

**MINUTES OF MEETING OF
THE BOARD OF DIRECTORS OF
WILBARGER CREEK MUNICIPAL UTILITY DISTRICT NO. 1**

February 6, 2014

THE STATE OF TEXAS §
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COUNTY OF TRAVIS §

A meeting of the Board of Directors of Wilbarger Creek Municipal Utility District No. 1 was held on February 6, 2014, at the offices of Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas. The meeting was open to the public and notice was given as required by the Texas Open Meetings Act. A copy of the Certificate of Posting of the notice is attached as Exhibit "A".

The roll was called of the members of the Board:

Bill Kochwelp	-	President
Tim Dalton	-	Vice President
Scott Sams	-	Secretary
D. Page Ragland	-	Assistant Secretary
Diana Zuniga	-	Assistant Secretary

and all of the Directors were present, thus constituting a quorum. Also present at the meeting were Lisa Wald of Bott & Douthitt, PLLC, the District's bookkeeper; Andrew Hunt of Crossroads Utility Services LLC, the District's utility operator; Ken Schroeder of Schroeder Engineering Company, the District's engineer; Russ Allison of Argent Management, LLC, representing SG Land Holdings LLC, a developer in the District; Marsha Jan of McCall Gibson Swedlund Barfoot PLLC, the District's auditor; and John Bartram of Armbrust & Brown, PLLC, the District's general legal counsel.

Director Kochwelp called the meeting to order at 12:02 p.m. He announced that Ms. Wald needed to leave early for another meeting and stated that the Board would, therefore, first receive a report from the District's bookkeeper. Ms. Wald reviewed the bookkeeper's report attached as Exhibit "B", including the bills, invoices, and transfers set forth on the updated cash activity report, and recommended approval. She pointed out that the list of transfers included a transfer to replenish the bookkeeper's account. She next reviewed the cash/investment activity report, the latest quarterly investment report, the tax collection report, the District's financial statements as of December 31, 2013, and the supplementary information, including the budget comparison. She noted that District had collected 92% of its 2013 tax levy. After discussion, upon motion by Director Sams and second by Director Ragland, the Board voted unanimously to approve the bills, invoices, and transfers as presented.

Director Kochwelp next announced that the Board would receive citizens' communications. There being none, Director Kochwelp then recognized Ms. Jan for purposes of receiving a report from the District's auditor in connection with the audit of the District's financial statements for the fiscal year ended September 30, 2013. Ms. Jan presented the Audit Report, attached as **Exhibit "C"**, including a summary of (i) the independent auditor's report, which she explained contained an unqualified, "clean" opinion; (ii) the Management's Discussion and Analysis, which she explained was a summary of District operations prepared by the District's bookkeeper on behalf of District management in compliance with applicable governmental accounting standards; (iii) the basic financial statements and the notes thereto; (iv) the required supplementary information; and (v) the Texas supplementary information. She reviewed the income statement, budget comparison, and comparative schedule of revenues. Ms. Jan then reviewed the Board representation letter attached as **Exhibit "D"**, noting that similar letters would also be signed by the District's bookkeeper and operator. She confirmed that the letter incorporated certain "knowledge" qualifiers that took into account the fact that the Board was relying on the advice of the District's bookkeeper and operator in making the representations set forth in the letter. Mr. Bartram asked if any material weaknesses in internal control had been identified or if a separate management letter had been issued. Ms. Jan confirmed that no material weaknesses were noted and that there was no management letter. Ms. Jan then concluded by requesting the Board to approve the Board representation letter and the Audit Report and to authorize filing of the District's audit with the Texas Commission on Environmental Quality (the "TCEQ"). Upon motion by Director Zuniga and second by Director Dalton, the Board voted unanimously to do so.

Director Kochwelp then stated that the Board would consider approving the following items on the Board's consent agenda: (i) the minutes of the December 5, 2013 Board meeting; and (ii) the revised Secretary's Certificate and Resolutions Regarding Lock Box Clearing Account attached as **Exhibit "E"**. Upon motion by Director Dalton and second by Director Sams, the Board voted unanimously to approve the consent items.

Director Kochwelp next announced that the Board would consider matters relating to wholesale water rates and water capacity charges. Mr. Bartram reviewed the wholesale water purchase schedule attached as **Exhibit "F"** reflecting the historical amount of wholesale water purchased from Metro H2O, Ltd. ("Metro"). He stated that the amount of usage was still trending under the benchmark take-or-pay amount. Mr. Bartram then reminded the Board that the annual CPI increases in the volumetric wholesale rate as well as the annual rate payment were scheduled to take effect in February. He stated that Mr. Joyce, the District's rate analyst, had reviewed the retail rate structures for the Participant Districts with active connections and had determined that the District's retail rates were still sufficient but that the Travis County MUD No. 2 and Cottonwood Creek MUD No. 1 should consider adjusting their retail rates to help cover the wholesale increases. Director Zuniga asked if there was an active homeowners' association within the District. Mr. Allison confirmed that there was. He stated that he was the president of the homeowners' association for the ShadowGlen community and that his company had recently engaged a management company with an on-site representative. He

stated that he had also implemented monthly meetings of the homeowners' association's board of directors, which was something that the prior developer had not done.

