

MINUTES OF THE SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION

THE STATE OF TEXAS §
COUNTY OF GUADALUPE §

SCHERTZ/SEGUIN LOCAL §
GOVERNMENT CORPORATION §

On this the 19th day of May 2011, the Schertz/Seguin Local Government Corporation (SSLGC) convened at 1:32 p.m. in the City of Schertz Council Chambers located at 1400 Schertz Parkway, Building #4, Schertz, Texas. The following directors being present and in attendance:

Ken Greenwald	President
Timothy "Jake" Jacobs	Secretary
Andrew Koenig	Treasurer
Kerry Koehler	Director
Betty Ann Matthies	Ex-Officio
Hal Baldwin	Ex-Officio

and the following director arrived after meeting was called to order (1:38 p.m.):

Robin Dwyer	Vice-President
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constituting a majority of the persons appointed to the Board and a quorum for the transaction of business, and notice of such meeting having been duly given in accordance with the provisions of Texas law. Also in attendance were:

Doug Faseler	City Manager of Seguin
Don Taylor	City Manager of Schertz
John Kessel	City Manager of Schertz
Johnny Bierschwale	Assistant City Manager Schertz
David Harris	Assistant City Manager Schertz
Susan Caddell	Finance Director Seguin
Sam Willoughby	Public Works Director Schertz
Patrick Lindner	Counsel (Davidson & Troilo)
Bill Klemt	Hydrologist Consultant
John Winkler	Consultant (Walker Partners)
Crockett Camp	Consultant/Project Manager
Dan Jackson	Rate Consultant (Economist.com)
Alan Cockerell	General Manager SSLGC
Shawn Shimek	Water System Superintendent SSLGC
Emery Gallagher	Water Utility Manager Seguin
Regina Franke	Administrative Assistant SSLGC

The first order of business was to Call the Meeting to Order.

President Ken Greenwald called the meeting to order at 1:32 p.m.

The second order of business was Public Comment.

Mayor Hal Baldwin introduced Mr. John Kessel as the new City Manager for the City of Schertz. Mr. Kessel began as Economic Development Director for the City of Schertz. His new position as City Manager would begin on Wednesday June 1, 2011.

Mr. Don Taylor will serve as Chief of Police beginning June 1, 2011.

The third order of business was Approval of the Minutes for the Board Meeting held on April 21, 2011.

Secretary Timothy “Jake” Jacobs made a motion to approve the April 21, 2011 minutes as written and noted the correction made on Page 7; the action regarding the fourteenth order of business now stated “President Greenwald deferred agenda item *fourteen* to Executive Session.” Treasurer Andrew Koenig seconded the motion. Upon a vote being called, the motion carried by unanimous decision.

The fourth order of business was Presentation of the General Manager’s Report – Alan Cockerell, General Manager.

General Manager Cockerell’s written report was included in the board agenda packets. He added the following items to his written report:

- **Water Production.** Water production for the month of April was 83.1% of Gonzales County Underground Water Conservation District’s (GCUWCD) monthly allowable. Mr. Cockerell referred to Seasonal Pumping and Monthly Water Sales charts which were included in the agenda packets. He stated that seasonal pumping was beginning to peak in the month of April and he would continue to track the trend which is dependent largely upon the weather.
- **GCUWCD.** The Underground District met May 10, 2011. Mr. Cockerell attended this meeting. A copy of the agenda is included in the board packet along with financial statements for the Western Mitigation Fund.

The district will conduct a public hearing in regards to the contested case hearing which is related to the permit applications by CRWA, HCPUA, and TWA. The meeting is scheduled for Monday, May 23, 2011 at 1:00 p.m. The article regarding the WPA lawsuit was distributed at the meeting.

Mr. Cockerell stated that according to an article, distributed at the meeting, the City of Gonzales has reached an agreement to sell their reclaimed water to Long Branch Energy to be used in the Petroleum Industry.

