

**MINUTES
SPECIAL JOINT WORKSHOP
OF THE CITY COUNCILS OF
CIBOLO, CONVERSE, LIVE OAK, SCHERTZ, SEGUIN, AND SELMA
AND THE BOARD OF DIRECTORS OF THE
SCHERTZ-SEGUIN LOCAL GOVERNMENT CORPORATION
BALLROOM, SCHERTZ CIVIC CENTER
1400 SCHERTZ PARKWAY, BUILDING #5
SCHERTZ TEXAS 78154**

October 4, 2010

A Special Joint Workshop was held by the Schertz City Council of the City of Schertz, City Council City of Cibolo, City Council City of Live Oak, City Council City of Seguin, City Council City of Selma and the Schertz-Seguin Local Government Corporation, Texas, on October 4, at 6:30 p.m., in the Ballroom of the Schertz Civic Center, Schertz, Texas. The following members present to-wit:

CALL TO ORDER - WELCOME

Mayor Baldwin welcomed all in attendance this evening.

CITY OF SCHERTZ - Mayor Baldwin called the Schertz Special Joint Workshop to Order at 6:30 P.M. The following members were in attendance:

Mayor Hal Baldwin
Councilmember Jim Fowler
Councilmember Michael Carpenter

Mayor Pro Tem Cedric Edwards
Councilmember George Antuna

Staff Present: City Manager Don Taylor
Assistant City Manager David Harris
Assistant to the City Manager Bob Cantu

Assistant City Manager John Bierschwale
City Attorney Michael Spain
City Secretary Brenda Dennis

Councilmember David Scagliola absent.

CITY OF CIBOLO - Mayor Hartman called the Cibolo Special Joint Workshop to Order at 6:30 P.M. The following members were in attendance:

Mayor Jennifer Hartman
Councilmember Ron Pedde
Councilmember Larry Carlton
Councilmember Steve Liparoto

Mayor Pro-Tem Mark Winn
Councilmember Tony Krasnai
Councilmember Richard Hetzel

Staff Present: City Manager Bruce Pearson
City Secretary Peggy Cimics

City Attorney Charlie Zech
Committee Chair Bruce Winter

CITY OF CONVERSE - Mayor Suarez called the Converse Special Joint Workshop to Order at 6:30 P.M. The following members were in attendance:

Mayor Al Suarez
Councilmember Steve Brown
Councilmember Robin Benbrook
Councilmember Grant Lopez

Mayor Pro-Tem John Shadron
Councilmember Renee Paschall
Councilmember Randy Pannell

Staff Present:
City Attorney Ray Ortiz
EDC Director Mark Luft
Director of Facilities Karl Hoppes

Interim City Manager John Quintanilla
Finance Director Gerald Wilson
City Secretary Penny Hieronymus

CITY OF LIVE OAK - Mayor Dennis called the Schertz Special Joint Workshop to Order at 6:30 P.M. The following members were in attendance:

Mayor Mary Dennis
Councilmember Ed Cimics

Councilmember Eric Sanchez

Staff Present: City Manager Matt Smith
EDC Director Carol Buttler
Finance Director Leroy Kowalik
Former Councilmember Anne Jorrie

Assistant City Manager Scott Wayman
Financial Advisor Mark Seal
City Attorney Charlie Zech
Former Councilmember Pat Kauts

CITY OF SEGUIN - Mayor Matthies called the Seguin Special Joint Workshop to Order at 6:30 P.M. The following members were in attendance:

Mayor Betty Ann Matthies
Councilmember Tomas Castellon, Jr.
Councilmember Bob Pees
Former Mayor Mark Stautzenberger

Councilmember Don Keil
Councilmember Steve Tschoepe
Councilmember Carlos Medrano

Staff Present: City Manager Douglas Faseler
City Attorney Andy Quittner
Financial Advisor Allen Westerman
Water Utility Manager Emery Gallagher
Water System Superintendent Shawn Shimek
Finance Director Susan Caddell

Assistant City Manager Ricardo Cortes
Financial Advisor Duane Westerman
City Secretary Thalia Stautzenberger
Bond Council Jeff Kuhn
Seguin Gazette Newspaper Bob Thaxton

CITY OF SELMA – No Quorum - The following members were in attendance:

Mayor Tom Daly
Councilmember Charlie Eads

Mayor Pro-Tem Melba Gregory

Staff Present: City Administrator Ken Roberts City Engineer Larry Verner

SSLGC Board Members - President Greenwald called the SSLGC Special Joint Workshop to Order at 6:30 P.M.

President Ken Greenwald
Secretary Patricia Ramirez

Vice-President Robin Dwyer
Treasurer Andrew Koenig

Director Jim Wolverton
Shawn Shimek, Water Systems Superintendent

General Manager Alan Cockerell
Administrative Assistant Georgia Hanks

Also present:

City Attorney Michael Spain (Fulbright & Jaworski)
City Bond Attorney Jeff Kuhn (Fulbright & Jaworski)
Financial Advisor Mark McLiney (Southwest Securities)
SSLGC Hydrologist Consultant Bill Klemt
Engineering Consultant (Walker Partners) John Winkler
Legal Counsel (Davidson & Troilo) Patrick Lindner
Canyon Regional Water Authority Craig Hines
M& S Engineering Keith Strimple
Tom Koch, C. Thomas Koch, Inc.

