

Town of Westlake

Jim Moss, President
Board of Directors
Trophy Club Municipal Utility District No. 1
100 Municipal Drive
Trophy Club, Texas 76262

Hand Delivered
on August 20, 2013
by Mr. Jarrod Greenwood

August 19, 2013

Dear Mr. Moss:

The Town of Westlake has long desired to provide water and sewer services to all customers within the geographic boundaries of the town and to remove the dual tax burden on Solana that exists today. Toward that end, Westlake is offering MUD 1 an opportunity to allow Westlake to accomplish these objectives while keeping Trophy Club MUD 1 customers whole, repaying all proportionate outstanding debt, and honoring the obligations remaining on the nine years left in the MUD 1 Solana Service Agreement. Included in this offer is over \$1.8 million in cash, with the estimated total value benefiting MUD 1 at \$6.6 million in payments, assets and savings. It is Westlake's sincere hope that MUD 1 will choose to accept this offer and allow Westlake to amicably place Solana utilities under its control,

Specifically, pursuant to this offer, Westlake will:

1. Permanently release MUD 1 of any future operations and/or debt obligations associated with continuing to provide service inside the Westlake boundaries.
2. Pay to MUD 1, over 4 years, the current tax and rate revenues that would be equivalent to revenues over the life of the current Solana contract that covers existing debt (\$930,000).
3. Release any claim to assets outside of the Westlake town limits to MUD 1 (\$4,592,672).
4. Pay to MUD 1 the remaining depreciation value on the assets in Westlake (\$379,829).
5. Pay 100% of the disconnect/connection expenses to transfer service to Westlake (\$500,000).

6. Add value to MUD 1 assets by releasing MUD O&M savings which result from Solana's departure from MUD 1 (\$218,432).

These elements represent an estimated total value to MUD 1 of \$6.6 million (including total cash payments by Westlake of \$1,809,829), which amount covers all outstanding obligations without negative impact on MUD 1 customers.

We have arrived at this offer after performing three methods of analysis comparing cost and benefit. We are happy to share the specifics of these analyses. In summary, the first involves looking at the proportionate share of debt on a pure ad-valorem ratio basis (Exhibit 1). The second involves reviewing the IBM/Gibraltar "Agreement" to determine the amount of remaining debt attributable to the agreement term for serving Solana¹ (Exhibit 2). The third requires taking the current Solana rate and tax revenues less the estimated exit savings in expenses and estimating the remaining revenues under the current agreement (Exhibit 3). These three separate analyses revealed totals that were within \$28,000 of one another, indicating a remarkably fair consistency in calculating respective separation cost and benefit.

Retiring MUD 1 Debt

In determining how best to calculate the fair and proportionate repayment of outstanding debt, legal counsel informed the Town that The Texas Local Government Code requires that in the event of dissolution of a MUD located within the boundaries of more than one municipality, the assets and the debt of the MUD are to be divided equally among the municipalities, i.e. the portion of assets is equal to the portion of debt being retired². While Westlake is not in a position to recommend for or against MUD 1 dissolution, the methodology described in the Texas Local Government Code provides a basis for calculating a fair compensation for outstanding debt. Thus, Westlake's proposal offers to pay the outstanding proportion of debt attributed to Solana less proportionate cash reserves as contemplated by the statute.

¹ IBM/Gibraltar "Agreement" dated July 20, 1982

² Texas Local Government Code, Section 43.076 (f), <http://www.statutes.legis.state.tx.us/Docs/LG/htm/LG.43.htm>

Assignment of Assets

Westlake earnestly desires an amicable solution that treats all parties fairly and respects the good work that has been performed and therefore does not seek to recover all the assets that the law would allow in the circumstances of dissolution. Instead, the Town requests that only infrastructure inside Westlake, which IBM constructed and paid for, become Westlake property. For informational purposes, if Westlake claimed the full provision of distribution of assets as contemplated in the Local Government Code, Westlake would be entitled to 17% of the cash reserves and 17% of all district assets. Instead, to the benefit of MUD 1, Westlake proposes that the unrestricted cash reserves of \$642,895 be applied to the debt balance when calculating Westlake's portion of debt. Another benefit to MUD 1 is the fact that Westlake is also willing to pay MUD 1 the remaining depreciation value of those assets which were built at IBM's sole costs. This equates to a \$379,900 value on a 50 year depreciation schedule of \$999,550 based on new construction costs. This \$379,900 also covers 100% of the proportionate share of Westlake's short term debt.

Debt Repayment Schedules

In addition to the \$379,900 payment, Westlake proposes to pay MUD 1 an additional \$930,000 over four years to cover the proportionate long term outstanding debt. This amount more than covers the proportionate amount of long-term outstanding debt the Solana property rates and revenues would retire until bond maturity (which for some bonds is 18 years from 2013)³.

