

Research and Practice in Transportation, Infrastructure, and the Environment

Public Works MANAGEMENT & POLICY

Volume 12 Number 1 July 2007

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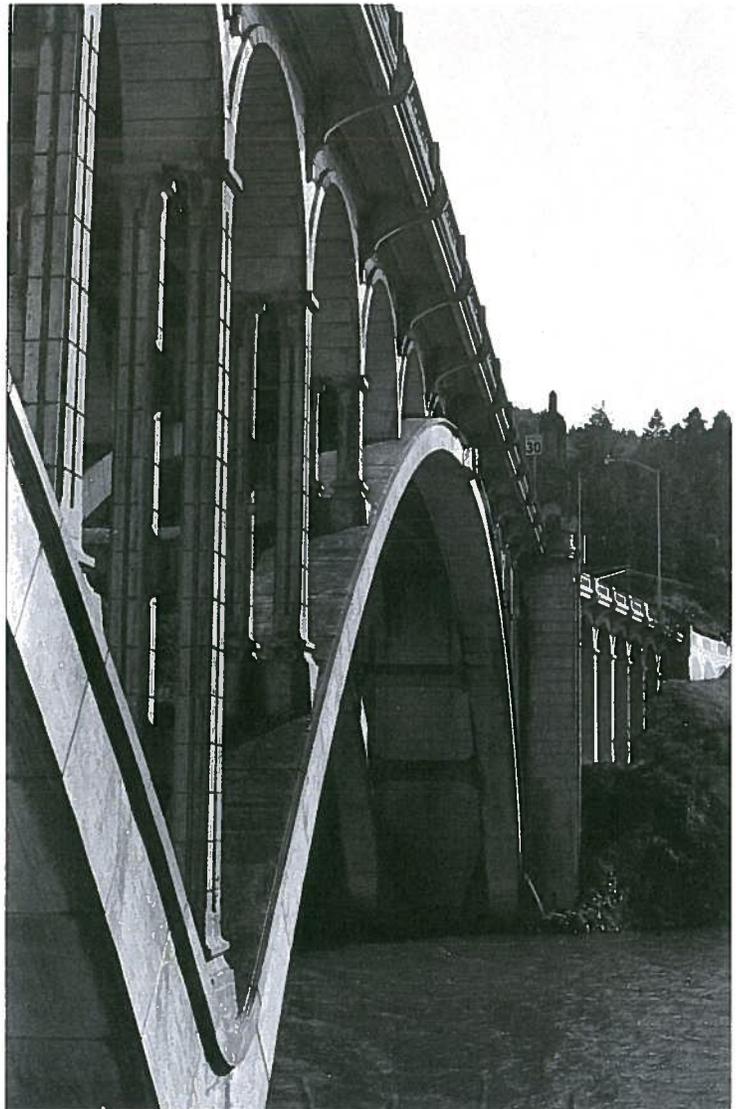
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SUSTAINABLE INTERGOVERNMENTAL AGREEMENTS

A Case Study of Civil Infrastructure Design and Regional Cooperation

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City of Terrell, Texas

In 2005, the Texas Legislature approved Senate Bill 1894, which established two special utility districts within the extraterritorial jurisdiction (ETJ) of the City of Terrell, Texas, forming the largest rural planned development community in the State of Texas. This legislation allowed Terrell to use a city-design model to plan proactively for communities in its ETJ before they are constructed, through the establishment of comprehensive regional and intergovernmental agreements. Expansion from the large Dallas–Fort Worth metropolitan areas threatens the small-town character of Terrell and other rural communities in northern Texas. The recent adoption of complex intergovernmental agreements and land development planning initiatives in Terrell has stimulated the entire area to enact similar partnership agreements between developers and cities. This case study illustrates how local city authorities, challenged to preserve quality of place, can manage the growth around them and attract new investment while minimizing problems and avoiding negative consequences.

Keywords: *civil infrastructure design; public works; public economics; regional partnerships; intergovernmental partnerships*

Introduction

Founded in 1873, the City of Terrell, Texas, has had a stable population of 16,000 for much of its 130 years. In fewer than 20 years, by 2025, it may reach a population of over 100,000. This projection is based on its proximity to the expanding Dallas–Fort Worth metroplex. The north central Texas region is expected to reach 9 million residents by 2030 (North Central Texas Council of Governments, 2006b).