Director Kochwelp then stated that the Board would receive a report from the District's utility operator. Mr. Hunt directed the Board's attention to the utility report attached as **Exhibit "G"** and reviewed his prior directives. He noted that water usage was down, and he confirmed that the bacteriological and chlorine samples were satisfactory. He next addressed water accountability, noting that water loss had increased slightly but that this was likely attributable to the meter reading schedule over the Christmas holidays. Mr. Hunt next reviewed the wastewater report and confirmed that the wastewater treatment plant was in compliance. He stated that there had been ammonia excursions in November and December in connection with the plant upgrades being carried out by Ovivo USA, LLC ("Ovivo") but that the plant settings had since been corrected and that ammonia readings were now at "not detected" levels. Mr. Hunt then reviewed the connection, billing, adjustments, and delinquent accounts reports and recommended the approval of one write-off. He next reported that his company was in the process of rolling out a new payment option that would allow customers to pay their utility bills using a QR code via mobile devices. He stated that there would be no additional cost to the District for this service. After discussion, upon motion by Director Zuniga and second by Director Sams, the Board voted unanimously to approve the write-off as recommended.

Mr. Hunt next reported that the District was required to conduct a five-year regulatory review of its drought contingency plan by May 2014. He stated that review of the District's current plan was underway and that the updated drought contingency plan would be included on the Board's next agenda. Mr. Hunt then stated that it was time to conduct an annual review of the District's identity theft prevention program under the federal government's "red flag rules" and directed the Board's attention to the Resolution Confirming Annual Review of Identity Theft Prevention Program attached as **Exhibit "H"**. He reported that the plan had proved effective, that there had been no significant incidents of identity theft in the District, and that he had no recommended updates to the program at this time. After discussion, upon motion by Director Zuniga and second by Director Dalton, the Board voted unanimously to approve the Resolution Confirming Annual Review of Identity Theft Prevention Program, as presented.

Director Kochwelp then asked if any further action was required under the bookkeeping item on the agenda. Mr. Bartram stated that it was time for the Board to conduct its annual review of the District's code of ethics and financial management policies. The Board reviewed the District's current code of ethics and financial management policies and determined that no changes were necessary at this time. After discussion, upon motion by Director Zuniga and second by Director Ragland, the Board voted unanimously to approve the Resolution Confirming Annual Review of Certain Financial Management Policies; Adopting Code of Ethics and Financial Investment, Travel, and Professional Services Policy; Adopting Investment Strategies; Designating Investment Officers; and Adopting List of Qualified Brokers attached as **Exhibit "I"**.

Director Kochwelp stated that the Board would next receive a report from the developers. Mr. Allison reported that there was a lot of activity going on the Manor area. He stated that his company had three contractors working on projects in the development, including landscaping and subdivision wall enhancements and the Lexington Street Segment B project, which would connect Highway 290 to the District through the golf course. He stated that he was still working with several builders to sell the remaining inventory lots in the development and that he hoped to have one or more contracts in place by the Board's next meeting. He noted that the new elementary school in the development was scheduled to start construction soon, the new Wal-Mart store was expected to open in February, and the new Manor Expressway was anticipated to open in March. Mr. Allison stated that, with this new activity, he was hopeful that the Manor market was poised to break wide open. He next reported that his company had received plan approval for two new sections of lots that would be available for purchase as either "paper lots" or as developed lots. Director Dalton asked what the size of the new lots would be. Mr. Allison there were approximately 180 lots in these new sections, all of which would be approximately 55 feet wide at the front setback line. Director Kochwelp asked what the price point of the lots was. Mr. Allison stated that his company was trying to market the lots at a price that would result in homes for sale in the low \$200,000s instead of the mid-\$100,000s, which seemed to be what other developers in the Manor area were targeting. He stated that his company wanted ShadowGlen to be and remain a more upscale development.

Director Kochwelp stated that the Board would next receive a report from the District's financial advisor. Mr. Bartram noted that Ms. Allen had not been able to attend the meeting and that he had not received an updated foreclosure report. However, he stated that, based on Ms. Allen's reports over the last several months, the number of foreclosures was down.