Conclusion

MUD 1 is contemplating the issuance of additional debt to accommodate system quality and capacity challenges which accommodate growth. The Town of Westlake seeks to reduce this burden by taking over all remaining MUD 1 services within Westlake. Westlake understands the timing of this decision is crucial. The fact that three separate analyses described herein all reflect very consistent and achievable financial strategies strongly suggest that now is the time to make the transition.

³ LaFollett and Company, PLLC, Trophy Club MUD 1 Basic Financial Statements, September 30, 2012

We look forward to visiting with the Board of Directors of MUD 1 and your staff to answer any questions you may have as we work to reach an amicable agreement.

Warmest regards,

A handwritten signature in cursive script that reads "Laura Wheat" followed by a circled "LW" monogram.

Laura Wheat

Mayor, Town of Westlake

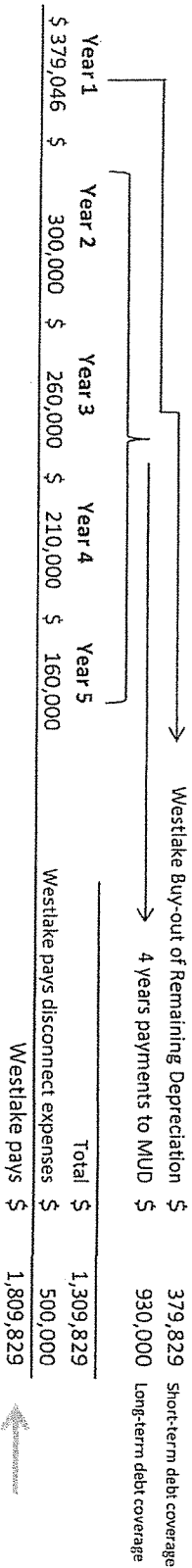
CC Jennifer McKnight, District Manager Trophy Club MUD 1

Debt Allocation based on Current AV Basis

Debt	Maturity	Annual Pmt	Outstanding	@12%	
				Solana Annual Amount	Remaining Contract Amount
Oper Debt	2023	\$ 89,793	\$ 785,000	\$ 10,775	\$ 86,201
Refunding	2023	\$ 195,676	\$ 148,000	\$ 23,481	\$ 187,849
Improvements	2031	\$ 148,205	\$ 1,935,000	\$ 17,785	\$ 142,277
Refunding	2023	\$ 251,373	\$ 2,355,000	\$ 30,165	\$ 241,318
			\$ 5,223,000	\$ 82,206	\$ 657,645

Misc Short-term Debt		(not including other liabilities)	
Fire Truck Note	2014	\$ 56,000	\$ 137,000
Equipment	2015	\$ 201,318	\$ 107,973
Ground Storage	2014	\$ 1,100,000	\$ 733,000
		\$ 977,973	\$ 162,878

ALL Westlake debt payments remaining in contract term **\$ 844,681**



Debt Allocation based on Current AV for Contract Term

Debt	Maturity	Annual Pmt	Outstanding	Solana
Oper Debt	2023	\$ 89,793	\$ 785,000	\$ 117,750
Refunding	2023	\$ 195,676	\$ 148,000	\$ 22,200
Improvements	2031	\$ 148,205	\$ 1,935,000	\$ 290,250
Refunding	2023	\$ 251,373	\$ 2,355,000	\$ 353,250
			\$ 5,223,000	\$ 783,450

Misc Short-term Debt	(not including other liabilities)		
Fire Truck Note	2014	\$ 56,000	\$ 137,000
Equipment	2015	\$ 201,318	\$ 107,973
Ground Storage	2014	\$ 1,100,000	\$ 733,000
			\$ 977,973
			\$ 146,696

Westlake debt payments allocated at current portion \$ 930,146

Net Revenue Calculation for MUD Customers

With Solana Exit

MUD O&M savings without Solana	\$ 62,932	
Bulk water purchase <u>savings with Solana exit</u>	<u>\$ 218,432</u>	
Total annual expense savings to all MUD customers	\$ 281,364	
MUD water rate revenues from Solana	\$ (355,994)	
MUD tax revenues from Solana	<u>\$ (29,167)</u>	
Loss of Revenues without Solana	\$ (385,161)	used for O&M and Debt Service
Net loss of revenues to all MUD customers	\$ (103,797)	
<i>Remaining years on IBM contract</i>	<u>8</u>	
	\$ (830,380)	
MUD assessment to Solana for Fire Service	\$ (126,041)	
Remaining <u>years on IBM contract</u>	<u>8</u>	
	\$ (1,008,328)	
Total amount of contract revenues remaining	\$ (1,838,708)	←