommendation:

N/A

Background / Analysis:

The City of Fredericksburg

55

The capital improvement plan (CIP) process was established to provide a routine process and procedure for identifying, evaluating, and advocating the current and future capital needs of the City of Fredericksburg. The capital planning process not only provides an orderly and routine method of proposing the planning of capital improvements, but the process also makes capital expenditures more responsive to community needs by informing the public. The CIP does not appropriate funds, but supports the budget process and the appropriations made through the adoption of the budget. A successful CIP provides for considerable advance notification, planning, evaluation, scope definition, design, public discussion, cost estimation, and financial planning. Objectives utilized to develop the CIP are:

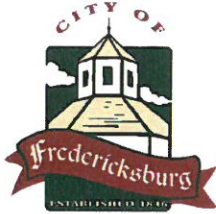
- To preserve and improve the infrastructure of Fredericksburg
- To identify and examine current and future infrastructure needs and minimize the financial impact on residents
- To maximize the useful life of capital investments by scheduling major renovations and modifications at the appropriate time in the life-cycle of facilities
- To improve financial planning by comparing needs with resources, and estimating future funding issues

The CIP ensures coordination between City departments and City Council in the planning and implementing of capital projects. The CIP Identifies and determines future infrastructure needs and establishes priorities among projects so the available resources are used to the greatest extent possible.


Department Approval
City Manager Approval

The City of Fredericksburg

56



CITY COUNCIL MEMO

DATE: July 2, 2018

TO: Mayor and City Council

FROM: Kris Kneese, P.E. – Assistant Director of Public Works and Utilities

SUBJECT: Water & Wastewater Rate Model Update

Summary:

Receive water and wastewater rate model update presentation for Grady Reed, HDR Project Manager.

Recommendation:

Consider providing feedback on the water and wastewater rate model update.

Background / Analysis:

HDR developed a utility rate model for the City in 2013 for the City's water, wastewater, and electric utilities. In March 2018, City Council approved a contract with HDR to update the utility rate model for the FY19 study period for water and wastewater utilities. City Staff has been providing HDR with budget data, including year-ending FY18 forecast, prospective FY19 budget information and the updated Water Capital Improvement Plan (CIP) to update the utility rate model.

With the presentation of the Water/Wastewater CIP, HDR will provide a general presentation on the water and wastewater rate model development, including information on the rate settling, rate structure goals, financing of projects, and utility rate revenue versus utility impact fees.

Attachments:

- HDR - Presentation

Department Approval

City Manager Approval

The City of Fredericksburg

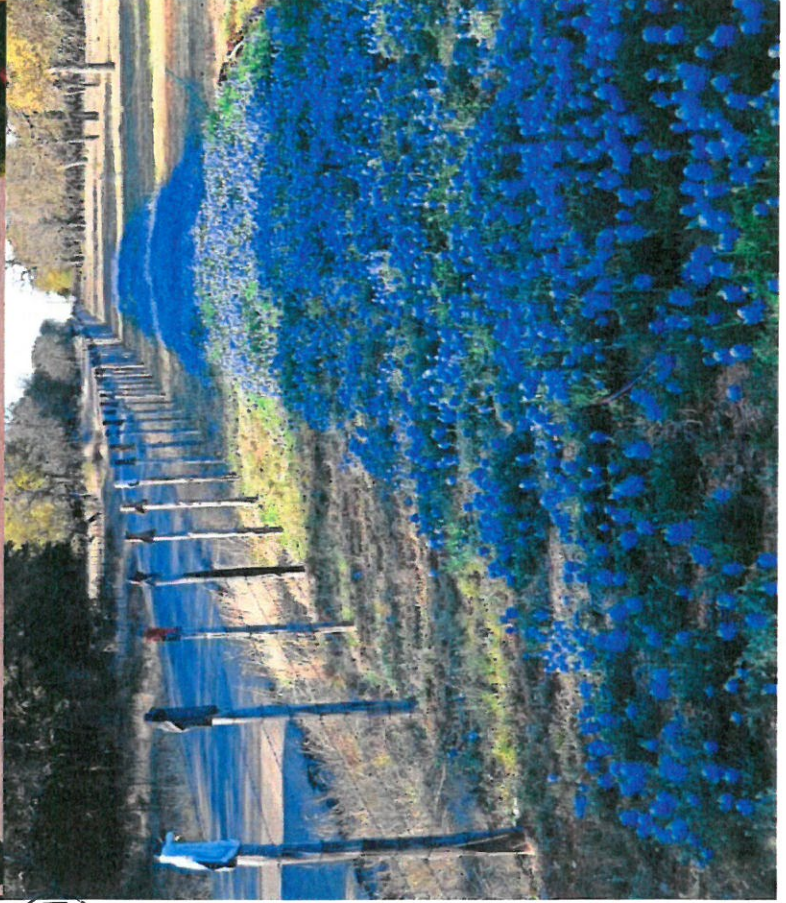
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City Attorney Approval