Terrell is situated in north central Kaufman County, which abuts Dallas County, between two major highways, I-20 and U.S. 80, that connect it with the cities of Dallas, Arlington, and Fort Worth. Terrell is a multiethnic, economically diverse small city with a long history of being a regional center for shopping and health care. A large outlet mall inside the city draws shoppers from throughout the area. Most of the housing and many of the buildings in the city were built before 1960. Residential streets are narrow and the main street is lined with small

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PUBLIC WORKS MANAGEMENT & POLICY, Vol. 12 No. 1, July 2007 370-377
DOI: 10.1177/1087724X07302587
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stores and restaurants. For the past 3 years, the city has experienced a 6% population growth rate, and construction of new homes reflects that increase. When the city becomes part of Dallas's growth, its character will change. Residents welcome some change and modernization but are uneasy about uncontrolled growth. City officials are concerned about the potential strain on the city's infrastructure.

Texas Senate Bill (SB) 1894 was passed in 2005 authorizing special utility districts to be formed within the extraterritorial jurisdiction (ETJ) of the City of Terrell (Texas Legislative Session 79, 2005). The city decided it must design a proactive, forward-looking civil engineering model in a careful, thoughtful manner to reduce any potential negative impact of rapid growth on city services. Without adequate planning, the projected growth of the city could outpace the ability of municipal governmental entities to design and construct water, wastewater, and roadway facilities. The cost of constructing such facilities after development has taken place would be considerably higher than constructing them proactively.

In Texas, local government ETJ enables a municipal government to exercise authority beyond its established corporate boundaries or city limits. ETJ serves as a tool, giving cities the option to provide water and wastewater service to these newly formed special utility districts. In many cases, ETJ growth has outpaced the growth within the city limits. A city may or may not agree to provide these services to its ETJ area; it is under no obligation to do so because it does not impose and collect property, sales, and use taxes in the area. Because of a lack of a mechanism to fund construction of infrastructure in the ETJ area, rural communities in the path of urban expansion often limit infrastructure development to their own corporate limits and do not expand into the ETJ area.

However, Terrell decided to use an innovative city-design approach to confront the expansion of Dallas–Fort Worth. City design goes well beyond the traditional after-the-fact response to urban sprawl. Using the new laws provided by the state legislature, and with the encouragement of the Texas Commission on Environmental Quality, Terrell built a framework that combined elements of regional cooperation, intergovernmental partnerships, and fiscal arrangements to attack this problem. If it had not used this model, Terrell could not have moved beyond its city limits to participate in the development in its ETJ area.

In a short period of time, Terrell was able to integrate three distinct concepts of regionalism, public works, and intergovernmental agreements to design an exemplary civil infrastructure system prior to explosive development. Other rural municipalities facing runaway growth may want to formulate similar intergovernmental agreements to help preserve their small-town character. In doing so, they may use the Terrell experience as an instructive case study.

As rural communities shift from agricultural small towns to extensions of large urban communities, the unincorporated boundary areas between urban and rural will continue to erode. Many existing local municipalities will have to decide whether to take a “wait and see” approach or to proactively plan for civil infrastructure improvements with intergovernmental agreements and partnerships to adequately address the long term. The Terrell experience indicates that proactive, city-design planning can be highly beneficial.

Traditional Utility District Models

While considering a response to SB 1894, local authorities were challenged to rethink both the enterprise-business model and the regional model for wastewater and water service.

A Texas utility district is created by the Natural Resource Conservation Commission through the office of the state attorney general in response to an application usually filed by a potential developer (Texas Attorney General's Office, 2005). The objective of a utility district is to provide various services, such as water, sewer, and drainage, to certain areas where municipal services are not available. Funds used to construct these facilities are obtained through the public sale of tax-exempt municipal bonds, as approved by the registered voters residing within the boundaries of the district.

Without adequate planning, the projected growth of the city could outpace the ability of municipal governmental entities to design and construct water, wastewater, and roadway facilities.

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For years, city utility companies have used the business model of utility ownership. In Texas, they are the only government utility system that can act as an entrepreneur because they sell products to generate sources of revenue and capital. Regional utility districts expanded that model.

Created in 1954, the North Texas Municipal Water District (NTMWD) regional water system today supplies treated drinking water to more than 1.6 million people in 60 cities, towns, special utility districts, and water supply corporations through voluntary contracts. It operates four regional wastewater treatment plants (WWTP): the South Mesquite Creek Regional WWTP in Mesquite, the Floyd Branch Regional WWTP in Richardson, the Rowlett Creek Regional WWTP in Plano, and the Wilson Creek Regional WWTP in McKinney. These regional treatment plants serve approximately 850,000 citizens in the rapidly growing area of north central Texas (North Texas Municipal Water District, 2006).

