

Engineering and Operations Committee Meeting

Minutes

May 3, 2018

The E&O meeting convened at 1:30 P.M., Thursday, May 3, 2018, at the Lakeway Municipal Utility District's office located at 1097 Lohman's Crossing, Lakeway, Texas 78734-4459.

The following Engineering and Operations (E&O) Committee Members, General Manager (GM), and Board Liaison were in attendance:

Phil Lanier, *Committee Member (Chairperson)*,
Earl Foster, *General Manager, Lakeway M.U.D.*,
Jerry Hietpas, *Board Member and Board Liaison to Committee*,
Bob Rives, *Committee Member (Secretary)*,
John Sayre, *Committee Member*,
Wayne Seime, *Committee Member (Vice Chairperson)*.

Not in attendance:

Paula Crawley, *Committee Member*.

The meeting's agenda had been distributed by e-mail to all committee members on May 1, 2018. The designated agenda for the meeting was:

1. Discuss OD Wastewater Project Costs,
2. Other Business.

Mr. Lanier called the meeting to order and Mr. Foster began with the introduction of the agenda's item one. Mr. Foster handed out some financial review sheets regarding the costs associated with the out-of-district wastewater project, mentioning that he reviewed it with the Finance Committee which resulted in a few changes. Phase I figures consisted of general M.U.D. costs of materials and labor such as grinder pumps, pump installment and labor, area restoration, conversion at LUE (Living Unit Equivalent), main lines, underground boring, valves, along with a contingency factor of 20%. The total M.U.D. cost were estimated at \$4,036,500. Not included in this figure were soft costs such as engineering, permitting, and construction coordination. Our in-house engineers estimated that sub-contractor costs would be about \$1,994,589 with a built-in contingency of 25%. He noted that these figures included the lift station. Of the sub-contractor's cost the actual dollars allocation to Phase I would be about 33% or \$646,246.35. The other 67% is allocated to Phase II. However, the total amount was inclusive to Phase I since we have to pay for the lift station in order to proceed. This amount added to M.U.D.'s cost amounted to a total of \$6,878,389. It was clarified that cost and capacity

of the wastewater plant expansion would be \$291,600; nevertheless, this cost was not added since the expansion would not be needed at this time. In other words we presently have the plant capacity to handle Phase I. The project would also require the hiring of two new people. The committee felt that the project for M.U.D. should be considered as a large and involved development. It was mentioned that there were some outside views that city permits might be a problem because a few of the houses going from their present septic systems (which presently controls the square foot and occupancy size of a house) to a public sewer system might encourage the building of mini-mansions along the lake. It was reiterated within the committee that this should not be considered a septic problem to the city, rather a simple zoning problem. In a further discussion it was queried if not having the golf course irrigation system agreement would hinder the project in any way. Basically Mr. Foster said that it will not affect the project; albeit, he really can't proceed with irrigation system negotiations until the project is fully certified by the Board and becomes an official project. We still have to undergo a surveying program which will help establish the easement right-of-ways along the golf course and, therefore, we will naturally have to engage the golf course for their permission regarding some of these issues. Mr. Foster said M.U.D. has \$5.8 million in pocket to begin the project and this should see it to a nearly 80% hookup of Phase I. He said the sale money of the 62 acres would not be needed for cash flow of the Phase I project. As a normal fiduciary responsibility Mr. Foster ran a series of ROI (Rate of Investments) analyses over a 25-year period using a 2.5% interest rate with windows of 100%, 80%, 50% and 25% yearly debt service. The rationale for this is to see if future gain or loss of our customers' \$5.8 million warrants the project or if continued investment is the best course of action. His analysis showed that investment of the money into a CD over one year had a slight positive return of about \$145,541 over that period of time vs the project. Obviously, this scenario does not acknowledge that the money-in-hand would most likely be used over the years for capital expenditures and to improve and maintain the present utility system. The final figures did show a ROI of 132% payback over 25 years and a ROI of 5.28% just in the first year. Were the seed money used solely to reduce customers' rates the amount of savings to the some 3,100 customers would be very minor (about a \$1.00 or so per individual's average bill). It is viewed that over the long term the investment is sound. The overall benefits are basically the additional cash flow to LMUD for all the distant future which will reduce the financial burden of maintenance to in-district customers. Houses going from septic to a sewer system will increase the value of their houses or lots and as a result increase or maintain the city's overall land value and tax base. The ecological benefits from having a non-polluting environmentally-friendly system along our lake front and within our sub-surface water reservoirs are incalculable. Furthermore, the addition of the Highlands' project will help subsidize the wastewater plant. Moreover the overall cost of maintaining wastewater will be reduced, and the production and usage of wastewater to customers along the golf course under the LMUD reclaimed water improvements, as well as the new ability to balance our wastewater flow by transferring reuse water from our East Plant to the West Plant, will enable us to lessen our TCEQ requirements of having to maintain extra acreage for the dissemination of wastewaters. This would allow us to possibly sell tracts of LMUD land along Stewart Road/ RR620 in order to bring in further revenue to the municipality. The committee reviewed the benefits of the total project involvement and how its synergic character will provide many future benefits to the in-district members because of the present timing of the project.

Mr. Lanier commented that he had experience in discounted cash flow (DCF) analyses for his company prior to retirement and made some suggestions. Mr. Lanier and Mr. Foster decided to meet in private and prepare a valuation method for estimating the attractiveness of the project and evaluate its potential as an investment. Basically, if the value arrived at through financial analysis is higher than the current cost of present investments the opportunity may be a good one.

In other business Mr. Foster provided estimated materials cost for supplies for the reuse water project. Total estimated material cost was \$437,575, which did not include labor. These supplies would be in regards to the servicing and fittings at stub-outs to the potential 324 units in Phase I.

With no other business the next meeting was slated for June 14, at 1:30 P.M. The meeting was then adjourned at 3:18 P.M.

The minutes have been read and approved by e-mail:

The minutes approved this 8th day of May, 2018.

Yeas 4, Nays 0, Abstain 1.

Robert G. Rives, Secretary, E&O Committee, L.M.U.D.