Mayor Baldwin welcomed Mayor John Williams Universal City and Public Works Director Randy Luensman.

Discussion and/or Action Items

1. Future water needs in South-Central Texas (Mayor Baldwin)

Mayor Baldwin stated that all of those that were here twelve (12 to fifteen (15) years ago might recall when the City of Schertz went to all the cities in the Randolph community about the possibility of forming a corporation to go together and seek water in the area. At that time the Edwards Aquifer Authority was cutting back on the water that would be available to all the cities, everyone saw that this was a serious problem, that if all were going to maintain growth in the area and continue to grow then everyone could not sit still in cut backs in water we were receiving. Back in those days, the instructions were, so if you need more water to grow, then you need to find some somewhere.

At that time, the City of Schertz tried to get this group together to seek some water. There were plenty of good reasons why some could not do it, one being this was going to be a very expensive process and at that time had no idea where the water was and no plan at that time of finding it. The City of Schertz opinion at that time was, we are in such desperate straights, the Council directed the City Manager to find some water. The City hired Consultant Crockett Camp, he and his group went out seeking water. They found water in the Carrizo-Wilcox Aquifer area. The City of Seguin was also desperate need of water and basically were working out of the river and had a huge corporation coming in that needed a tremendous amount of water. The timing was perfect, the City of Schertz and the City of Seguin were able to join forces, split the costs of developing a well field and pipeline to get the water back to our areas. Twelve years later, everyone knows the success both cities have had. Over the years, the City of Schertz and City of Seguin have been able to do a lot of things that they were not able to before, gained a lot of experience in what has already been done.

Mayor Baldwin stated that the purpose of tonight is to share that experience and to ask each of you to think and talk about joining together as a group. It is difficult and very expensive to find water and to try to pipe it in from other areas is expensive, and a small city cannot

do it one their own. The City of Schertz feels partnerships and partnering in these things is the best opportunity for everyone to have the amount of water they need to continue to grow and continue to lead the Northeast side of greater San Antonio in growth and development.

Mayor Baldwin introduced Former Mayor Mark Stautzenberger, City of Seguin who was here when they formed the corporation, and lead his Council along with the City of Schertz in the search for water.

Mayor Baldwin introduced Schertz City Attorney Michael Spain, who has been with the City for over twenty years and has been with the city during the water situation and the formation of the Corporation.

Mr. Spain stated that the different city staffs of the cities have been meeting for sometime to come up with some ideas to put together a new water source that can benefit the cities of the region. He stated this workshop is designed for information for the various Councils to participate and give you a common set of data. We would expect that this meeting tonight will be followed up with individual meetings at each of the Councils and then perhaps another one or two other joint meetings.

Mr. Spain further stated that this is a big project and is a critical need for the future needs of all the cities in the region. This is a big commitment and he wants all the cities to understand what is involved and how long it might take, and what benefits it will bring to the cities. Mr. Spain welcomed everyone and will be the MC for this evening. Mr. Spain stated that they just learned that Mr. Crockett Camp is stuck out of town and will not be with us this evening and his presentation will be covered by others.

Mr. Spain stated that this is a workshop with the cities to discuss and ask questions and is not a public hearing; therefore, the citizens in attendance can listen and gather information. He stated that there would be other opportunities for citizen input.

2. **The SSLGC experience** (Alan Cockerell, General Manager SSLGC) – Provided a brief PowerPoint presentation summarizing milestones covering the following:

- **Concept** - The Schertz-Seguin Local Government Corporation (SSLGC) was created to develop and operate a wholesale water supply system from the Carrizo Aquifer for the benefit and well-being of the cities of Schertz and Seguin. SSLGC's original project and expansion plans are included in the regional and state water plans.
- **History** - The idea of using Carrizo water began with an independent water supply study in 1998 conducted by the City of Schertz. The City of Seguin also had an interest in developing the same resource. Each city was not able to implement this massive project on its own, but was able to join together and form a separate local government corporation. Project cost over \$80 million to implement (including 2010 expansion)

