

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

August 4, 2011

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 August 4, 2011, 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, except Director Zuniga, who arrived later, thus constituting a quorum. Also present at the meeting were Mary Bott of Bott & Douthitt, PLLC; Margret Wingrove of Crossroads Utility Services LLC; Ken Schroeder of Schroeder Engineering Company; Danny Burnett of 2010 ShadowGlen, LLC; Linda Loup of Southwest Securities; Brian Toldan of McCall Gibson Swedlund Barfoot PLLC; and John Bartram of Armbrust & Brown, PLLC.

Director Kochwelp called the meeting to order at 12:08 p.m., and stated that the Board would first receive citizens' communications. There being none, Director Kochwelp then stated that the Board would consider approving the items on the consent agenda, and he asked Mr. Bartram to review those items. Mr. Bartram first presented the minutes of the July 7, 2011 Board meeting. He next reviewed the revised District Registration form attached as **Exhibit "B"**, which he noted updated the attorney information. Director Dalton updated his address. At Mr. Bartram's request, Mr. Toldan then reviewed his firm's proposal for the audit of the District's financial statements for the fiscal year ending September 30, 2011, a copy of which is attached as **Exhibit "C"**. He noted that the proposed fee for the audit was between \$9,000 and \$10,500, which was the same fee range as last year. Mr. Toldan also directed the Board's attention to the fraud questionnaire attached as **Exhibit "D"**, which he stated was provided under Statement on Auditing Standard No. 99 as part of the auditor's audit planning process to document material misstatements caused by fraud. Mr. Toldan then concluded by reviewing the memorandum on Governmental Accounting Standards Board Statement No. 54

("GASB 54"), which he stated required certain changes in terminology for the presentation of fund balances on the balance sheet, but did not significantly change existing practice. Mr. Bartram explained that GASB 54, which became effective for governmental fiscal years beginning after June 15, 2010, implemented new standards for governmental fund balance reporting and governmental fund type definitions. He stated that under GASB 54, fund balances were reported in five separate categories, consisting of the non-spendable fund balance, the restricted fund balance, the committed fund balance, the assigned fund balance, and the unassigned fund balance. Mr. Bartram stated that his firm had coordinated with various bookkeepers and auditors regarding GASB 54, and he recommended that the Board adopt a policy implementing the GASB 54 standards. After discussion, upon motion by Director Sams and second by Director Ragland, the Board voted unanimously to approve (i) the minutes of the July 7, 2011 Board meeting; (ii) the revised District Registration Form, as updated, and its filing; (iii) the engagement of McCall Gibson Swedlund Barfoot PLLC for the audit of the District's financial statements for the fiscal year ending September 30, 2011; and (iv) the Resolution Adopting GASB 54 Standards and Applications attached as Exhibit "E".

Director Kochwelp then stated that the Board would consider taking action regarding budget and tax items. Ms. Bott first presented and reviewed the amended budget for the 2010-2011 fiscal year attached as Exhibit "F", which she stated had been updated to reflect actual costs primarily associated with Master District expenses, including wastewater treatment plant repairs and the wholesale water rate dispute and settlement. Mr. Bartram then presented and reviewed with the Board the memorandum attached as Exhibit "G", summarizing the schedule and process for adopting a budget and setting a tax rate. Ms. Loup then reviewed the 2011 certified appraised value for the District attached as Exhibit "H". She noted that the overall taxable value had increased \pm \$336,000 but that the average home value was down slightly. She next reviewed the tax rate analysis attached as Exhibit "I" and recommended that the District establish a total proposed tax rate for 2011 of \$0.95, comprised of a \$0.35 contract tax and a \$0.60 operations and maintenance tax, which she noted was the same total tax rate as the prior year. Ms. Bott then reviewed the draft budget for the 2011-2012 fiscal year attached as Exhibit "j", which she noted was supported by approximately \$200,000 in developer funding. Mr. Burnett stated that he had requested Ms. Bott to break out the developer funding on a district-by-district basis to facilitate review by the developer. Director Kochwelp questioned what, if anything, the Board was required to accomplish with respect to the budget and tax rate at this time. Mr. Bartram advised that, in addition to the budget amendment for the current year, the Board needed to do three things at this meeting: (i) establish a proposed 2011 tax rate by record vote; (ii) schedule a public hearing at which the adoption of the 2011 tax rate would be considered; and (iii) authorize notice of the public hearing on the 2011 tax rate to be published in the newspaper. After discussion, upon motion by Director Sams and second by Director Ragland, the Board voted to (i) approve the Resolution Adopting Amended Budget attached as Exhibit "K"; (ii) establish a proposed 2011 tax rate of \$0.95 per \$100 valuation; (iii) schedule a public hearing at noon on Thursday, September 1, 2011 to consider the adoption of the tax rate; and (iv) authorize a notice of the public hearing to be published in the newspaper, with Directors Kochwelp, Dalton, Sams, and Ragland all voting "aye". Director Zuniga arrived after the vote.

Director Kochwelp then stated that the Board would receive a report from the District's utility operator. Ms. Wingrove reviewed the utility report for the month of June. She stated that water usage was up, that the bacteriological and chlorine residual tests were satisfactory, and that water loss was 1.34% for the month. She then reviewed the connection report for the District and the other Participant Districts and noted that there had been no new taps. She next reviewed the District's water usage and billing reports, the wastewater report, and delinquent accounts. She stated that there had been one termination but that she had no write-offs to present this month. She stated that all residents had been notified about the change in water hardness following the Blue Water connection and that she had confirmed with Metro H2O, Ltd. ("Metro") that, with the connection of the Blue Water project and better water supply, no watering restrictions were contemplated by the wholesale provider at this time. Ms. Wingrove next reported on fire hydrant repairs. She stated that the manufacturer had met with the inspector on site and determined that the hydrants should be exercised for six months and monitored before proceeding with any repairs. She then concluded by reporting that she was very pleased with how the wastewater treatment plant was running.