- **Region L.** The meeting was May 5, 2011. Mr. Cockerell noted there are thirteen positions open to be filled at their August 2011 meeting. He advised there is a draft copy of the notice in the board packet. Mr. Cockerell will correspond with Judge Wiggins regarding the open county position with Region L.

The fifth order of business was Presentation of Treasurer’s Report – Susan Caddell, Finance Director & Alan Cockerell, General Manager.

A copy of the Treasurer’s report was included in the board agenda packets. The report was prepared by Director of Finance Susan Caddell and review by General Manager Alan Cockerell. Mr. Cockerell recommended approval of the following report:

a. Financial Statements for the quarter ending March 31, 2011.

- Revenues, Expenses and Changes in Net Assets – Combined Statements
 - **\$ (3,678,448.65) Net Income (Loss) Before Transfers**

Ms. Caddell stated that this loss was largely attributable to spending funds from the 2007 and 2010 Construction Funds.

- Revenues, Expenses and Changes in Net Assets – Operating Fund
 - **\$ 244,449.87 Net Income (Loss) Before Transfers**
 - **\$ 69,614.51 Net Income (Loss)**

Ms. Caddell stated that our rate consultant, Dan Jackson of Economist.com, recommended rather than having different rates of revenue for the Operating Fund, Repair and Replacement Fund and the Future Development Fund; put all the revenue in the Operating Fund and make transfers to the other funds. The transfers to the two funds are based upon \$.14 per thousand gallons of usage for the first quarter of FY2011. When computing the transfer for the second quarter based upon \$.14 per thousand gallons, it resulted in over \$100,000 loss in the Operating Fund. Staff recommended against processing a transfer this quarter and to review it the next quarter.

- Construction Fund – 2007 Balance Sheet – Cash on Hand
 - **\$ 858,548.91**

Ms. Caddell stated all of the 2007 Construction Funds have been encumbered.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets for the Interest and Sinking Fund includes I&S rates paid by participating entities for the first and second quarters and the first bond payment of the year. The first bond payment was made February 1, 2011 in the amount of \$2,774,912.71; this includes a portion of the capitalized interest from the 2010 bond issue.

- Repair & Replacement Fund Balance Sheet – Cash Balance
 - **\$ 1,169,562.12**
- Future Development Fund Balance Sheet – Total Current Assets
 - **\$ 691,945.17**
- Revenues, Expenses and Changes in Net Assets – Impact Fund
 - **\$ 300,356.00 Net Income**
- Revenues, Expenses and Changes in Net Assets – Reserve Fund – Cash on Hand
 - **\$ 1,277,318.71**

Ms. Caddell stated that the required amount to maintain in the Reserve Fund according to bond covenants is \$ 1,275,621.10.

- Revenues, Expenses and Changes in Net Assets – Construction Fund 2010 (New Wells Project)
 - **\$ (2,693,264.60) Net Income (Loss)**

The Interest Income for the Construction Fund – 2010 was \$17,684.70 and the Total Expenditures were \$ 2,710,949.30.

- Revenues, Expenses and Changes in Net Assets – Operating Fund (comparative statement)
 - **\$ 40,000.05 (decrease in net income)**

Revenue has increased by \$678,310.82. Of this amount, \$269,000 is revenue from the first payment for the SAWS reservation fee. Revenue has also increased due to the increase in consumption and the fact that all the revenue has been placed in this account including transfers. Expenditures have increased by \$471,177.17. Of this amount \$269,000 was payment to cities of Schertz and Seguin of the SAWS reservation fee that was received. Other notable increases were the water lease payments and Professional Services; which is largely attributed to the cell refurbish on the high service pump and increased legal fees.

- Working Capital Trend Chart
 - **\$ 3,536,082 (decrease in working capital)**

Ms. Caddell stated that the working capital decrease is largely due to spending additional bond funds and the first bond payment of the fiscal year.

Director Koehler asked for an explanation as to why Universal City and Selma water sales were down. Mr. Cockerell stated that the winter months, as a trend, are usually lower. He also advised that Universal City and Selma both utilize SSLGC as a secondary source. Ms. Caddell stated that Springs Hill has a standard “take or pay minimum amount” they pay each month. Mr. Cockerell stated that he believed that as the warmer dryer weather continues and restrictions are in place SSLGC would see an increase in consumption. Ms. Caddell cautioned that we would also see an increase in chemicals, electrical and other necessary maintenance cost.