- Organization - SSLGC was formed under Subchapter D of Chapter 431 of the Texas Transportation Code in December 1998. SSLGC is governed by a Board of Directors (5) appointed by each City Council. Staggered five-year terms with majority control shifting each year between owner cities. One ex-officio member from each City Management Services Agreements were developed between each city and SSLGC.
- Implementation - Seguin began receiving water in Sept 2002. Schertz began receiving water in Feb 2003 when the pipeline was completed. In 2004 SSLGC became a wholesale water supplier to the City of Selma, City of Universal City and Springs Hill Water Supply Corporation.
- Current Operation - SSLGC provides the primary water supply for Schertz and Seguin. Both cities maintain secondary supplies for peaking and emergency situations. Schertz maintains Edwards Aquifer rights and Edwards Aquifer wells. Seguin maintains Guadalupe River rights and a surface water treatment plant for industrial customers.
- Water Quality - Iron and manganese are removed with potassium permanganate/sand filters. pH is adjusted with lime & caustic soda. Chlorine is added for disinfection. Carrizo water is very low in total dissolved solids and blends well with Edwards water and Guadalupe river water.
- Current Facilities - Wellfield in Gonzales County. 19 MGD water treatment plant, storage facility, high service pump station northwest of Nixon. 43 miles of 42, 36 & 30 inch pipeline from treatment plant to storage tanks in Schertz and Seguin. Booster pump station and storage facility on Leissner School Road in Seguin.
- Expansion - SSLGC currently has 12,910 ac-ft/yr permitted and in production with eight 1000 GPM wells. Permit for 6,452 ac-ft/yr has been issued for four additional 1000 GPM wells. Water rights are secured by contiguous properties. Purchased: 4,339 acres, Leased: 13,544 acres, Project total: 19,362 ac-ft/yr from twelve wells
- Summary - Partnerships can work to solve problems. Organization needs to be well defined. Cooperation and Trust are necessary. Groundwater permits must be obtained by local groundwater conservation districts. Include projects in Regional Plan.

3. **The New LGC concept** (Scott Wayman, John Bierschwale and Bruce Pearson)

Mr. Scott Wayman provided a brief PowerPoint presentation discussing the needs of the cities as well as discussing the formation of the new Local Government Corporation. Mr. Wayman covered the following information:

- City of Cibolo - Green Valley serves water to a portion of the City. Currently, 87% of water usage is residential, 80% of Cibolo is undeveloped; this year added 400 new homes and anticipating 250 homes next year. Boundaries currently extend south of IH 10, however, with the economic development activities that

are underway, it is anticipated that residential usage will be around 70% in the future and commercial at 30%.

In the last ten years, Cibolo’s population has increased by 500%. Currently has 2550 a/f of water available and current usage is 2050 a/f per year. Estimates by Canyon Regional Water Authority in the last ten years included the following:

Year	2010	2020	2030	2040	2050	2060
Acre Feet	2,050	3,030	8,230	8,730	9,230	9,230

- City of Converse: Currently has Permits and Leases for 2,550 a/f of Edwards and pretty much pumping it all. Since 2007, they have issued 782 residential Building Permits, 600 + Units residential on horizon, New Plats Pending. Economic Development efforts include potential for Hotel Convention Center and New Business Development along Loop 1604. JISD Opened New Judson High School with 3,300 students and 301 staff. JISD set to construct new elementary school @ Loop 1604 & Thornton Lane.

Council seeking to solve tomorrow’s water needs today by considering long-term growth trends necessitates an additional 3,000 acre-feet. They do have an alternative supply 300 a/f of Schertz’s Edwards water. Council set it as goal to progress as they grow. Council is committed to securing water resources to ensure out growth and progress as a community.

- City of Schertz: Schertz is looking for this water supply for redundancy purposes to insure water stability as they grow. Staff is looking for continual growth through next 50 years. The Sysco development along with additional retail and commercial will drive the demand. There are several hundred lots platted not built on as well. Half of City’s land area is yet to be developed and they have extensive extraterritorial jurisdiction.

Schertz has 10,000 a/f of Schertz-Seguin water, 1700 a/f of Edwards that is used as supplemental supply. Continued expected growth.

- City of Selma: Platted as of yesterday 801 lots, Selma currently has 1200 a/f of Edwards Water, 800 a/f Schertz-Seguin Water. Concerned with Edwards Junior/Senior rights and possible reductions, 300 a/f of additional rights would make them comfortable.
- City of Live Oak: Live Oak owns rights to 1752 a/f Edwards water and is contracting to purchase additional 40 acre-feet. Leases out through 2017 additional Edwards water. Currently expanding commercial and residential customers and calendar year 2008/2009 pumped 1419 acre-feet.

Concerned with Junior/Senior and drought reduction measures. Need approximately 1,600 a/f additional for ultimate growth Bexar Met line is in place to provide non-Edwards alternative 1000 a/f at \$782-\$1,140 per acre-feet. Half the City served by Live Oak and half by SAWS.

- City of Seguin: Currently has 10,000 a/f from Schertz-Seguin Corporation. Additional rights from 7,000 a/f Guadalupe water, 1,000 a/f Canyon Lake Guadalupe Blanco River Authority.

Future expansion of the City is planned, anticipating growth from development of State Highway 130. City staff planning for growth 40 and 50 years out.

