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2
3 MINUTES OF THE MEETING OF
4 THE BOARD OF DIRECTORS OF
5 WELLS BRANCH MUNICIPAL UTILITY DISTRICT

6 January 25, 2011
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9 The Board of Directors held a special meeting on January 25, 2011 at the Wells Branch
10 Indoor Recreation Center, 3000 Shoreline Drive, Austin, Texas. The meeting was open
11 to the public and notice was given as required by the Texas Open Meetings Act. A copy
12 of the Certificate of Posting of the Notice is attached as Exhibit "A".

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14 Members of the Board as it was called to order are:

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16 Charles R. Walters - President
17 Donna Howe - Vice President
18 Janet Maxey - Secretary
19 Tom Cheshire - Treasurer
20 Robert Bauhs - Assistant Secretary-Treasurer
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22 and all of the Directors were present, thus constituting a quorum. Also present during
23 the course of the meeting were Jesse L. Kennis II, District Manager; John Bartram of
24 Armbrust & Brown, PLLC, the District's attorney; Cheryl Allen and Linda Loup of
25 Southwest Securities, Inc., the District's financial advisor; Nelisa Heddin of Water
26 Resources Management; George Holcombe, a resident of the District; Debby Thompson
27 of the Wells Branch Neighborhood Association; and Clay Avery of GCP Association
28 Services, the District's recording secretary.
29

30 Director Walters called the meeting to order at 5:07 p.m. and stated that the purpose of
31 the evening's meeting was to review a presentation on the District's commissioned rate
32 study and long-term financial planning goals. Director Walters stated that he felt that
33 Ms. Allen and Ms. Heddin should make their presentation uninterrupted and the Board
34 would ask questions once all the information was presented.
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36 Director Walters recognized Ms. Allen, who stated that the purpose of her presentation,
37 attached as Exhibit "B," was to provide an overview of the District's long-range financial
38 situation. Ms. Allen noted that the purpose of the study was to look at funding costs of
39 operations and capital improvement projects while maintaining a healthy reserve fund.
40 Ms. Allen discussed the District's various sources of revenues and examined the state of
41 the District's general fund. Ms. Allen noted that revenues had been in excess of
42 expenses in recent years and had helped to offset costs, but that revenues and
43 expenditures were now approximately equal going forward. Ms. Allen stated that the
44 District, operating under the status quo, would face a slight financial loss on funding
45 operations with a growing deficit once capital projects were funded. Ms. Allen discussed
46 funding options for capital improvement projects, and stated that the District could pay
47 for those projects out of existing revenues or borrow the money and pay it back over

1 time. Ms. Allen noted that ad valorem taxes and utility rates made up over 90% of
2 revenues, thus any internal increase in revenues would have to be generated by an
3 increase in those two areas. Ms. Heddin noted that the District would likely have to
4 allow for a 3% increase in water rates just to cover the cost of inflation. Ms. Allen then
5 illustrated for the Board the different financial impacts that various amounts of debt
6 financing would have on the District's tax and water rates. Ms. Allen stated that the
7 amount of cash the District desired to use to fund its operations and projects was
8 directly proportional to the amount of increase the District would need to make in its tax
9 and water rates. Ms. Allen discussed the District's projected tax collections going
10 forward and the effects that they would have on the District's revenue base. Ms. Allen
11 stated that the District was not in any grave financial peril, but rather it was facing
12 issues common to other mature water districts in the area. Ms. Allen discussed the
13 various options for borrowing funds, including bank loans, bond issuance and Texas
14 Water Development Board loans. Ms. Allen stated that a bond issuance would likely be
15 the most financially reasonable alternative and discussed the rates and cash flow details
16 of a possible bond issuance. Ms. Allen stated that the District would have to increase its
17 debt service portion of the tax rate from \$0.05/\$100 of valuation to \$.14/\$100 of
18 valuation but that the increase would be offset by a decrease to the operations and
19 maintenance rate. Ms. Allen noted that the District would lose some money initially
20 under that scenario but would maintain the same fund balance over time. Ms. Allen
21 stated that she was providing this information on issuing debt as an option for the Board
22 to consider. Ms. Allen discussed the bond approval and issuance process and stated that
23 it was a time consuming initiative. Ms. Allen stated that the Board would be able to
24 evaluate its proposed costs and funding options during that initial administrative period
25 without being locked into anything. Ms. Allen discussed the process of working with the
26 City of Austin to be authorized under its consent agreement to issue debt. Ms. Allen
27 stated that the underlying point was that utility districts in general do not have the same
28 revenue streams available to fund operations and improvements that larger
29 municipalities do. Mr. Kennis then provided a handout noting other area district's taxes
30 and water rates, attached as Exhibit "C." Director Bauhs asked about the composition of
31 the numbers used for capital projects. Ms. Allen stated that about half of the amount
32 came from the recent facilities master plan and the other half was from District
33 scheduled initiatives. The Board generally discussed revenues from taxes and the
34 apportionment between the rate for operations and maintenance and the rate for debt
35 service. The Board discussed the effects of a possible change in that apportionment.
36 Director Maxey asked about the reliability of the district comparison that Mr. Kennis
37 had provided and Director Howe stated that the comparison's purpose was to illustrate
38 that the District was generally in line already with what surrounding entities were
39 charging. Discussion ensued on the process for debt issuance and the nature of
40 discussions with the City of Austin. Ms. Heddin stated that a bond issuance would allow
41 an option for covering intended costs with a minimal immediate impact to District
42 residents. Ms. Heddin also noted that beginning the process for issuance of bonds
43 would put in place a plan that would keep the option open while allowing the Board to
44 evaluate hard numbers over time. Ms. Allen discussed the process for selling bonds.
45 Director Walters recalled the recent facilities master plan and the information gleaned
46 from that report. Discussion ensued on the necessity of certain expenses and the
47 prioritization of those expenses. Discussion then ensued on the bond referendum
48 process and public education possibilities and restrictions. Ms. Allen suggested that the

1 Board permit her and Mr. Bartram to informally inquire with the City of Austin about
2 the possible option of debt financing. Ms. Allen then suggested that the Board establish
3 a way to digest the different expected costs and create a preliminary plan to evaluate
4 different funding mechanisms and issues. Director Walters asked that an item for
5 discussion regarding the initiative be placed on the next agenda and *the Board*
6 *concurred*. Director Walters stated that the Board would need to evaluate the timeline
7 of capital projects and their prioritization. Ms. Allen then discussed the assumptions
8 used in the study, stating that her firm used worst-case scenario figures in terms of
9 District growth and development. Director Bauhs asked about assumptions used on the
10 general fund balance and the maintenance of a reserve fund. Ms. Allen stated that she
11 had wanted to show the District's projected financial standing under the current model
12 containing a fund balance. Ms. Allen discussed different scenarios and noted that it
13 would be up to the Board as to how much money it would want to keep on hand in
14 reserve.

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16 There being no further business to come before the Board, the meeting was adjourned
17 at 6:35 p.m.

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19 Respectfully submitted:

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22
23
24 February 15, 2011
25 Date

Janet Maxey

Janet Maxey, Secretary
Board of Directors
Wells Branch Municipal Utility District

