

**OFFICIAL MINUTES OF THE CITY COUNCIL
LAGO VISTA, TEXAS
OCTOBER 4, 2012**

BE IT REMEMBERED that on the 4th day of October, A.D., 2012, the City Council held a Regular Meeting and Public Hearing at 6:30 P.M., at City Hall, 5803 Thunderbird, in said City, there being present and acting the following:

Randy Kruger	Mayor	Bill Angelo	City Manager
Bob Bradley	Mayor Pro Tem	Frank Robbins	Assistant City Manager
Dale Mitchell	Council Member	Danny Smith	Police Chief
Ron Smith	Council Member	Christina Buckner	City Secretary
D'Anne Gloris	Council Member	Jana Edwards	Bond Counsel
Darrel Hunt	Council Member		

Mayor Kruger called the Regular Meeting to order and recognized that all Council Members were present except Richard Bohn.

The numbering below tracks that of the agenda, whereas the actual order of consideration varied, primarily for the convenience of the guests.

CITIZEN INQUIRY: none

PUBLIC HEARING:

1. Mayor Kruger stated the purpose of the public hearing is to receive citizen input on the issuance of special assessment revenue bonds for the purpose of improvements to property within the Tessera on Lake Travis Public Improvement District.

Mayor Kruger opened the floor for comments from the Council. There were none.

Mayor Kruger opened the floor for comments from the public.

Clyde Hance stated it was his understanding that the Council was looking into a possible bond election issue for \$25.9 million for a development west of town and stated he had questions related to that. He submitted a letter to Council which listed his questions as follows:

1. What date was the original development started?
2. How many acres are involved in the development?
3. What specifically does the maximum amount of \$25.9 million cover? Does it cover:
 - A. Building structures
 - B. Laying pipelines to obtain water
 - C. Building water treatment facilities
 - D. Building waste water treatment facilities
 - E. All necessary area roads both inside the development and access to and from FM1431 including traffic control signals
 - F. Why public parks as the Lago Vista POA has numerous parks?
 - G. A city public park requires yearly maintenance and operating costs for a park that would not be ideally located for easy access by present city residents
4. In whose/what name would the bonds be issued under?
5. How will the bonds be repaid?
6. What type of special assessment will be required from the Tessera property owners?
7. What will be the total cost of the bonds to the City?
8. How and what date(s) will the bonds be retired?
9. Should the development not be completed as planned who is responsible for the debt incurred on monies spent?

Mayor Kruger stated the development was started in 2008. The developer requested annexation so they could have access to the city's sewer and water. The development consists of 877 acres. He stated this type of bond is called public infrastructure development. He stated all of the money goes to infrastructure in the development, such as streets, sewer, water, parks and drainage, which will ultimately become the city's property and responsibility. He stated the \$25 million worth of bonds does not impact the city's financial statement at all. The city has no risk in this and all of the money will be paid back by the new residents and current owners of that subdivision. He stated it's an annual thing that homeowners have to pay on top of their taxes. If there is a default, the only thing the bond holders have is that land. The city would have to go through a repossession process, but the bond holders are secured only by the property. He stated this gives the contractor additional funds at a long term loan set at a reasonably low interest rate and the pay back on the bonds is tax free. He stated the city has no liability in this.

Clyde Hance questioned who the signatory to the bonds is.

Mayor Kruger responded that the city issues the bonds.

Clyde Hance questioned his understanding that the city is the signatory to the bonds but it has no financial

responsibility to the bonds.

Jana Edwards with McCall, Parkhurst and Horton L.L.P. clarified that the city has created a Public Improvement District on this property. State law allows them to create a public improvement district and issue bonds, that are payable from the revenues solely from this area, which are called revenue bonds. The revenues that come in from the assessments levied on the owners of property within the district, which will be the developer at first and later purchasers of homes, are liable to pay the assessments which then go back to pay off the bonds.

Clyde Hance questioned who is financially liable if the owners and the assessments on the residents don't meet the bond liability.

Jana Edwards stated the city is then responsible for foreclosing on the property for the assessments that are delinquent or have not been paid. There are reserve funds set up for the payments to ensure that the bond holders are made whole until the foreclosure proceedings are completed and there is a new owner of the property. Whoever owns the property is liable for the assessments.