Mr. Cockerell requested board approval of the Financial Statements.

Vice-President Dwyer made a motion to approve SSLGC’s financial statements for the quarter ending March 31, 2011. Treasurer Koenig seconded the motion. Upon a vote being called, the motion carried by unanimous decision.

b. Investment Report for the quarter ending March 31, 2011.

Ms. Caddell presented the Investment Report for January 1, 2011 through March 31, 2011. Interest earnings for the quarter ending March 31, 2011 were \$11,252. Ms. Caddell stated that interest rates are still at their all-time low and SSLGC’s portfolio book value decreased by \$2,739,345. This decrease is due in part to spending of bond funds and bond payments. Interest decreased \$4688 from the previous quarter.

Treasurer Koenig made a motion to approve SSLGC’s investment report for the quarter ending March 31, 2011. Director Koehler seconded the motion. Upon a vote being called, the motion carried by unanimous decision.

c. Reimbursement to the City of Seguin in accordance with the Management Services Agreement for the quarter ending March 31, 2011.

Ms. Caddell presented the expenditure information for the quarter January 1, 2011 through March 31, 2011. The City of Seguin has requested reimbursement for the expenditures of \$869,152 from SSLGC for the second quarter of FY2010-2011. Ms. Caddell added that SSLGC was under budget by \$2,452,416.

Mr. Cockerell stated that there has been a vigilant effort to stay within the budget, he advised the peak season approaching.

Vice-President Dwyer made a motion to approve SSLGC to reimburse the City of Seguin in the amount of \$869,152 for the quarter ending March 31, 2011 in accordance with the Management Services Agreement. Treasurer Koenig seconded the motion. Upon a vote being called, the motion carried by unanimous decision.

The sixth order of business was Proposed Water Rate Plan for FY2011-2012 – Dan Jackson, Rate Consultant & Alan Cockerell, General Manager

Mr. Cockerell stated that these are preliminary projections based on current conditions. A copy of the presentation was distributed. He advised that the intent is to produce a more complete and precise budget to present to the Board for approval at the next Board meeting in June 2011.

Mr. Jackson stated that the financial projections are based on the same rate model which has been utilized for the past three years. He praised SSLGC on their continued financial success due in part to continually establishing sufficient rates to cover expenses and prevent the need for subsidization or draw down of reserve balances. Mr. Jackson stated that the capital improvement plan contributes significantly to the rates adjustments, with emphasis on the timing and specifics of what to improve and the amount necessary to accomplish those improvements. There may be a need to adjust the rates in the future. He advised that for this rate plan the assumption is that Converse will begin to purchase water from SSLGC in February 2012. Mr. Jackson advised that another strong contributing factor in the rate plan is for the 2012 budget the water leases will increase by \$400,000 which is a more sizeable impact than in the past. He advised that electricity and chemicals costs have increased significantly in the past year and these costs also will be absorbed within the rate increases. Mr. Jackson stated that he recommended that SSLGC begin to fund approximately \$700,000 per year in future development and replacement fund contributions through debt coverage. These contributions are paid through the course of the year.

Mr. Jackson stated with the SAWS Contract in place the forecasted intent is that they will begin to purchase water by October of 2013. He advised the Tier One water will be SAWS water that is treated by SSLGC and is subject to Operations & Maintenance cost as well as debt service on all the assets that are useful to SAWS. There are no lease costs included in the Tier One water. Mr. Jackson stated the Tier Two water is the excess water SAWS has committed to purchasing which will at the same rate that is currently paid by the City of Schertz and City of Seguin.