Interim City Manager John Quintanilla (Converse) provided the following information on case studies and what the City of Converse has been doing and the needs for the next few years:

- Currently have permits and leases for about 25/50 a/f per year from the Edwards.
- Since 2007, the city has issued 782 residential building permits, slowed down now but projecting consistent residential construction. At least 600 plus units on the horizon, several new plats pending.
- Economic Development is a critical component, hoping for a hotel/convention center. With the expansion of Loop 1604 will attract new business development.
- JISD Opened New Judson High School with 3,300 students and 301 staff. JISD set to construct new elementary school @ Loop 1604 & Thornton Lane.
- Their Council is looking to solve the problem today and not tomorrow. They are seeking to lease an additional 3000 feet and is committed to securing the additional water supply needs to secure their future.

City Manager Bruce Pearson (Cibolo) provided the following information regarding “Why create the new Local Government Corporation:”

- Regionalization approach
- To provide an immediate resource
- To accommodate future growth in the corridor
- Economics
 - 1. Positive Impact on Development
 - 2. Economies of Scale
 - 3. Strength in Numbers
- To diversify water resource inventories:
 1. The Allowance for the Sharing of a Water Resource
 2. Reduce the Possibility of Competition.
 3. Eliminate Competition against each other
- “The Right Thing to Do “

Assistant City Manager John Bierschwale (Schertz) provided the following conclusion information as to why creating a new LGC would be beneficial to all:

- In creating a new LGC, you have to determine the cost of the project, ownership versus the direction you want your city to seek. Mr. Bierschwale stated that it has been a great partnership with the City of Seguin and the City of Schertz walking

hand in hand with the issues they had over the last ten years, it has been a wonderful thing becoming united bringing the water to the two communities.

- Under the current government, we are not allowed to have other members to become part of Schertz-Seguin Local Government Corporation. That is why everyone is here tonight, to share the perfect model to make a new Local Government Corporation successful for all of us.
- It can be done, it will be expensive. It can be a Schertz-Seguin Local Government type of business.

City Attorney Michael Spain stated that the concept is the six cities; maybe more will participate on an equal basis, equal vote, equal investment, and equal ownership. Some cities may pay more if they use more water, but the basic concept is a full partnership of all the participating cities. Following is start up issues:

4. **Start-up issues**

(a) **Engineering/hydrology** (John Winkler, Bill Klemt with SSLGC)

Consultant Engineer with SSLCG, John Winkler provided information on the following:

- Relevant Terms you will hear
 - Acre-feet = 325,851 gallons
 - 1,120 acre feet = 1 MGD
 - DFC –Desire Future Conditions
 - GAM - Groundwater Availability Model
 - MAG – Managed Available Groundwater
- SSLGC Water Quality Comparison information was provided
- Groundwater Permitting Process
 - Activities: Modeling, Test wells, Configure well field, prepare the technical report, prepare application, public notification, respond to questions and comments, final permit sets the parameters for the project.

Mr. Bill Klemt, Hydrologist of SSLGC stated he would like to speak regarding his favorite subject, the Carrizo-Wilcox Aquifer. One of the states major aquifers, it extends from the Rio Grand in South Texas northeastward into Louisiana and Arkansas, providing water to all or parts of 60 counties. The South Texas portion of the aquifer is probably the better part of the Carrizo. Example: irrigation, that part of the aquifer stated to be developed in the 1900's, when they got to the height of irrigation it was producing 300,000 a/f of water per year. Most of that was down in Atascosa further on south to Frio and in Demit and De Zavala Counties. Wilson, Gonzales did not see that large irrigation development.

Mr. Klemt stated that our area of interest is Caldwell, Gonzales, Wilson, and Guadalupe Counties. He stated that at this time he does not know what the groundwater availability would be in those counties because they are still in the DFC (Desire Future Conditions) and MAG (Managed Available Groundwater) process. He stated that computer simulations (that had to do with drawdown) were conducted by the Texas Water

Development Board showed that these counties could very well produce 110,000 a/f of water and not lower water levels significantly until the year 2060. Measured water levels at this time are showing that modeled water levels are probably showing more draw down than what they are measuring today. In the next five years we will show a revision of this 110,000 a/f. He stated that probably the bad news is most of the 110,000 a/f of water is either permitted or we have permit applications pending. His opinion is that we have approximately 10 to 20 percent of this available water that can be spoken for today, that is primarily in Wilson and Guadalupe Counties.

(b) Acquisition of water rights (Pat Lindner) (c) Permitting (Pat Lindner)

Mr. Pat Lindner, General Council to the Schertz-Seguin Local Government Corporation provided the following information regarding the legal side of the water rights that will be necessary for the success and the legal side of the permitting process.

Mr. Lindner stated that if the new LGC plans to produce new ground water, it will need a Ground Water Production Permit and Transportation Department issued by Ground Water Conservation District located in a county where the wells will be drilled. In order to apply for a permit the new LGC will need to buy, lease, or have an option to buy or lease approximately 5000 acres of land in Wilson County if that is where you want to drill. In addition to acquiring the required interest land, the application will need to be supported by considerable technical data. Once the application is filed, the districts processing of the application will take a frustratingly long time and a costly hearing process.