Mark Curran with Piper Jaffray, stated the bond documents clearly state that if the owner's don't pay, and if the city doesn't foreclose, and no one buys the property, then the bond holders don't get paid. The revenues from the special assessments, and from any action taken on property within the district, is the only security for the debt. He stated the city is not guaranteeing one cent of the debt; there cannot be one cent of tax increases in your entire community, and this cannot affect the existing residents of town. It is secured solely by the special assessments. He gave an example that if the special assessments don't get paid by the property owners, the city would hire a third party appraiser who might value the property at \$75 to \$80 million, and there is \$23 million of debt, so they're essentially making a 33% real estate loan against the property. It is secured solely by the real estate, there is no recourse against the city general fund or anyone who's a resident of the community. He stated the bond holders know that, and these bonds will go out at a higher interest rate than if there was a city guarantee, because there is no city guarantee. He stated there is no recourse against anyone in the city, no increase in taxes, and no new assessments for homeowners who live here; it's just for the homes within this project. He stated it will have a special assessment that they will be paying off over the next 3 to 30 years.

Clyde Hance questioned what the advantage is for the city being the signatory to the bonds.

Mark Curran stated the city gets a lot of high quality infrastructure built in the next 18 to 24 months. He stated it will bring in all of the utility improvements, such as major streets, new parks and new open space to the city, that otherwise, in this economic climate, would not have worked as well if the developer had used conventional financing.

Mayor Kruger stated the reason previous developments failed was because they ran out of money. He stated this financing package guarantees that this infrastructure is going to be built and it's going to be built quickly. He stated there will not be little pieces here and there of areas that are going to be built. It gives the developer a nice financing package that will probably be from 20 to 30 years long. He stated they're obligated to finish it, and if they don't finish it, they lose the entire property, and the city is still not in jeopardy. The build out is predicated on about 13 to 15 years, and at that point and time, it could increase the city's tax base by close to \$1 billion. This helps guarantee that this project gets off to a good start whereas other developments were under funded and had various reasons they didn't make it. Hines is putting up a lot of money so they can make it and they are an extremely reputable firm. He stated the reason the city has undertaken this is because they believe this gives the developer a chance to make this a successful project without putting the city at risk and it will get the infrastructure built almost immediately. In other developments the infrastructure was piecemealed in as they had money. He stated they believe this will prevent that. He stated if the developer puts in all of the infrastructure with this \$23 million, and it does go into foreclosure, it makes the package extremely profitable for a buyer, but then all of the infrastructure is in and the city doesn't have to fight through that again.

Clyde Hance questioned whether the city is obligated for any bond issues should they go into a foreclosure situation.

Mayor Kruger stated no. He stated these two bonds do not put infrastructure in the whole project, they just put infrastructure in the areas designated. Part of it is a major improvement, which gets water and sewer from our plants all the way through the 877 acres, then they're going to be developing segments. The first development is about 490 LUEs. He stated just getting the bonds is going to be an ongoing process for the next 10 to 12 years.

Clyde Hance expressed his concern with regard to the fact that there were some loans made, fences put in and land cleared for the initial development several years back, and nothing's been done since then.

Mayor Kruger stated 2008 was one of the roughest years ever and even Hines could not necessarily get reasonable terms on any type of financing for this development which has caused it to sit for 2 to 3 years. He stated they were also working on agreements with the city during that time.

D'Anne Gloris stated as result of the economy and how tight the lending situation was, the Texas Legislature passed a law that made this public improvement district a viable option for developers like the Hines group. She stated the legislature moved in an effort to get construction going again as well.

Mayor Kruger stated these bonds will go to highly sophisticated investors, and they will go out in lumps of \$25,000 or greater. He stated these bonds go out with a very truthful statement as to what they represent, and they do represent risk, which is why the interest rate will probably be higher. He stated they can currently get city bonds at 3.5% to 4% and these will probably go hit 6% to 7%.

Clyde Hance questioned how the city will handle the maintenance and operating costs for the streets and parks.

Bill Angelo stated their HOA pays for the operation and maintenance of the parks.

Clyde Hance questioned whether they'll be public parks.

Bill Angelo stated the parks will be accessible to the public.

Mayor Kruger stated the HOA will also include the developer who will have a substantial amount of interest in it. He stated the only caveat is that ultimately, after so many LUEs, it's possible that the city will have to expand their water plant, but they hope to have enough increase in city tax base by then, and should be able to handle it without any trouble. He stated that is built into this contract, and they have to have quite a few homes on the ground before the city would even consider going into expansion.

Rod Hoseman questioned whether the \$25.9 million will cover the entire cost of all infrastructure and utilities for all sections of the subdivision or just the first phase.

Mayor Kruger stated there are two bonds, a Phase I bond and a Major Improvement Bond. He stated the development is divided onto into six phases and Phase I is down close to the water. The Major Improvement bond, which is anticipated at \$18 million, covers all of the costs for getting water, sewer and roads down into Phase I and every phase thereafter will issue another bond for infrastructure in that phase.

Rod Hoseman questioned how many acres and how many homes are involved in the first phase.

Mayor Kruger stated the first phase is 230 acres and will contain 490 homes.

Duke Kerrigan with Hines stated there are 316 lots planned for Phase I.

Rod Hoseman questioned the cost of the homes.