Mr. Jackson stated that the current O & M rates for the five core cities (Schertz, Seguin, Selma, Springs Hill, and Universal City) are broken down as follows:

- O & M/Lease (Schertz, Seguin, Selma, Springs Hill, and Universal City)
 - ❖ \$1.47/1,000 gallons
- Transportation (Selma and Universal City)
 - ❖ \$0.38/1,000 gallons
- Cities Distribution (Selma, Springs Hill and Universal City)
 - ❖ \$0.16/1,000 gallons

Total O & M paid by each of the five core cities is as follows:

- Schertz: \$1.47/1,000 gallons
- Seguin: \$1.47/1,000 gallons
- Selma: \$2.01/1,000 gallons
- Springs Hill: \$1.63/1,000 gallons
- Universal City: \$2.01/1,000 gallons

Mr. Jackson advised that the O & M rate is not the only rate that is paid by the customer cities; there is also a debt service payment. In the current year the cities of Schertz and Seguin each pay \$1,595,000 and Springs Hill \$200,000.

Mr. Jackson stated that in 2014 when SAWS begins to purchase water, the corporation is projected to produce 23,800,000 gallons of water per day. He stated that of that total Schertz is projected to take 4,000,000 gallons per day, Seguin 3,000,000 gallons per day and Universal City, Selma, Springs Hill, and Converse each up to 500,000 gallons per day. Mr. Jackson stated that SAWS Tier One water is projected to be 10,500,000 gallons per day and the Tier Two 5,240,000 per day.

Mr. Jackson stated that regarding long term forecast he projected modest growth in water usage, due in some part to the economy. He advised in 2012 the existing customers are projected to take 7,690,000 gallons per day with a gradual increase to 9,350,000 gallons per day. SAWS Tier One water is expected to be fixed at 10,500,000 gallons per day. The Tier Two water is based on the excess water. Mr. Jackson stated that as the existing customers begin to take more water, SAWS Tier Two water will decline. He advised that financially it will not be a factor due to the fact that the same amount will be consumed.

Regarding the Capital Improvement Plan, Mr. Jackson advised that the SAWS Expansion is going to require approximately \$14,610,000 in funding. He also stated that the Guadalupe Project is anticipated to have a cost of approximately \$24,000,000 in the future as well. Mr. Jackson advised that with these rates the anticipation is that the Guadalupe Project will be moved up to an earlier date.

Treasurer Koenig stated that he understood that the Guadalupe Project would be the responsibility of the new LGC. Mr. Cockerell responded that until the new LGC was officially formed, the project was included in SSLGC forecast. The new LGC Organizational Meeting is scheduled for June 23, 2011. Mr. Jackson stated that if the new LGC absorbed this debt, it would be a significant rate benefit.

Mr. Jackson stated that in terms of the costs of service, in 2012 and 2013, is approximately \$8,000,000. He stated that when SAWS becomes a customer the cost of service will increase about \$6,000,000, however SAWS will begin to take approximately 66% of the water.

Mr. Jackson stated the proposed rate plans, effective October 2011, for each city to be as follows:

- *City of Schertz* – Operating Rate
 - ❖ O & M = \$0.98/1,000 gallons
 - ❖ Water Lease = \$0.82/1,000 gallons
 - Total = \$1.80/1,000 gallons
- *City of Schertz* – Annual Payments
 - ❖ O & M = \$2,526,493
 - ❖ Debt Service = \$1,527,710
 - Sub Total = \$4,054,203
 - ❖ Less Capacity Reserve = (\$269,000)
- *City of Schertz* – Total Net Payments = \$3,785,203

- *City of Seguin* – Operating Rate
 - ❖ O & M = \$0.98/1,000 gallons
 - ❖ Water Lease = \$0.82/1,000 gallons
 - Total = \$1.80/1,000 gallons
- *City of Seguin* – Annual Payments
 - ❖ O & M = \$1,940,001
 - ❖ Debt Service = \$1,527,710
 - Sub Total = \$3,467,711
 - ❖ Less Capacity Reserve = (\$269,000)
- *City of Seguin* – Total Net Payments = \$3,198,711