The City of Fredericksburg

58

126 W. Main St. • Fredericksburg, Texas 78624-3708 • (830) 997-7521 • Fax (830) 997-1861



Water/Wastewater Rate Development Overview

Fredericksburg City Council
July 2, 2018

HDR

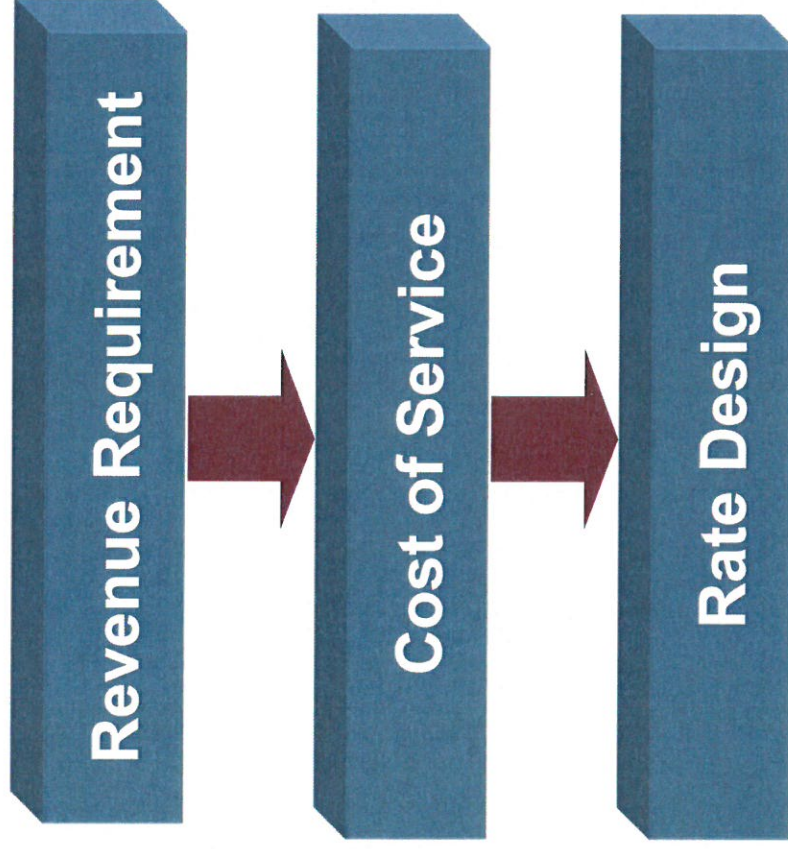
**Rate setting “is as
much an art as it is a
science”**

Overall Utility Pricing Goal

Design a rate structure that:

- Generates revenue sufficient to support the continued provision of high quality service
- Is responsive to utility and stakeholder objectives
- In consistent with industry best management practices

Development of Cost-Based Rates



Compares the revenues of the utility to its expenses to determine the overall level of rate adjustment

Equitably allocates the revenue requirements between the various customer classes of service (rate schedules)

Design rates for each class of service to meet the revenue needs of the utility, along with any other rate design goals and objectives

Basic Steps in the Rate Setting Process

Identify Financial and Pricing Objectives

Identify Revenue Requirements

Allocate Costs

Design Rate Structure

Assess Effectiveness of Addressing Pricing Objectives

Identify Financial and Pricing Objectives

- Financial Sufficiency
- Customer Equity
- Revenue Stability
- Minimize Customer Impacts
- Simple to Understand and Update
- Affordability
- Ease of Implementation
- Rate Stability
- Demand Management

Identify rate structures that meet objectives

Determine Revenue Requirement

Compares the revenues to the expenses to determine the overall adequacy of rates

- Determines the level of rate adjustment necessary

Reviews a specific time period

- Typically a five to ten year period

Utility is analyzed on a “stand alone basis”

- No transfer of funds from other City funds
- Rates need to support operations

Utilizes the “cash basis” methodology

- Generally accepted method for municipal utilities

Impact Fees and Rates

Rates are largely driven by the capital costs of projects.

