

TRAVIS COUNTY
MUNICIPAL UTILITY
DISTRICT (MUD) #10
YEAR END REPORT 2010

This past year we have all seen and experienced the changes caused by the slow down in our economy. The District (Travis County MUD # 10) unfortunately has not been immune to these changes. The primary indicator used to measure growth within our community has been new construction. This past year has seen a slow down in the following areas that the Board monitors as an indicator of growth:

1. New home starts.
2. Conversion of raw acreage into utilizable lots for construction.
3. Sale of properties being marketed.

While none of us ever entertain conducting business during an economic down turn, the Board explored and took advantage of several cost saving opportunities that presented themselves. During the year the District completed construction of the new water plant. The District replaced and added new state of the art equipment to ensure that the needs of residents could be met today and in the future. Equally important the infrastructure now in place meets or exceeds the safety requirements mandated by the TCEQ to ensure the safe supply of water to residents. The changes made and pending include:

- (a) Expanding the capacity of the Water Plant to meet the needs of the District as it grows.
- (b) Replacement of the Water Intake Barge with a new larger system.
- (c) Addition of a new water process system.
- (d) Addition of a new water storage tank.
- (e) Augmenting our water pressure system.
- (f) Paving of the road leading to the water plant.
- (g) We have instructed our operator to install SCADA (remote control operating system) which will allow the

technicians servicing our equipment to correct any problems that may develop without having to drive out to Waterford. This will save time and money and ensure that when problems develop we can deal with them quickly and efficiently.

The Board is pleased to report that undertaking these activities at this time saved the community approximately \$700,000 dollars in construction costs.

Providing water and sewer service to residents requires a large investment in infrastructure. At its inception the District entered into a contractual relationship with the developer whereby the developer would fund all infrastructures with the assurance that they would be repaid as the District developed. During this past year the District sold a series of bonds aimed to reduce some of the debt. The benefit of selling bonds at this time was the ability to take advantage of very low interest rates. Three and half million dollars in bonds were sold at a rate of 5.25%, a 25% reduction vs. what was originally projected. This amounted to a significant saving in long term costs to the District.

Conservation of water is another area that the Board has been focusing on. In 2009 we suffered through one of the worst drought conditions seen in central Texas. A plan was developed by the Board which enabled the District to meet the mandated restrictions imposed by the LCRA. The Board was particularly pleased by the positive response we obtained from our neighbors in adjusting to the imposed restrictions. Working in conjunction with our operator we have been pursuing system modifications which would minimize water loss. The operator regularly monitors water loss and when possible makes the necessary adjustments in our systems to eliminate the cause.

The District works with the developer to ensure growth within the community. Growth at the very least provides added revenues from taxes and sale of services. As the revenue stream increases we can amortize our costs over a broader base

allowing us to lower the costs to residents. During the past year, in spite of the downturn in the economy, the Board was able to pass onto residents a tax saving in the form of a homestead exemption. Essentially, residents who currently homestead their property can now take an additional 5% off their MUD taxes.

In 2010 we also have seen some changes with respect to the role of the developer Waterford LT Partners. The townhouses (Waterstone) have been sold to a new investment group. It is anticipated that the new investor will aggressively market the townhomes and will spend the necessary monies to ensure that the property is maintained and kept aesthetically attractive. The Board is working with the current developer to ensure that any change in ownership would have a favorable impact on the District.

One of the questions that the Board continues to deal with is what does the future bode for Waterford? This past year has seen a decrease in the overall value of the District. Devaluation from a resident's perspective represents a reduction in real property taxes – a savings. From the District's perspective it represents a decrease in revenue. The Board must balance the reduction in income with the expenditures necessary to keep the systems operating. Working with our consultants the Board has managed to maintain or reduce our monthly expenses.

In 2011, the Board will continue to sell bonds as part of our program to reduce our overall debt to the developer. Low interest rates are forecasted to continue enabling us to finance bonds at a very favorable cost. We will also be implementing a recycling program which is currently being worked out with IESI.

The Board has strived to be fiscally conservative in all of its financial dealings. This has enabled the District to accumulate a small surplus in both the operating and debt account. This ensures that for the near term we are in a position to meet any unanticipated expenditures

should they arise. The Board believes that the financial downturn in the economy has bottomed out and the coming year will provide us with new housing starts. The formula –*growth to offset future cost increases* – is the model the Board has successfully worked with in the past and will continue to use in the future.

To summarize, the Board has sought to take advantage of opportunities to save the District money. By contracting for system improvements this year and the sale of bonds the Board recognized substantial savings both in the short and long term. Savings accrued through these actions have been passed onto residents of the District by implementing a Homestead tax exemption. The Board is cautiously optimistic that we have experienced the worst of the economic turn down during the past 18 months. Critical to this assumption is the resumption of new housing starts which will ultimately provide the revenue required to meet the District's long term operating expenses.

To keep abreast of the monthly activities involving the MUD we invite you to visit the web site:

<http://www.traviscountymud10.com>

If you have any questions or comments please feel free to contact any of the Board members or Sharon Covan at ABHR LLP telephone # 713-860-6429

Respectfully,

Travis County MUD #10 Board
Harvey Reiter – President
Jerry McAhren –VP
Jack McMahan – Sect.
Bob Ernst –Asst VP
Vance Taylor –Asst Sect.