The new LGC will probably be able to get the permit, but due to local politics, there is a risk that the application may be denied. The prospects for obtaining the permits are improved if the application is filed relatively soon and before other competing applications are filed by other persons.

Regarding the acquisition of water rights, the proposal of the new LGC is to create an additional supply of non-Edwards groundwater by developing a new well field in Wilson County to produce water from the Carrizo formation. Since Wilson County is one of several counties with Evergreen Groundwater Conservation District, the new LGC will need to obtain a new drilling production and transportation permit from that district. Before filing a new application, the new LGC will need to assemble by purchase, lease, or option to purchase or lease contiguous tracts of land with sufficient acreage to support the application for the amount of water required to be produced. This is because the Groundwater Districts in this area over the Carrizo set a maximum of up to but not exceed two a/f of water for each acre of land that you own or lease. While the new LGC may buy land an owner of approximately 5000 acres of land wants to lease his property, and prefers to lease to those he is comfortable with, that is sufficient amount of acreage to proceed with the initial phase of the project. Since the landowner has already leased his land in Gonzales and Guadalupe County, the landowner will be wanting a lease with the same general business terms. Such as, a one-time signing bonus, secondly an annual royalty payment based either on the right to produce subject to a discount during the years it requires permit and develop the well field or based on the amount of production combined with a duty to produce. A periodic adjustment of the royalty rate based on

subjected standards such as the GBRA conserve water rate or inflation rate and then the purchase of two and half acre tracts of land for the well sites, the two and half acres comes from and includes the required sanitary control easements for the wells, right-of-way road access for the wells, collection line easements and power supply easements.

While the details of each business transactions are subject to negotiations, for the purposes of preparing the cost estimates presented to you, we assume costs comparable to the existing Schertz-Seguin leases with this landowner. One adjustment is that under the Ground Water District rule in Wilson County, the maximum amount of water a landowner may produce for each surface acre is subject to the District's subjective determination rather than a fixed maximum set by the Districts in Gonzales and Guadalupe Counties. The landowner has been patient, but is anxious to lease because he is very familiar with the groundwater permitting process and knows if you snooze you lose. Time is of the essence, because several Groundwater Districts will soon be receiving from the Texas Water Development Board the amount of water that is available for permitting by each district, based upon the desired future condition of the Carrizo previously agreed to among the several Districts involved.

Under State law, the District is encouraged but is not required to approve applications for the amount of managed available groundwater, but a District has reasons to deny an application once it has permitted all the managed available groundwater.

Summary: there will soon be an amount of water available for permitting in each District and an applicant who files first will have the best chance for having the application approved. This begins to the permitting issues, as previously stated, if the members of the new LGC decide to obtain additional water from the non-Edwards groundwater rather than purchasing the water, the new LGC will need to obtain the permits. Absent a drilling production and transportation permit, the source is not feasible. Unlike the streamlined processes adopted by cities, Groundwater Districts exercise considerable discretion whether they are allow to or not. Since the District is subject to only limited supervision by the State, based upon his experience in representing applicants and representing Groundwater Districts, every applicant is frustrated by the lack of predictability, the time and the cost of the permitting process. There is no guarantee that a permit will be issued.

As he mentioned earlier, the prospects for obtaining permits have been approved if the application is filed sooner not later. In the current regulatory climate, organizers or associations of landowners opposed to the production, and especially the export of the water will probably protest any application. Knowing this, significant information must be gathered in order to file an application that will be deemed administratively complete by District, so the District will actually start the permitting process. The projected costs included getting the new LGC to the point of actually filing an application that is administratively complete. Once the application is deemed administratively complete, and the District has completed its technical review, the District will schedule the application for hearing. If the application is protested, and it will be, that starts the contested case phase of the proceeding. During that phase, the District hires a lawyer to conduct the proceedings, handle discovery disputes, hear the evidence and make a

recommendation to the District's Board of Directors. The District's Board of Directors is not obligated to accept his recommendations and is free to choose one way or the other.

Once the Board of Directors makes their decision, you can appeal the decision who ever is dissatisfied with the decision. This is under the substantial evidence appeal, so at that time the appealing party has to show that there is on evidence to support the decision made by the Board of Directors or that there was a substantial procedural mistake made during in the permitting process. Since the contested case hearing equates to a trial on very technical issues, and the applicant is required to pay all the Districts costs conducting the hearing regarding the permit application, he has included an estimate for the hearing to be about \$250,000 over the course of two-year period. That not just legal fees, again that the Districts costs for conducting the hearing and expert fees to develop testimony in support the application, and respond to the landowners who are opposing the application. The actual cost maybe more or less, the period of time may take less than two years, and hopefully that will be the case. Mr. Linder stated that he wants the members of the group that will proceed to know that this is a risk; they have to factor in regarding their decision-making. In conclusion: More likely or not, the new LGC will probably obtain the required permits, especially if it files before the other applications but land acquisition costs and the permitting process will take time and money.