The Sabine River Authority (SRA) of Texas was created by the legislature in 1949 as an official agency of the State of Texas as a Conservation and Reclamation District with responsibilities to control, store, preserve, and distribute the waters of the Sabine River and its tributary system for useful purposes (Sabine River Authority, 2006).

In 2005, the Texas legislature created municipal utility districts (MUDs) to form megadevelopments with a very aggressive buildout schedule in a short time period. Usually these developments are located in unincorporated areas and are self-contained, with upscale residences, recreational facilities, retail establishments, schools, and industrial parks that attract innovative, highly technological enterprises. Four such megadevelopments are now in the planning stage for Terrell's ETJ area. Without adequate public works planning, these types of megadevelopments could severely impair city infrastructure facilities. For a small city to take on responsibility to service these megadevelopments with water and wastewater service on its own is almost impossible. A MUD has taxing authority that is used by a developer to recover a portion of the initial investment without having to add the total cost of infrastructure to the lot price. The newly formed MUDs are able to fund 100% the construction of water, wastewater, and roadway infrastructure.

For a small city to take on responsibility to service these megadevelopments with water and wastewater service on its own is almost impossible.

Developing Intergovernmental Partnership

In July 2006, several municipal boards, the Terrell City Council, and other city councils in the region approved multiple intergovernmental agreements with a regional partnership model (City of Terrell, 2006a). This historic event was initiated by the Terrell assistant city manager, who provided the leadership and served as the catalyst for negotiating these intergovernmental and regional agreements between all partners.

Regionalism has long provided a model guide for the City of Terrell. In 1976, the city entered into an agreement with the SRA to secure a secondary water supply (City of Terrell, 1976). Other agreements strengthened construction standards for development, established a regional civil infrastructure design model, provided regulatory control of land uses in unincorporated areas, and established new sources of sales tax revenue sharing through limited purpose annexation(s) of all commercial areas in special districts. Multijurisdictional school districts are another example of regional cooperation.

Forward-looking leadership in the City of Terrell over the years has served to provide the entire county with a positive growth management philosophy to guide the area into the future. As members of the planning team met in 2005 to devise a strategy for using the special utility districts created by SB 1894, the questions we asked ourselves included the following: Why are regional and intergovernmental agreements important between and among multiple governmental entities? Who do they protect? What will keep these newly formed taxing districts from competing directly against a smaller existing city? What measures can rapid growth regions employ to minimize the negative externalities of growth? Does fringe city development offer complementary or competing interest to long-term sustainable development? Can a pattern of fringe city growth allow local jurisdictions to take advantage of potential economies of scale in

the construction an infrastructure? Should the City of Terrell do nothing to respond to the outside growth? What about saying “no” to development?

Not all the answers came readily, but the questions forced us to evaluate our goals as a city and to begin to formulate a response to the projected mega-growth in our future. We were well aware of some of the negative externalities of growth: limited water storage, distribution, and supply capacity; inadequate wastewater treatment processes with existing WWTPs; inadequate coordination and cooperation with multiple governmental entities, poor traffic safety, and poor traffic connectivity with roadway systems. Furthermore, if economic erosion occurred within Terrell’s central business district, housing deterioration could follow, and city services would decline in response to a shrinking tax base. As Terrell declined, it would watch fringe development prosper. We knew it was impossible to say “no” to development and stay a vibrant, active community. We had to find a way to manage high-quality growth within and without the city limits.

The first item on our agenda was the water supply. Not only did we want to secure a dependable water supply for the city of Terrell, we wanted to ensure a supply of water for the special utility districts or MUDs located in the projected development in the Terrell ETJ.

The City of Terrell decided to use the regional approach to develop its water distribution system to allow it to expand supply, distribution, and storage capacity demands. Without this partnership, the only other option for the city to consider was investing capital funds to improve an existing 50-year-old water treatment plant with limited capacity. The upgrade to this plant would increase water treatment capacity from 6 million gallons a day (MGD) to 10 MGD at a cost of \$18 million, without addressing the supply side. This option was too costly and not fiscally responsible.

As a result of studying growth patterns, local policy makers began to rethink their business model for water and wastewater distribution and traffic design. They decided to adopt a multiple jurisdictional regional solution to these issues, and especially to design an exemplary water distribution and treatment system.