Director Kochwelp then stated that the Board would receive a report from the District's bookkeeper. Ms. Bott first reviewed the bills, invoices, and transfers set forth on the updated action items and cash activity report attached as Exhibit "L" and recommended approval. She then reviewed the budget comparison and the financial statements as of June 30, 2011, including the balance sheet, statement of revenues, and supplementary information for the District's general fund and special revenue fund. She stated that two homeowners were delinquent on their 2010 taxes. Ms. Bott then concluded by reviewing the latest quarterly investment report. After discussion, upon motion by Director Dalton and second by Director Zuniga, the Board voted unanimously to approve the bills, invoices, and transfers as presented.

Director Kochwelp then stated that the Board would receive a report from the developer. Mr. Burnett first reviewed the most recent completed home chart attached as Exhibit "M". Director Kochwelp asked how KB Homes was doing with home sales. Mr. Burnett stated that KB Homes was in the process of trying to renegotiate its takedown schedule because only one in four prospective homebuyers could obtain suitable financing. He compared this against more favorable conditions in the Parkside development approximately 3½ miles from ShadowGlen. Mr. Burnett reported that his company continued to plan and host builder and realtor events to promote the ShadowGlen community. He stated that a realtor event the previous week had gone well and was attended by the mayor of the City of Manor as well as the superintendent of Manor Independent School District. Mr. Burnett stated that one of his company's big efforts right now was to reestablish a core builder group with confidence in the development, and he noted that he was in the process of pursuing a lead with Scott Felder Homes.

Director Kochwelp then stated that the Board would receive a report from the District's financial advisor. Ms. Loup reviewed the foreclosure report attached as Exhibit "N". She stated that there had been one foreclosure in July but that, overall, foreclosures appeared to be stabilizing.

Director Kochwelp then stated that the Board would receive a report from the District's engineer. Mr. Schroeder reviewed the report attached as Exhibit "O". With respect to District matters, he stated that he had reviewed Crossroads Utility Services' invoice and that everything was in order. 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 June had averaged $\pm 148,000$ gpd, with a maximum day of $\pm 184,000$ gpd, which was within the expected range of flows based on the current number of connections. He confirmed that all reports were satisfactory, but noted that the Texas Commission on Environmental Quality ("TCEQ") had issued a notice of violation for certain permit excursions that occurred during the membrane cleaning project in February. He stated that these matters had been documented and reported by the operator at the time and that Crossroads was working with TCEQ to address the matter. With respect to operations expenses for the wastewater treatment plant, he stated that invoices were generally within the approved budget. Mr. Schroeder next reviewed the status of the approved wastewater treatment plant repairs, as reflected on the updated Pending Maintenance Items report attached as Exhibit "P". He reported that Ovivo had replaced the remaining 86 new membranes during the week of July 11th and at the same time had tested the five cassettes with poor effluent quality. He stated that an additional 69 faulty membranes had been identified and replaced and that the plant was now running much better. Mr. Schroeder next reported that additional harmonics testing had revealed no significant harmonics issues, which appeared to confirm that the electrical modifications and grounding improvements had solved the problem.

Director Kochwelp then recognized Mr. Bartram for purposes of receiving a report from the District's attorney. Mr. Bartram first reviewed the consultant directives. He next reviewed the memorandum attached as Exhibit "Q" summarizing the effect of Senate Bill 18 on the power of eminent domain. He explained that entities with the power of eminent domain were required to send a letter to the Texas Comptroller of Public Accounts prior to December 31, 2012 confirming, and specifying the basis of, that power. He recommended that the Board authorize his office to prepare and send such a letter on behalf of the District. After discussion, upon motion by Director Sams and second by Director Ragland, the Board voted unanimously to direct Mr. Bartram's office to prepare and send on behalf of the District a letter regarding the District's eminent domain authority as required by Senate Bill 18. Mr. Bartram next addressed the District's website and stated that he had no significant issues to bring to the Board's attention. Mr. Bartram next reported on the status of the Development Agreement for the ShadowGlen Subdivision. He stated that the board of directors of Travis County MUD No. 2 had met with the developer, and that representatives of that board had also met with the mayor of the City of Manor, to discuss certain additional requirements being imposed on the districts by the City, but that there had been no response from the City at this time. Mr. Bartram next reported that he had drafted and sent to the developer's attorney for review a new reimbursement agreement reflecting the entity restructuring following foreclosure.

Director Kochwelp then stated that the Board would receive a report regarding Master District and Advisory Committee items. Mr. Bartram first reviewed the agenda and draft minutes from the July 5, 2011 joint meeting of the Board of Directors of Wilbarger Creek

Municipal Utility District No. 2 and 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. Mr. Bartram next reported that the Master District budget for the upcoming fiscal year was under review by Ms. Bott and Ms. Allen and would be formally considered next month. He then reported on the status of the wholesale water rate settlement with Metro. He stated that the settlement documents were nearly final and that he expected to be in a position to circulate for execution by the end of the week.

Director Kochwelp then questioned whether there were any future agenda items or further business to come before the Board. Director Zuniga noted that, with the record high temperatures, ERCOT was initiating rolling brown-outs in order to conserve energy. She asked how the districts were prepared to handle such power outages. Mr. Schroeder confirmed that the wastewater treatment plant had a back-up generator that was triggered when the power went out.

There being no further business to come before the Board, the meeting was adjourned.

(Signature page follows.)

(SEAL)



Scott Sams, Secretary
Board of Directors

Date: 9/1/11