(d) **Schedule** (Michael Spain and Pat Lindner)

City Attorney Michael Spain stated that now he would like to put some dates in front of you that give you a sense of how long a long time is. He stated that at the last staff get together, they have divided the schedule into two parts, one is to get the new LGC created, actually existing as a new corporation and the second part of the schedule is the permitting process. He stated that at the last staff meeting he passed out a proposed schedule and everyone looked at him as though he was crazy and didn't understand politics, that there was no way it could happen that quickly. He stated that maybe, but hoped that they can beat the schedule, because as Pat Linder, John and Bill talked to you, time is of the essence, we are racing others who maybe filing permit applications, racing the legislature, they will be convening early next year and the sooner we can get this off the ground the better we all will be.

The following schedule timeline requires the following and he challenges the Councils to beat his dates:

- First Joint Workshop tonight (October 4, 2010)
- Remaining part of October first of November individual Council follow-up meetings where Councils will want to get more information on time costs and what is all involved in this.
- Mid January – expectations of the staffs involved to have the cities committed to joining or not joining the organization. Having identified their directors they would like have to identify all the things that have to be done just to create the organization with the Secretary of State.
- Late January – file Articles of Incorporation with the Texas Secretary of State; conduct the organization meeting of the Board get up and organizationally

running. At that point, the permit application can be filed, if the engineering and hydrology work has been done. If one or more of the cities, can fund the engineering and hydrology work prior to the Organization actually being in existence, would speed up the filing time. We cannot file until the Organization is existing and the engineering work is done. Lets assume that gets done by late January then Mr. Lindner can tell us how long a long time is to get the permitting done.

Mr. Linder provided the following proposed post-funding schedule:

- Preliminary. New LGC is formed, holds organizational meeting and confirms plan to proceed with Wilson County Project.
- Day 1. Participants make initial deposits.
- Month 1. Authorize consultants required for project to proceed with work.
- Month 2 - Month 3. Finalize option to lease/lease of property.
- Month 2 - Month 7 (approx. 6 mos.). Technical studies required to submit application completed (This work may be extended if unable to finalize options to purchase/lease.)
- Month 8. New LGC reviews, revises, and approves application.
- Month 9 –Month 33 (approx. 2 years). District review of application, contested case hearing, and approval of application.
- Month 34.* New LGC issues bonds for design and construction.
- Month 34- Month 52 (approx. 18 months).* Prepare plans and specifications, obtain regulatory approvals, acquire right of way, drill and equip wells, and build collection system.

**Assumes application is approved and New LGC decides to proceed with design and construction even if permit is appealed.*

City Attorney Michael Spain stated that now Mr. Winkler will go over the costs. He stated that there are several steps to the costs, the cost of creating the organization and the cost of doing the preliminary work for the permitting process to get off the ground, the cost of going through all of that permitting, and then the cost of getting operational.

(e) **Costs** (John Winkler)

Mr. Winkler provided the following information regarding new LGC Operational costs:
Key Points

- “There is a shortage of cheap water”
- Pricing Factors
 - Utilization
 - Scale Economy
 - Location
 - Water Quality

Capital Costs:

Guadalupe Project (\$25.7 million)

- Design 75% Complete
- Up to 6,000 acre-ft (over 3,000 ac-ft permitted)
- Includes \$2.4 million SSLGC outlay rebate

Wilson Project (\$23.5 million)

- Permits for up to 9,000 acre-ft
- New grass roots project

36" Pipeline (\$18 million)

- Increase capacity to 48,000 acre-ft
- ROW in place
- Parallel Existing Pipeline

Effective Rate:

- Permit Goal – 12,000 acre-feet annually
- Annual Debt Payment - \$4.4 million
 - ✓ Fixed Payment
 - ✓ (8,000 acre-ft annually) = \$1.12/1000 gallons
- Operating Cost
 - ✓ Variable Costs
 - ✓ Lease and District- \$0.40/1000 gallons
 - ✓ Electrical - \$0.59/1000 gallons
 - ✓ Operations - \$0.18/1000 gallons
- Estimated Effective Rate
 - ✓ \$2.29/1000 gallons

Advantages

- ◆ Long Term Water Source
- ◆ Lower Rate for Participants
- ◆ Better Utilization of Facilities
- ◆ Redundant Water Supply
- ◆ Partner in System

Disadvantages

- ◆ Protracted Permitting Process
- ◆ Changing Rules
- ◆ Availability of Water (Timing)

5. **Short-term, mid-range and long-term plans** (John Bierschwale, Bruce Pearson)

Assistant City Manager John Bierschwale provided the following information:

Phase 1 – Short-term Planning

- Establish the New LCG, Partnerships' and appointment of the Board of Directors
- Immediately apply for the water permits in Wilson County ranging from 5000 to 9000 ac/ft of water

- Begin working out details with the SSLCG to professional services, treatment plant operation and transportation of water
- Develop a long-term financial plan for projects
- Develop a project phase-in period

Phase 2 – Mid-range Planning

- Complete negotiations with the SSLGC to purchase existing Guadalupe County underground water leases and begin construction on water treatment plant
- Complete details of second pipeline and transportation of water
- Locate additional Guadalupe County underground water leases

Phase 3 – Long-term Planning

- Continue seeking long-term solutions in locating and developing water in the Carrizo and Wilcox formations from the Guadalupe and Wilson Counties.
- Expand the water wells and water treatment plant based on water demands.