The City of Terrell began its initiative with a front-end regulatory approach using intergovernmental agreements and strategic partnership agreements with developers to provide water for fringe development within the city’s ETJ. This established a financial mechanism in keeping with the city’s long-term capital needs by reducing unit cost for water and wastewater service and by establishing a new revenue stream to fund future water and wastewater capital improvements within the city limits of Terrell.

The four-way regional partnership that was established included the City of Terrell, Developer/MUDs, the NTMWD, and the SRA. An intergovernmental agreement between a special utility district or MUD and local government is distinctly independent of any regional agreement, because it is a partnership for future development rather than with a known entity. In the Terrell model, incorporating both types of agreements was crucial to design a long-term, sustainable infrastructure system of water, wastewater, and roadways.

The central steps involved in designing a front-end intergovernmental agreement are to provide a meaningful response to a problem, to attract partners, to enact intergovernmental agreements, and to put partnership agreements into operation. In formulating these agreements, the primary leveraging position for Terrell was its newly constructed, formed, and expanded water distribution capacity. The same planning activity for the wastewater treatment system was also an inducement.

A successful water distribution plan is the paramount attraction for bringing MUDs into intergovernmental agreements. Developers around the city limits of Terrell recognized a valuable benefit in having an infrastructure in place to service future construction. Because each MUD is responsible for funding and constructing water, wastewater, and roadway systems, being able to share that responsibility is a strong incentive to join a partnership.

Regional partnerships are long-term negotiated contractual obligations. There is a risk to the continuity of management of these partnerships over time. As professionals responsible for the partnership leave their positions, it is necessary to find other professionals committed to keep the partnership moving forward. Developers may sell their interests in a project. With

this concern in mind, the City of Terrell structured its intergovernmental agreements to travel with the land, not with the individual developer. Staff and ownership changes will occur, but the intergovernmental agreement, as a contractual, binding obligation, will stand the test of time.

Financial Aspects

Partnership agreements can work when cities require a fiscal component to support long-term capital investment through an annexation mechanism that will secure future sales tax revenues. Texas law grants each special taxing district the ability to enter into a strategic partnership agreement with a local municipality to impose sales and use taxes in all commercially zoned areas in the district outside the city limits, that is, the ETJ. Without this revenue sharing authority, the special taxing district(s) would not have the power to impose sales taxes. Through this partnership, the City of Terrell successfully negotiated a 60/40 sales tax split. The city will receive 60% of all sales taxes generated in the ETJ, and the remaining 40% will go to the special districts. The economic benefit for the City of Terrell is that these revenues may fund capital improvements as needed and may allow the city to lower property taxes for city residents, stimulating growth and neighborhood improvement.

The special taxing district outside the city limits will use its 40% for the following purposes: police, fire, and EMS services; retirement of bond debt on the 10th anniversary of issuance; reimbursement to owners and developers of land for the cost to design and construct improvements; and payment for the operation, maintenance, repair, and replacement of infrastructure. All these disbursements were negotiated as part of the agreement and will directly or indirectly benefit the city.

The intergovernmental partnership approach provides economies of scale, which shifts the fiscal burden of increasing costs from a local municipality and distributes the proportionate unit cost for water production, distribution, delivery, and treatment over multiple jurisdictions. This reduces the individual unit cost for debt service and water production to a smaller, more manageable unit cost for the city. This reduction in cost for service improved the fiscal soundness of Terrell's utility fund. Clearly, without the regional partnership model, small rural towns, such as Terrell, would not have the ability to pay construction costs for new water facilities and debt service to expand existing water treatment capacity. The regional partnership model allows a local government to share costs with a much larger customer base. Thinking regionally and acting locally, partnerships have resulted in changing the business model of water distribution to one that is more advantageous to all partners.

The regional partnership approach to water system improvements reduced Terrell's major capital costs from \$18 million to \$12 million with a 30-year contractual commitment of an adequate supply of treated potable water to meet future demand.

Potential Drawbacks to Intergovernmental Agreements

In proceeding with its proactive city design, Terrell planners uncovered several potential pitfalls. Some possible problems are shortcuts by MUDs in designing enduring infrastructure systems, flawed front-end design methodology for civil infrastructure systems, inadequate detail review to the complexity of civil infrastructure planning, and poor financial structures to support long-term infrastructure maintenance. To address these potential risks, the City of Terrell established a professional team to negotiate various complex intergovernmental development agreements with a profound depth of analysis. Outside consultants retained by the city in this matter included a water rights attorney, a special utility district attorney, a transportation consultant, and a land planner. The city staff included the city engineer, the public works and city planner, and the city manager.