Duke Kerrigan stated they will start in the upper \$200's and go to the low to mid \$600's.

Ron Smith questioned how the interest will gets paid on the two bonds.

Mark Curran stated the Phase I bond debt is amortized over 30 years whereas the Major Improvement bonds are 15 years because the expectation is they will be paid off and refinanced and stretched out longer as the development proceeds over time. He stated they will sell the Phase I and Major Improvement bonds to different markets. He stated the 15 year Major Improvement bonds will have a higher interest rate than the Phase I bonds.

Ron Smith referred to an amortization schedule on the \$18.5 million dollar bond which showed \$13 million of interest over 15 years and questioned where the interest comes from.

Mark Curran stated it comes from the special assessments the homeowners pay.

Mayor Kruger questioned why the payments were not in a straight line.

Mark Curran stated they would have something very close to a straight line on the Phase I bonds. He stated they tried to have the Major Improvement bonds maturing as the development proceeds and then adding a little bit of a fudge factor in case things go slower. He stated they back loaded the principle a little bit so there will be higher payments on 15 years. If development proceeds as expected, those bonds will get paid off early. The debt service, on average, goes up about 2% per year.

Mayor Kruger stated the total project, if completed, will add about 2,000 LUEs.

There being no further comments, Mayor Kruger declared the public hearing will remain open and continue on November 1, 2012.

CONSENT AGENDA:

2. Darrel Hunt requested a correction to the minutes of the September 20, 2012 Regular Meeting. He stated City Attorney Barney Knight was listed as present at the meeting but he was not present at that meeting. On a motion by Ron Smith, seconded by Bob Bradley, the Council unanimously approved the following minutes to include the correction requested by Darrel Hunt:
September 20, 2012 Regular Meeting
September 27, 2012 Special Meeting

ACTION ITEMS:

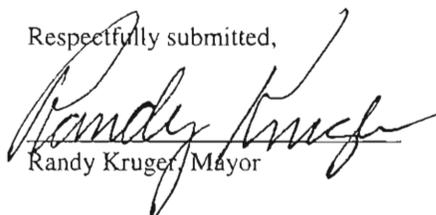
3. On a motion by Darrel Hunt, seconded by Dale Mitchell, the Council voted unanimously to approve an Interlocal Agreement with LVISD relative to the public use of District Recreational Facilities in exchange for a cash contribution from the City's Park Fund, to include the addition of the existing baseball field to Section 3.02.
4. On a motion by Darrel Hunt, seconded by Dale Mitchell, the Council unanimously approved the Tessera on Lake Travis Public Improvement District Financing Agreement with Hines Lake Travis Land Limited Partnership, and Hines Lake Travis Land II Limited Partnership, to include the addition of a 10% retainage provision.
5. On a motion by D'Anne Gloris, seconded by Bob Bradley, the Council unanimously approved Resolution 12-1555 approving the form and authorizing the distribution of Preliminary Official Statements for Special Assessment Revenue Bonds Series 2012 (Tessera on Lake Travis Public Improvement District Area #1) and Special Assessment Revenue Bonds Series 2012 (Tessera on Lake Travis Public Improvement District Major Improvement Area Projects).
6. The Council received a report from Anna Martin with HDR Engineering regarding a traffic study done at the intersection of Rockwood Drive and Outpost Trace. Anna Martin reported that a four way stop was not warranted at this intersection but recommended moving the existing stop sign, trimming about 200' of brush and striping a stop bar on the southwest corner. No action was taken regarding this item.
7. On a motion by Bob Bradley, seconded by D'Anne Gloris, the Council voted unanimously to terminate the 1992 Mutual Aid Agreement with Travis County.

WORK SESSION:

8. The City Manager updated the Council on the following:
 - a. Commercial Development
 - Hill Country News has agreed to start running a Lago Vista insert beginning the first Thursday in December, it's available at a few stands in town, subscriptions are inexpensive, more advertisers we have and more news we generate the more coverage we'll get, Matt Underwood has mentioned using some student journalism students to cover meetings
 - getting ready to trench across Lohman Ford Rd for the Alfalfa sewer line, will be some lane closures
 - Mayor Kruger stated he has received complaints regarding the location of the banners on Lohman Ford Rd., Bill Angelo stated he will look into moving them, Mayor Kruger questioned why they couldn't be put across the road
 - nothing new at 1431 shopping center
 - b. Residential Development – none
9. The Council scheduled items for future Council meetings.

Mayor Kruger adjourned the meeting at 8:27 p.m.

Respectfully submitted,


Randy Kruger, Mayor

ATTEST:


Christina Buckner, City Secretary

On a motion by Council Member Bob Bradley, seconded by Council Member Dale Mitchell, the above and foregoing instrument was passed and approved this 18th day of October, 2012.