City Manager Bruce Pearson (Cibolo) gave kudos to the information Mr. Bierschwale and the ones before them for providing all the information. Mr. Pearson stated that those who have met and been exposed to the “Crockett Camp” over the last several weeks heard a phrase that he brought up in one of their meetings, and it really relates to the elected officials “ it takes the political will to make the decision to secure your communities future.” Obviously, there is a lot of thought and a lot of wisdom that goes into making those decisions. Mr. Pearson stated that if you were to ask Schertz Seguin what their project would cost today that they bonded about fifteen years ago you would probably hear that it would be about one and half times if not more expensive today then it was years ago. It is not going to get any cheaper; it will continue to get more and more expensive. The key to some of us on the short-term, mid-term and long-term range goals are: there is water permitted right now for those who need it, the construction of the plant, the construction of the well field in Guadalupe County would be available quickly, long-range plan, obviously is to go into Wilson and the Wilcox formation.

There is a lot of flexibility depending upon each one of our communities of what our desires and needs are.

City Attorney Michael Spain stated that the next part of the presentation will include financing alternatives. As he had mentioned earlier, there are three Financial Advisory firms that represent the six cities here tonight, two of the firms, Samco and Southwest Securities are Co-Financial Advisors for the Schertz-Seguin Local Government Corporation.

The Corporation is represented by Duane Westerman, Mark McLiney and his partner with Fulbright & Jaworski, Bond Council Jeff Kuhn. They will be covering some of the financial alternatives as well as the front in costs. Mr. Spain stated that we have to get to the point where we have water and we have a permit. There has to be an investment by all the participating cities to get that point, that is the front end costs that everyone is going to have to come up with, whether through available cash, financing or a combination of the two and

then beyond that, there is the financing of the plans beyond the point where you know you have the water and permit.

6. **Financing alternatives** (Mark McLiney, Duane Westerman, and Jeff Kuhn)

Mr. Duane Westerman, Samco Capital Markets provided the following information:

Three different areas to cover: (1) the initial funding of the Corporation, which is the one he will be addressing, (2) Mark McLiney with Southwest Securities will address the Corporation once it is formed, and doing the financing from that point forward, (3) and then Jeff Kuhn will correct them on things they didn't get right the first time through.

Mr. Westerman stated what the initial estimates are for all the cities to get the Corporation up and going is currently and only an estimate in the range of \$1.2 Million dollars. If six cities participating in the Corporation we are looking at dividing that by six you are looking at about a \$200,000 investment per city to get started. There are different ways for the cities to come up with this, (1) if you have cash on hand, (2) you can do it with a reimbursement resolution, you can use cash on hand from funds you have available. Go ahead and approve a reimbursement resolution indicating you are going to reimburse yourself from future financing, whether be through the corporation or through your own financing.

Finally, if you did not have the cash on hand, each city could determine whether or not they could do a financing for the \$200,000 initially on their own, through what legal vehicle the cities want to use. It could be through taxes note it maybe through some other financing, but they would work with the cities bond councils to determine what method would be possible for that.

Mark McLiney with Southwest Securities stated that this could be three or four years down the road prior to the necessity to issue future bonds. The \$1.2 million will get you through the permitting process, get the permits, and possibly through the challenging period, the protests and court challenges. If and then you are ready to go, you are looking at \$30 to \$50 million dollar bond projects, depending which avenue is pursued.

Mr. McLiney stated that fifteen years ago, Mr. Sweat who was City Manager at that time, Mayor Baldwin and John Bierschwale called his boss in and told them they got this project to go out Gonzales County and do a \$30 million dollar project. His boss stated that you cannot do it, you cannot afford it, unknown to them at the time, Seguin was doing the same thing they formed this partnership and it worked well. It has continued to work well. We are looking at another type of investment like that, and we can split it six ways. Split the cost, make it affordable and give everyone a chance to grow into it. What we will be looking at is following the model, the Local Government Corporation that was created there was a very brilliant legal mind, come up with the Transportation Code to use as a method to create the Local Government Corporation to give the a financing mechanism. Once that was created, they were

able to go to market and sale obligations. There are several methods you can use, you can sell the bonds to the open market, just as Schertz-Seguin did where you issue a small portion to fund the initial project to make sure there is good water, good wells, that we can have the water and the follow-up with a transportation funding, taking several steps along the way. He stated there is open market sales, you can sell them out in the market, there is another alternative with the Texas Water Development Board that does take some time and effort but it is called the States Participation Plan. This plan is through the State through the Texas Water Development Board will have ownership also in the project. That ownership is then transferred periodically over a number of years to full ownership of the Local Government Corporation. This again allows for us to grow into the project and financing. It takes an application and there is no guarantees that funds are available, but these are funds that will be looked at.