Who gains and who loses is a key consideration in negotiating intergovernmental agreements. Current Texas laws favor developers, not local rural cities. Our experience taught us

the importance of focusing on protecting and preserving Terrell's civil infrastructure through negotiation. The way that a city designs regional and intergovernmental partnerships will preserve or erode the civil integrity of a community. The nature of the Texas legislation encourages aggressive development. Using both regional and intergovernmental agreements helped protect Terrell from the negative effects of explosive growth.

Weaknesses in intergovernmental agreements can also favor the developers (North Central Texas Council of Governments, 2006a). A city seeking partnership with a developer must structure front-end debt payout provisions to determine income ratio and must spell out exactly when the debt payoff will occur. Without these provisions, if the city opts to annex land in the ETJ in the future, it will also annex the high cost of the developer's debt and pay a higher cost for providing city services. Most developers favor end-load debt in intergovernmental agreements whereas cities prefer front-load debt, which is repaid sooner, making the land attractive for annexation. A special taxing district or developer could structure the debt in an intergovernmental agreement with a city in such a way that makes it difficult, if not impossible, for the city ever to annex the development. The reality of an end-loading debt schedule term is that it creates a bad situation for the city because of the absorption of large amounts of debt.

Another potential pitfall involving agreements with developers is a failure to describe a financial strategy for long-term maintenance of infrastructure. As a consequence of city annexation, the cost of maintenance to an aging infrastructure, for example, roadways or water and wastewater, will be the obligation of the city and not the developer. This pitfall can be avoided by structuring a funding methodology to pay annual ongoing long-term infrastructure capital improvements. The goal of the intergovernmental agreement is not to annex but to position the city for the possibility of annexation with a positive assessed valuation income ratio analysis to make it fiscally feasible to the city.

Partnership Achievements

When Terrell expanded its existing regional model to include the NTMWD, the city leveraged its water supply. This expanded partnership allowed Terrell to change its water distribution system substantially by establishing a dual water distribution system. It can both utilize the existing water treatment plant and maintain an adequate reserve through an existing city-owned lake.

The facilities agreement with NTMWD allowed Terrell to construct and administer a 3-million-gallon ground storage tank, new pump stations, and 10 miles of new water distribution lines. The agreement also allows the city to receive lower interest rate payments as it pays debt service on the total construction cost of \$12.4 million.

Terrell then amended its regional water supply model to provide an unlimited supply of treated potable water to service projected development of the newly created MUDs. The city's concern was that its long-term water demand analysis might be inadequate to support actual long-term growth. Though adequate in the near future, supply constraints of 9 MGD might not support long-term demand.

Terrell felt it should secure future supply capacity to support growth demands. Through various cooperative agreements between City of Terrell, NTMWD, SRA, and water supply corporations, Terrell was successful in securing a future source of water. This was confirmed in an intergovernmental agreement with NTMWD to convey and transfer existing city-owned infrastructure facilities to them, specifically a take-point and pump station no longer in service by the city. In exchange, the NTMWD removed the 9 MGD contractual cap of water supply to Terrell. Essentially, this action negated a contractual restraint to provide treated drinking water. All regional authorities—NTMWD, SRA, and the Terrell city council—approved this historic transfer of assignment of water rights (City of Terrell, 2006b).

As a result of their participation, all partners share in a \$500 million regional water distribution, supply, and capacity expansion project owned and operated by NTMWD. Included in

An additional and extremely important benefit was that these partnerships provide optimal stimuli for private capital investment to grow a small rural community tax base.

the project are a 30-MGD water treatment plant approximately 8 miles north of Terrell, raw water pump stations, a 60-inch raw water line, and a water reuse pipeline and facility. The existing Terrell facilities transferred to NTMWD will give NTMWD time to obtain required state permits and will reduce total construction costs. It will also allow the district to aggressively accelerate a project scheduled for 2010. This partnership thus proved to be advantageous to all governmental entities involved.

The most important partnership achievement goes far beyond SB 1894. The compelling accomplishment of the Terrell case is the way municipal authorities independently responded to state-created special utility districts through the establishment of intergovernmental partnerships and regional agreements. An additional and extremely important benefit was that these partnerships provide optimal stimuli for private capital investment to grow a small rural community tax base. Clearly, the way Terrell responded and plans to manage growth through various partnerships in the city's ETJ area is the real stimuli for private capital investment, not solely SB 1894. Following Terrell's leadership, other public and private organizations are also expanding service delivery to meet future growth, including the Texas Department of Transportation, Union Pacific Railroad, utility companies, gas, electric and cable services, school systems, colleges, and medical facilities.