Generally three sources of funding for these costs.

- Cash (fund balance or other cash capital accounts)
- Debt
- Impact Fees (can only be used for projects related to growth)

Projects paid for with impact fees are not included in the needed rate revenue requirement and therefore do not cause an increase in utility rates.

Allocating Costs

What is cost of service?

- Analysis to equitably allocate the revenue requirement to the various customer classes of service

Why cost of service?

- Generally accepted as “fair and equitable”
- Avoids subsidies
- Revenues track costs
- Provides an accurate price signal

Objectives of cost of service

- Determine if subsidies exist
- Develop average unit costs

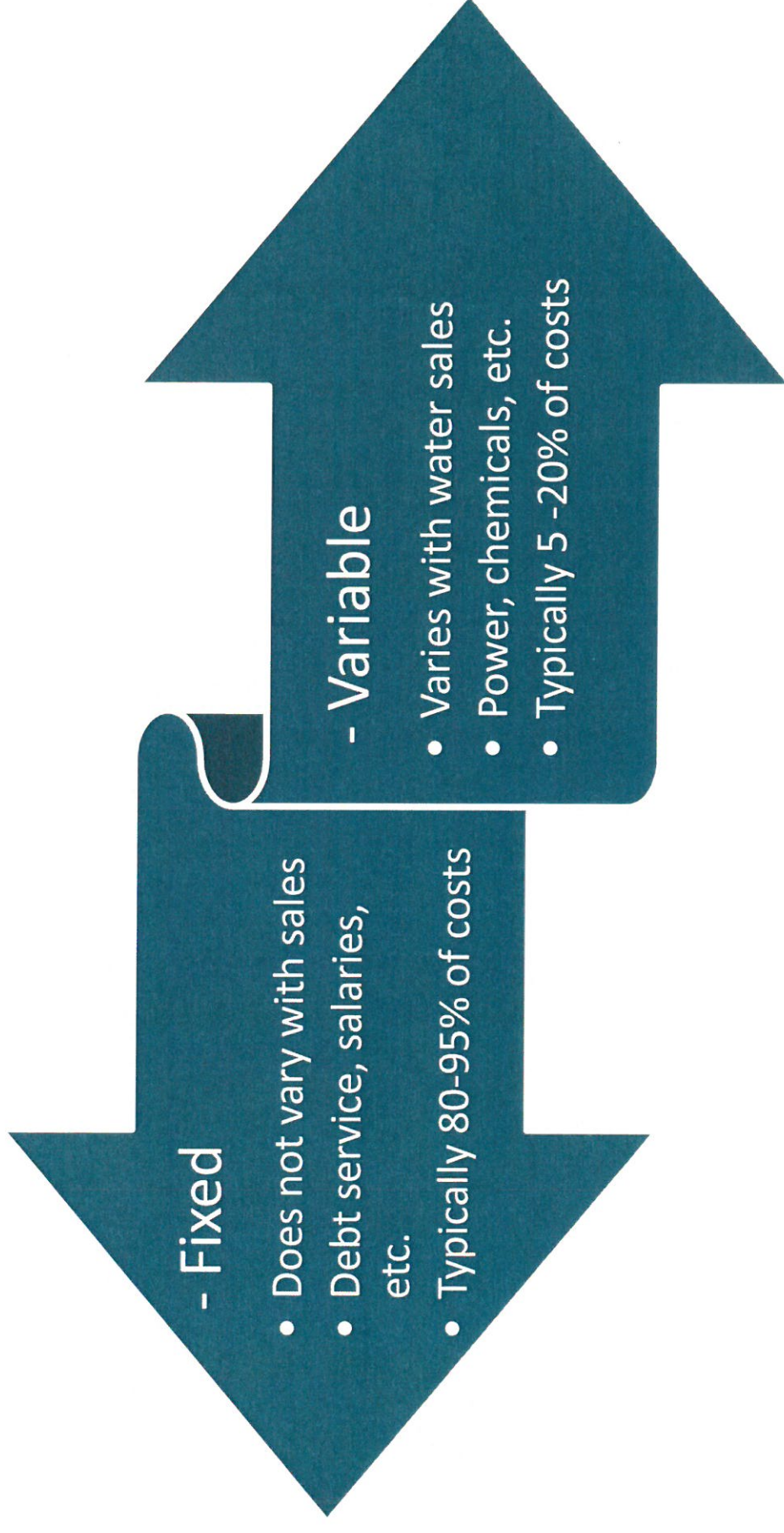
Rate Structure Goals and Objectives

Revenue Attributes
• Rates should meet (yield) the total revenue needs (total revenue requirements) • Revenues are stable and predictable (City perspective) • Rates themselves are stable and predictable (Customer perspective)