A third alternative, and is similar to your initial funding, each city could issue their own debt and turn it over to the Local Government Corporation for projects to do the actual financing. There is going to be several decisions made to proceed, the nice thing is that you are not recreating the wheel. It has been done, and done very successfully, and if the City Councils come together and want this project, we are going to be able to finance this in the open market or in partnership with the Texas Water Development Board. He believes these projects will be funding four to five years down the road. Once the permits are done but it is something you want to be thinking about and starting the process now so what when we have the permits and are ready to go we are not then trying to create the mechanism of where we are going to use. This all needs to go simultaneously with the permitting process.

Mr. Jeff Kuhn with Fulbright and Jaworski stated he is involved as far as the bond side and can reiterated that a lot was involved, a lot of political will was there to when the SSLGC Schertz-Seguin Local Government Corporation was created. He stated his role is to review the take or pay contracts and sheparding the process through the Texas Attorney General to get the new debt issued by the new Local Government Corporation.

City Attorney Michael Spain stated that the Councils have received a lot of information this evening, there is a lot more that you need to have. Each Council will be going back to their City, and sit down and talk with your staff, your management. You will want to talk to your Financial Advisors, City Attorney to go through all the issues that are going to be important to you in making a decision whether you think you want to pursue. Mr. Spain stated that he knows that everyone will want to have meetings internally and stated that there will most likely be one more joint meeting to address any issues.

7. **Additional questions from, and discussion by, members of the City Councils, SSLGC Board, and Staff**

City Attorney Michael Spain opened it up for additional questions from, and discussion by, members of the City Councils, SSLGC Board and Staff.

There were none at this time as all Council have a tremendous amount to think about.

8. **Commitment, cooperation, and coordination** (Mayor Hal Baldwin and Mayor Betty Ann Mattheis)

Mayor Betty Ann Mattheis, City of Seguin stated that she strongly believes that in her position as Mayor of Seguin, she has an obligation not only to work for the needs of today but we must constantly be working for the needs of tomorrow. She stated this type of partnership in addressing the needs of water for these communities that are so closely connected geographically is the answer to being able to plan for the future. She stated she recently attended the San Antonio – Austin Summit that was held in New Braunfels and former Mayor of San Antonio Henry Cisneros talked a great deal about the development of this region and how the success is going to be based on communities working together. She has had the opportunity to serve as an Ex-Officio Member of the Schertz-Seguin Local Government Corporation for over ten years, and have watched it through the years. She stated it is a remarkable partnership; it is one that has been based on cooperation and trust and that is the success of it. Using this model, this group that is gathered here together could have the same success by joining together to meet the water needs. She is very optimistic that this will happen. She stated it is a privilege for her to be here this evening to make a comment but does urge everyone to consider it seriously. Using the Schertz-Seguin Local Government Corporation as a model, it could be a great success and a plus for the development of the whole area.

Mayor Hal Baldwin. City of Schertz thanked everyone who attending, he urged everyone to take the information back to your communities talk it over with your constituents, your administrators and try to get back together again soon and make a decision on whether we want to go forward with this project or not. Mayor Baldwin thanked the Board of the Schertz-Seguin Local Government Corporation for being here and joining us in the project. Thanked all the staff representatives, finance experts and those that are here tonight to help us make a decision. Mayor Baldwin thanked his City Manager Don Taylor, as well as Assistant John Bierschwale for putting this all together.

City Attorney Michael Spain stated that he expects that sometime in the next two weeks or so the staff members of all the cities and Schertz-Seguin who have been meeting for the last couple of months will be getting back together again. If the Councils and Senior Management of each of the cities can give your respected staff some questions or comments that you would like for the whole group to have at our next joint meeting, that would be very helpful in setting up individual meetings with the various Councils to answer your questions in greater detail.

Last housekeeping matter, is that each Council will need to adjourn.

Mayor Baldwin recognized Councilmember Carpenter with the City of Schertz who that pursuant to the comments and presentations made, he moves, seconded by Mayor Pro-Tem Edwards that we, the City of Schertz, state our commitment to pursue the

creation of and funding of a new Local Government Corporation. *The vote was unanimous. Motion passed.*

ADJOURNMENT

As there was no further discussion or action, Mayor Baldwin, City of Schertz adjourned the meeting at 8:25 p.m.

Mayor Suarez City of Converse adjourned with no action taken.

Mayor Betty Matthies City of Seguin adjourned with no action taken.

Mayor Dennis City of Live Oak adjourned with no action taken.

Mayor Hartman City of Cibolo adjourned with no action taken.

President Ken Greenwald Schertz-Seguin Local Government adjourned with no action taken.

Hal Baldwin, Mayor

ATTEST:

Brenda Dennis, TRMC, CMC City Secretary

Minutes were approved by the City Council of Schertz on October 12, 2010.

Betty Ann Matthies, Mayor

ATTEST:

Thalia Patlán Stautzenberger, City of Seguin City Secretary