The evidence of new private capital investment into the Terrell community continues, as the city welcomes an infusion of private capital, venture opportunities, and business expansion. The city council recently approved special use permits for a large concrete batch plant, a rail-served distribution plant, and a lumber distribution facility. A noticeable increase in city building permits have also been realized for new restaurants, housing starts, retail, and arts and theatre construction in the city limits. Investors in providers of concrete, lumber, and other raw construction materials are positioning themselves for market growth opportunities in Terrell as indicators continue to point to a building boom.

Policy Formulation for Partnerships: Recommendations

Before a single home is ever built in a fringe city development, the local municipality should establish an intergovernmental agreement to regulate development lot size, density, traffic roadways connecting internally and offsite, public safety, water, and construction planning. This kind of city design should include a comprehensive land development plan with building and construction regulations. Forming front-end intergovernmental agreements during this process offers a clear strategy to manage growth in a uniform, optimal way. The City of Terrell is successfully regulating fringe city growth with a regional partnership approach to water and sewer demand.

It is recommended that cities design a regional growth management partnership model with the following goals: to evaluate water supply and demand for long-term system capacity, to evaluate economies of scale to determine the feasibility of the regional approach to water and wastewater system distribution and infrastructure, to investigate growth management partnerships, to establish a long-term financial structure to fund capital improvement programs (i.e., impact fees), and to establish a development process for land-use design strategies among local jurisdictions and developer(s), thus reducing competition between potentially competing interests.

Communities should perform the necessary evaluation and analysis to determine the economic advantage for a full-purpose annexation after development buildout occurs. It could be too costly for a city to provide its own services, compared to ETJ expansion strategies, without a full annexation. The most important detailed mechanism within the intergovernmental agreement partnerships between developer and city may be the ability to annex as soon as it is legally possible.

Intergovernmental agreements, consent resolutions, and strategic partnership agreements are key instruments for the city to establish partnerships to control and regulate civil infrastructure design and land development in the ETJ. As they negotiate these agreements,

communities should ask themselves, "Who does the intergovernmental agreement favor?" and be certain that the answer is "us."

Conclusion

The City of Terrell was the first rural small town in Kaufman County to face explosive growth in its ETJ area. Because it responded proactively to the creation of special utility districts by the state legislature, it can provide an example to other small cities and towns facing the same situation. Realizing the importance of water management, Terrell became the first city in Texas to facilitate a four-way partnership to redistribute water. Given the same resources, other cities in Texas can learn from this unique regional partnership model. Terrell is employing the same process with the wastewater system planning with the same partners.

Maintaining a sustainable civil infrastructure development is a long-term process. Staying one step ahead of growth and keeping sound municipal, regional, and intergovernmental policies in place to support and guide growth in an optimal, sustaining fashion are part of a never-ending process. Terrell was able to use a problem-solving methodology to gain a sharpened understanding of the interactions among governmental entities and land developers. Therefore, regional and intergovernmental policies have improved the quality of life, attracted new investment, and created a lasting sustainable partnership between developer and city.

The Terrell model utilizes core elements of public works as the basis to manage growth. Without this fundamental core of public works planning activity, both regional and intergovernmental agreements will be limited if not impossible to formulate and achieve. Cooperation among elected officials, the city council, and city management staff was an important part of the success of the Terrell plan. Another key element was the ability to link fiscal structures and taxing entities. This strategy reduced the competition between fringe development and core city growth. The two interests can complement each other through this partnership, instead of competing. Terrell's success with regional partnerships is combined with a comprehensive growth management plan. This plan provides the city with a coherent policy to guide land use, zoning, development standards, and financial structures and to manage industrial, commercial, and residential growth in the ETJ. Growth would be unmanageable with incompatible zoning designations, poor roadway interconnectivity, and limited water and wastewater capacity planning. The multijurisdictional partnership approach can be used to manage all aspects of land development: industrial, commercial, and residential growth. Terrell, Texas, is on a course for building a sustainable future utilizing regional and intergovernmental partnerships and will not only survive the projected fivefold growth, but also thrive with it.

Therefore, regional and intergovernmental policies have improved the quality of life, attracted new investment, and created a lasting sustainable partnership between developer and city.

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