Cost Attributes
• Discouraging wasteful use • Rate structure should reflect all costs the City incurs • Rates are fair and equitable between customers • Rates are non-discriminatory and avoid subsidies • Rates structure is flexible to respond to supply and demand

Practical Attributes
• Rate structure should be simple to understand (Customer perspective) • Rate structure should be simple to explain, interpret and administer

Utility Cost Structure



Assess Effectiveness of Addressing Pricing Objectives

Purpose is to review the current rate structure

- Propose enhancements or changes based on the City's current goals and objectives

Critical aspect of the rate setting process

- Rates are the primary communication with customers

Focus is on the philosophy of setting rates and underlying goals and objectives

- Actual rate levels (i.e., \$'s) are set to recover revenue needs for any proposed rate structure

Results of this process will feed into the City's future rate setting process

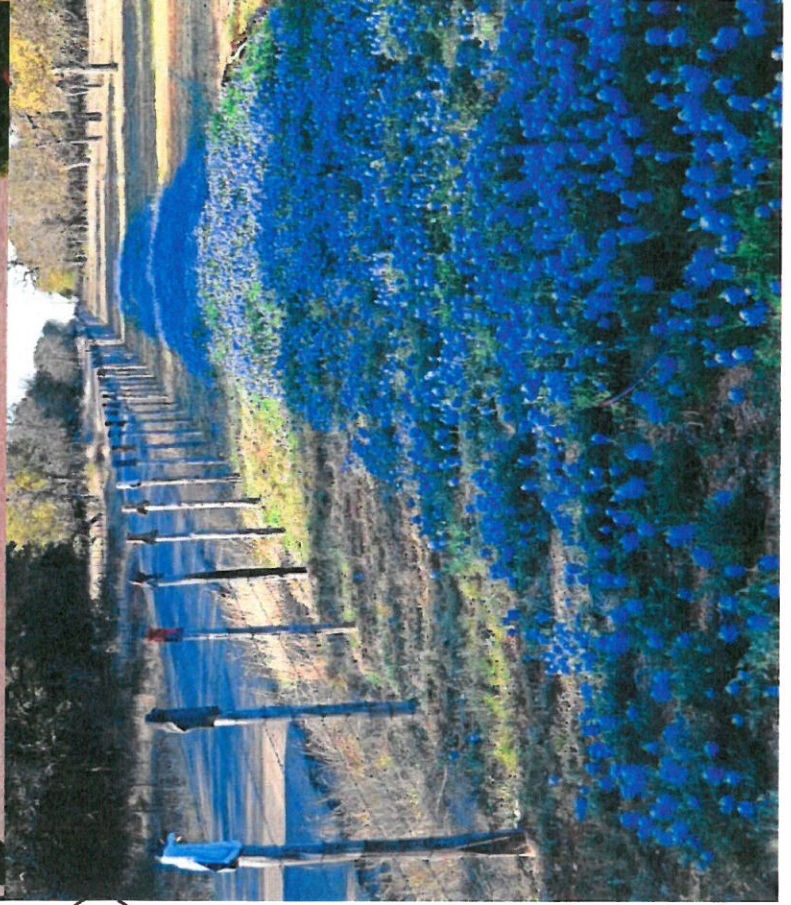


71

Water/Wastewater Rate Development Overview

Fredericksburg City Council
July 2, 2018

HDR



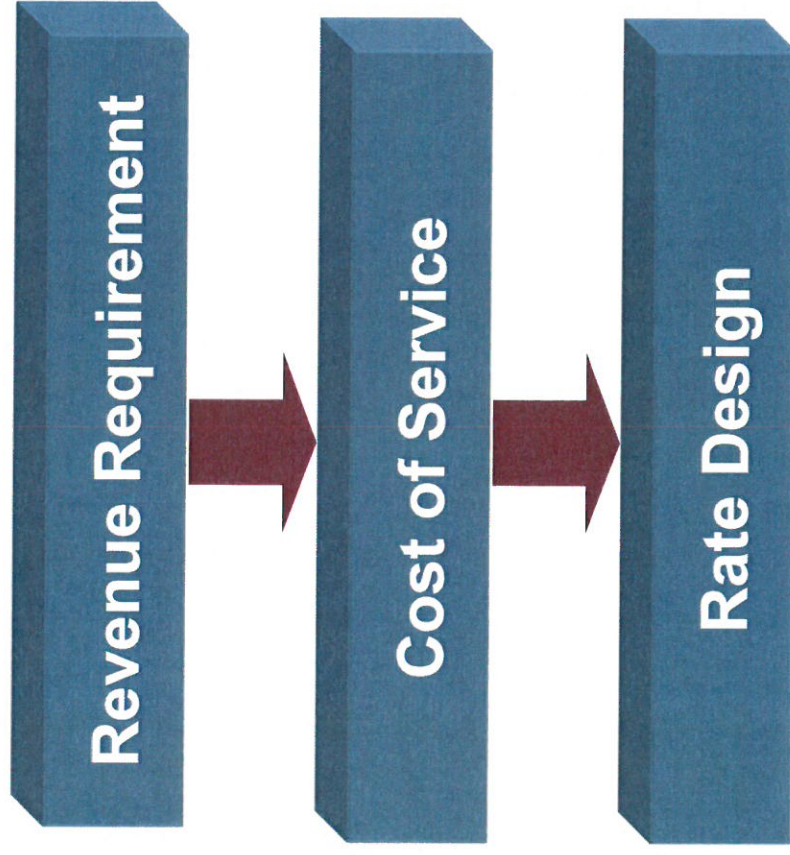
**Rate setting “is as
much an art as it is a
science”**

Overall Utility Pricing Goal

Design a rate structure that:

- Generates revenue sufficient to support the continued provision of high quality service
- Is responsive to utility and stakeholder objectives
- In consistent with industry best management practices

Development of Cost-Based Rates



Compares the revenues of the utility to its expenses to determine the overall level of rate adjustment

Equitably allocates the revenue requirements between the various customer classes of service (rate schedules)

Design rates for each class of service to meet the revenue needs of the utility, along with any other rate design goals and objectives

Basic Steps in the Rate Setting Process

Identify Financial and Pricing Objectives

Identify Revenue Requirements

Allocate Costs

Design Rate Structure