- *City of Selma and Universal City* – Operating Rate
 - ❖ O & M = \$0.98/1,000 gallons
 - ❖ Water Lease = \$0.82/1,000 gallons
 - ❖ Transportation = \$0.38/1,000 gallons
 - ❖ Cities Distribution = \$0.13/1,000 gallons
 - Total = \$2.31/1,000 gallons
- *City of Universal City* – Annual Payments
 - ❖ O & M = \$432
 - ❖ Debt Service = \$0
 - Total = \$432
- *City of Selma* – Annual Payments
 - ❖ O & M = \$99,245
 - ❖ Debt Service = \$0
 - Total = \$99,245

- *City of Converse and Springs Hill*– Operating Rate
 - ❖ O & M = \$0.98/1,000 gallons
 - ❖ Water Lease = \$0.82/1,000 gallons
 - ❖ Cities Distribution = \$0.13/1,000 gallons
 - Total = \$1.93/1,000 gallons
- *City of Converse* – Annual Payments
 - ❖ O & M = \$194,118
 - ❖ Debt Service = \$133,333
 - Total = \$327,451
- *Springs Hill* – Annual Payments
 - ❖ O & M = \$352,225
 - ❖ Debt Service = \$200,000
 - Total = \$552,225

Mr. Jackson advised that when SAWS becomes a customer in FY2013-2014 all the cities could see a decrease in their rate in the short term.

Mr. Cockerell advised that the Lease cost included in the rate structure encompasses all water leases (Gonzales and Guadalupe); once CVLGC is formally organized and they assume the cost of Guadalupe Water Leases, our water lease obligation would be greatly reduced. A new lease structure with the Old Gonzales Leases could also reduce SSLGC's water lease cost obligation.

Mr. Jackson advised based on this current information within this preliminary presentation this would be an eight percent increase.

The seventh order of business was Legislative Update – Jack Fickessen, Consultant.

Included in the board packet is an updated report of bills concerning water legislation in the 82nd legislature. Mr. Cockerell advised several bills have been signed by Governor Perry. Mr. Fickessen is closely monitoring SB 332 and SB 660 as they appear to have the most impact.

The eighth order of business was Gonzales County Expansion Project – Alan Cockerell, General Manager.

A construction update meeting was held with Harris Road Company and Hierholzer Engineering on April 28, 2011; road and pipeline construction is on schedule.

Mr. Cockerell stated that there was a meeting this morning (May 19, 2011) in Nixon with the contractors and the subcontractors. GVEC is working to get their power infrastructure in place. Mr. Winkler and his staff have been working with GVEC to expedite this process. Mr. Cockerell stated that the first well is expected to be online by the end of June 2011. He advised that once all the new wells are functional the operators will begin to replace the pumps in the current wells with stainless steel pumps.

Treasurer Koenig inquired about the storage tanks which the Board approved at the April 2011 Board Meeting. Mr. Cockerell stated that the three tanks will be built simultaneously.

The ninth order of business was SAWS Expansion Project – John Winkler, Walker

Mr. Winkler stated that he should have a draft report ready for review by the end of May 2011. He advised the intent is to have SAWS online by October 2013.

President Greenwald asked if there would be more operators hired once the SAWS Project was established. Mr. Cockerell responded to the affirmative.

Mayor Baldwin asked if the increase of production would cause our maintenance costs to increase. Mr. Winkler responded to the affirmative. Mr. Winkler advised that there was an increase in the operations budget for the additional maintenance costs.

The tenth order of business was to Approve Contract with GVEC for Contribution in aid of construction cost associated with the electric service agreement for water wells # 9, # 10, # 11 and # 12 – John Winkler, Walker Partners.

Included in the board packet was a copy of Mr. Winkler's letter. Mr. Cockerell stated that he is seeking approval for the entire amount of \$128,470.30, which is inclusive of the \$40,000 that has already been paid to GVEC for the transformers.

Vice-President Dwyer made a motion to approve the Contract with GVEC for Contribution in aid of construction cost associated with the electric service agreement for water wells #9, # 10, # 11, and # 12 in the amount of \$128,470.30. Director Koehler seconded the motion. Upon a vote being called, the motion carried by unanimous decision.

