



June 26, 2013

Board of Directors Reject Town's Proposal for Government Consolidation

In November 2007, the Town of Trophy Club entered into an agreement to have Trophy Club Municipal Utility District No. 1 (the "District") provide wholesale water and wastewater service to the Town. This was so that in turn, the Town could provide retail water and wastewater service to the residents of the Public Improvement District (the "PID"). The parties also entered into a contract under which the District agreed to provide all operation, maintenance, billing and other services on behalf of the Town.

Because the 2007 wholesale agreement does not address expansions of the District's water or wastewater systems necessary to serve future growth and because the agreement expires in 2018, the District approached the Town in December 2012 to initiate meetings and discussions to develop a new agreement. In January, District representatives, including the District Manager, two Directors, and legal council met with the Town Manager, a Council Member, and the Town's legal council to formulate the framework for a new agreement. At the time, the Town requested the District propose a draft agreement under which the District would become the retail provider of services to customers within the PID. Town representatives asked that the District's legal council develop the first draft agreement and the District agreed and hired special counsel specializing in water law to draft the agreement.

In March of this year, the District presented the draft agreement to the Town. The draft agreement provided for the District to provide retail water and wastewater service within the PID. Since the District would be the retail service provider, the agreement also provided for transfer of ownership of the water and wastewater improvements for which the District would become responsible after all PID bonds are no longer outstanding. The lease arrangement for PID infrastructure was necessary to allow the District to be fully responsible for provision of services in accordance with state regulatory requirements. In addition, the District's draft agreement would authorize the District to establish different retail rates for PID customers, based on the District's costs of service to such customers, so that all customers contribute equally to the costs of facility expansions. Otherwise, the District taxpayers would subsidize PID customers.

There was no communication from the Town to the District regarding the District's draft agreement. Town Council did not request to meet with District Directors to discuss the proposed agreement. Instead, the Town furnished an alternative agreement very different from any scenario previously discussed by the Town and the District. The Town's agreement would abolish the District and transfer all assets of the District to the Town of Trophy Club and the Town of Westlake.

The Board of Directors rejected the Town's proposal for a number of reasons:

1. **The Town Agreement Would Increase Taxes and/or Rates for Town Residents.** The Town Agreement would result in the loss of tax and service revenues from the commercial area in Solana. The gross revenues from taxes and water and wastewater service were more than \$780,000 in calendar year 2012. To fund outstanding debt service and provide the same level of services with a smaller customer and tax base, the Town would have to increase customer rates and/or taxes to make up for the lost revenues.

2. **The Town Agreement Would Create New Costs for Customers.** The Town's Agreement seeks 5% of the District's revenues from providing services in the Town, even though: (i) the District would provide all services and incur all costs, and (ii) the Town would incur no costs and provide no services in return for such payment. Thus, the PID residents would have to pay higher rates, in addition to PID assessments, to fund a new payment stream to the Town for which the Town incurs no costs and provides no services.

3. **The Town Agreement Would Cause District Customers to Subsidize Town Customers.** The Town Agreement would obligate the District to charge PID customers the same rates as District residents, even though District residents will pay for facility expansions through taxes, which are not paid by PID residents. Thus, District taxpayers would be forced to pay all debt service for future capital improvements that benefit and serve PID residents. Although the District could elect to issue revenue bonds to finance improvements, the interest costs would be higher, thereby subjecting all customers to higher costs.

4. **The Town Agreement Would Give Away District Infrastructure Assets Without Consideration.** The Town Agreement would grant ownership of all District assets serving Solana to the Town of Westlake on 60 days' notice without any compensation for the value of the facilities. Further, the District could not properly budget and plan for future projects and services if a significant portion of its assets and revenues could be lost on 60 days' prior notice.

5. **The Town Agreement Would Jeopardize District Services And Interfere With District Functions.** The Town's Agreement would delegate the District's decision-making authority to the Town by prohibiting the District from making any improvements to its water system or wastewater system without Town approval. Further, the Agreement prohibits the District from incurring any debts or liabilities without Town consent, and prohibits the District from transferring assets without Town consent. These provisions potentially prevent the District from expanding its facilities to meet regulatory requirements and the demands of its customers, and otherwise accomplishing its governmental functions.

6. **The Town Agreement Would Subject the District to Potential Enforcement Action.** If the Town withheld its approval for a treatment plant expansion, the District's system would be in violation of regulatory requirements, and would be subject to enforcement action, fines and penalties.

7. **The Town Agreement Contains Misrepresentations:** The Town Agreement would have the District represent that none of its bonds were used to finance the Solana improvements and that these improvements are fully or nearly fully depreciated. These representations are not accurate and appear to be intended to give away valuable assets to the Town of Westlake without compensation.

After careful consideration the Board of Directors voted to reject the Town's proposed agreement. The District will honor the current wholesale contract arrangement with the Town until its expiration in 2018 and sincerely hopes to continue providing high quality service to the residents of the PID through a new agreement with the Town. For additional information on the District proposal and other District information, please visit the District website at www.tcmud.org, e-mail info@tcmud.org, or call the District office at (682) 831-4600.