Assess Effectiveness of Addressing Pricing Objectives

Identify Financial and Pricing Objectives

- Financial Sufficiency
- Customer Equity
- Revenue Stability
- Minimize Customer Impacts
- Simple to Understand and Update
- Affordability
- Ease of Implementation
- Rate Stability
- Demand Management

Identify rate structures that meet objectives

Determine Revenue Requirement

Compares the revenues to the expenses to determine the overall adequacy of rates

- Determines the level of rate adjustment necessary

Reviews a specific time period

- Typically a five to ten year period

Utility is analyzed on a “stand alone basis”

- No transfer of funds from other City funds
- Rates need to support operations

Utilizes the “cash basis” methodology

- Generally accepted method for municipal utilities

Impact Fees and Rates

Rates are largely driven by the capital costs of projects.

Generally three sources of funding for these costs.

- Cash (fund balance or other cash capital accounts)
- Debt
- Impact Fees (can only be used for projects related to growth)

Projects paid for with impact fees are not included in the needed rate revenue requirement and therefore do not cause an increase in utility rates.

Allocating Costs

What is cost of service?

- Analysis to equitably allocate the revenue requirement to the various customer classes of service

Why cost of service?

- Generally accepted as “fair and equitable”
- Avoids subsidies
- Revenues track costs
- Provides an accurate price signal

Objectives of cost of service

- Determine if subsidies exist
- Develop average unit costs

Rate Structure Goals and Objectives

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Practical Attributes
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Utility Cost Structure

- Fixed

- Does not vary with sales
- Debt service, salaries, etc.
- Typically 80-95% of costs

82

- Variable

- Varies with water sales
- Power, chemicals, etc.
- Typically 5 -20% of costs

Assess Effectiveness of Addressing Pricing Objectives

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