The eleventh order of business was to Approve Contract with Hierholzer Engineering for SCADA Improvements – John Winkler, Walker Partners.

Included in the board packet was a copy of Mr. Winkler's letter. Mr. Winkler stated that there are a number of improvements that need to be made to the SCADA system not only with the four new wells but to include any other issues with the current wells. He advised that also included is installation of Ethernet which will significantly improve time and accuracy. Mr. Winkler added that these improvements also included replacement of existing analyzers to better improve accuracy of readings which will allow the operators to maintain improved water quality.

Vice-President Dwyer made a motion to approve the Approve Contract with Hierholzer Engineering for SCADA Improvements in the amount of \$220,000. Treasurer Koenig seconded the motion. Upon a vote being called, the motion carried by unanimous decision.

The twelfth order of business was Acquisition of Koepf property – Alan Cockerell, General Manager.

President Greenwald deferred agenda item twelve to Executive Session.

The thirteenth order of business was the Oil & Gas Leasing Program – Bill Knobles, Special Counsel & Alan Cockerell, General Manager.

President Greenwald deferred agenda item thirteen to Executive Session.

Mr. Cockerell stated that he has received an inquiry by a concerned citizen regarding the quality of water in relation to oil and gas drilling in the area. He advised that through correspondence with Mr. Klemt and he will issue a report. Mr. Cockerell stated that a strong recommendation from Mr. Klemt was to take samples to set a baseline and continue this on an annual basis.

The fourteenth order of business was Formation of Cibolo Valley Local Government Corporation – Crocket Camp, Project Manager/Consultant.

Mr. Camp advised that the Organizational Meeting is scheduled for June 23, 2011 in Schertz. Mr. Cockerell stated that there is an Informational Meeting scheduled for May 26, 2011 in Converse.

President Greenwald closed General Session at 3:04 p.m.

The fifteenth order of business was Executive Session: Called under Chapter 551 Government Code, Section 551.071, to seek the advice of its attorney on legal matters and Section 551.072, for deliberations regarding real estate.

President Greenwald opened Executive Session at 3:13 p.m.

Executive Session was held from 3:13 p.m. to 3:39 p.m.

The sixteenth order of business was to Consider and Take Action as a Result of Agenda Item #15.

President Greenwald reopened General Session at 3:39 p.m.

As a result of Executive Session:

Agenda Item Twelve

Vice-President Dwyer made a motion to approve the counter offer made by Walter E. Koepp in the amount of \$35,000. Secretary Jacobs seconded the motion. Upon a vote being called, the motion carried by unanimous decision.

Agenda Item Thirteen

No action taken as a result of Executive Session.

No further action was taken as a result of Executive Session.

The seventeenth order of business was Consideration and/or Action on questions and possible items to be placed on the next agenda.

Mr. Cockerell stated that the next SSLGC Board Meeting is scheduled for Thursday, June 16, 2011 in Seguin. There is potential that two Directors will be absent from the June 16, 2011 meeting. A decision regarding the meeting date will be finalized during the Executive Committee meeting May 31, 2011.

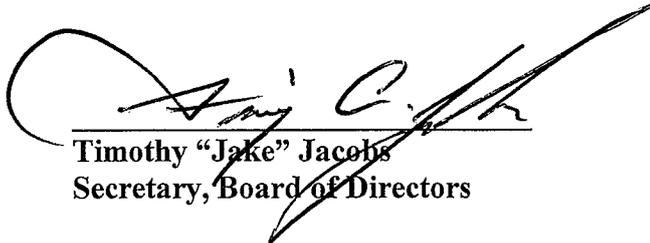
No additional discussion was held.

The eighteenth order of business was Adjournment.

President Greenwald declared the meeting adjourned at 3:43 p.m.

The next regular meeting was scheduled Thursday, June 16, 2011 in Seguin.

MINUTES APPROVED THIS 23rd DAY OF JUNE 2011.



Timothy "Jake" Jacobs
Secretary, Board of Directors

ORIGINAL