Director Kochwelp then stated that the Board would receive a report from the District's engineer. Mr. Schroeder first reviewed the engineering report attached as **Exhibit "J"**. With respect to District matters, he stated that the Crossroads Utility Services invoice was in order and within budget. Mr. Schroeder then addressed items related to the Master District, noting that the daily wastewater flows at the wastewater treatment plant for the month of December had averaged $\pm 166,000$ gpd, with a maximum day of $\pm 223,000$ gpd. He pointed out that the peak day was down due to the lack of recent rain events, but he confirmed that the flows were otherwise generally within the expected range of flows based on the current number of connections. He added that, except for the ammonia excursions previously addressed, all tests were satisfactory and all reports were within permit. Mr. Schroeder next reported that Master District repairs and maintenance were within budget and all invoices were in order. He then updated the Board on recent activity at the wastewater treatment plant, noting that Ovivo had completed all but one punch list item relating to the membrane equipment upgrades, the resolution of which was underway. He confirmed that payment of the first 50% installment was being held until completion of the punch list. Mr. Schroeder also reported that Ovivo had begun electrical consumption performance monitoring in October and that the energy savings were averaging only 27%, which was under the benchmark guaranty of 30%. He stated that, if the 30% average savings were not achieved, Ovivo would not be paid for the balance of the

work and would be required to refund the first 50% installment to the Master District. He reported that the Master District's operator and special consulting engineer were working with Ovivo on the problems, and he stated that Ovivo remained confident that the 30% energy savings would be achieved. Mr. Schroeder next reported that the Master District's operator was working with Kaeser on the purchase of upgraded cooling fans for the blowers at the wastewater treatment plant. He stated that the goal was to get the new fans installed before the onset of hotter weather. He stated that the Master District's utility operator was also working on a proposal to upgrade the sensor equipment at the wastewater treatment plant. Mr. Schroeder next reported that the Master District's special consulting engineer had recommended that the actuators at the plant be replaced with better units over time as the current actuators failed. He noted that the new actuators were more expensive but would come with a four-year warranty and a longer useful life expectancy. Mr. Schroeder concluded the report on wastewater treatment operations by noting that the application to renew the wastewater discharge permit for the plant had been completed and would be filed before March 1st, which was the TCEQ's deadline of 180 days prior to expiration of the existing permit.

Mr. Schroeder next addressed the status of the emergency water interconnect required by the City of Manor in connection with the developer's construction of the Lexington Street low water crossing. He reviewed the proposed letter agreement between the City of Manor and SG Land Holdings LLC, a copy of which is attached as Exhibit "K", regarding construction of the interconnect in an alternate location and the fiscal security required by the City. Mr. Bartram stated that the City had requested the Manor Districts to ratify the general arrangement contemplated by the letter agreement because it involved a connection to their systems. Mr. Bartram explained that the interconnect itself would be owned and managed by the Master District as a "Master District Facility" under the Master District Contract and that the terms of use of the interconnect would be set forth in an interconnect agreement between the District and the City, which he was drafting. He stated that, under the Master District Contract, the Master District was authorized to adjust, amend, or revise the Master District Facilities based on, among other things, sound engineering, economic, and operating principles and that the Participant Districts had 60 days to review any proposed changes. Mr. Bartram confirmed that the Master District's engineers and operator had determined that the emergency interconnect was advisable based on sound engineering and operating principles, and he reviewed the notice from the Master District of the proposed change attached as Exhibit "L". He recommended that the Board ratify the general structure outlined in the letter agreement between the City and the Developer and consider waiving the 60-day review period because the District's operator and engineer, who were also the Master District's consultants, had already determined the interconnect to be advisable. After discussion, upon motion by Director Zuniga and second by Director Sams, the Board voted unanimously to ratify the general structure set forth in the letter agreement between the City and the developer and to waive the 60-day review period for the proposed change in Master District Facilities.

Director Kochwelp then recognized Mr. Bartram for purposes of receiving a report from the District's attorney. Mr. Bartram first reviewed the outstanding consultant directives. He then stated that it was time for the Board to conduct an annual review of the District's written

procedures for post bond issuance federal tax compliance. He reviewed the District's current procedures and highlighted the arbitrage, private use, and record retention requirements. He stated that these procedures would likely evolve over time to keep up with underlying regulatory changes but that the District's bond counsel was not recommending any revisions at this time. After discussion, upon motion by Director Zuniga and second by Director Ragland, the Board voted unanimously to approve the Resolution Confirming Annual Review of Written Procedures for Post Bond Issuance Federal Tax Compliance attached as **Exhibit "M"**.

Director Kochwelp next announced that the Board would consider the Master District and Advisory Committee items on the agenda. Mr. Bartram directed the Board's attention to the agenda and minutes from the most recent joint meeting of the Board of Directors of Wilbarger Creek Municipal Utility District No. 2 and the Advisory Committee, which was a recurring agenda item so that the Board could stay informed of the activities of the Master District and Advisory Committee.

Director Kochwelp then stated that the Board would consider its future meeting schedule. Mr. Bartram reminded the Board that the next meeting was scheduled for April 3, 2014.

Director Kochwelp then asked if there was any further business to come before the Board. There being none, the meeting was adjourned at 12:47 p.m.

(Signature page follows.)

(SEAL)



Scott Sams, Secretary
Board of Directors

Date: April 3, 2014