

FINAL UPDATE
Ambassadors Meeting
August 9, 2022

CASTLE HILLS ANNEXATION

TODAY'S MEETING

- Purpose: To provide a final accounting to prior Castle Hills board members and ambassadors of the water districts' ending financial position at annexation
 - Boards and the City approved the Third Amendment to the Strategic Partnership Agreement (SPA) providing the water districts to be annexed into the City
 - Language in the SPA stated if there are remaining revenues after expenses and contracts for the fiscal year 2021-2022 budget, the City shall segregate such excess revenues for capital and maintenance expenses within the former boundaries of the districts, subject to the City's discretion
 - "Excess Revenues" can also be called Net Cash, Working Capital, Fund Balance

EXCESS REVENUES

- Excess Revenues = Current Assets – Current Liabilities +/- 2021-2022 Budget Impacts
 - Current Assets are cash, investments, receivables, due from other districts
 - Liquid assets that are easily converted to cash
 - Current Liabilities are accounts payables, utility security deposits, due to other districts, developer advances
 - Short term liabilities of which should be paid from cash
- 2021/2022 Budget Impacts
 - Started with the approved 1A and City 2021/2022 Joint Budget
 - Adjustments for final board approved actions—Adopted M&O tax rates and any additional capital improvements approved

STARTING POINT

- 9/30/21 Audits
 - Audits are the official documents that provide at a given point in time the financial position of each water district by an independent, outside reviewer
 - Filed with TCEQ and approved by each board
 - City worked with the districts' auditor firm, McCall Gibson Swedlund Barfoot, PLLC
 - Specific auditor assigned, Joseph Ellis
 - Received workpapers, explanations, and historical context for understanding each district's financial position

DEVELOPER ADVANCES

- Developer Advances occur when a district lacks revenues to pay liabilities
 - Usually occurs when a district is newly formed and there is insufficient M&O tax revenues to cover operational expenses
 - Developer never set a tax rate above \$1.00 due to perceived market constraints
 - In early years, most of the \$1.00 goes toward the debt service payments for constructed public improvements
 - Also occurs for capital improvements when no bond proceeds are available to pay these invoices
- At annexation, only district 1H was still receiving advances from the developer
 - Final \$43,430 was advanced in November 2021

DEVELOPER ADVANCES, CONT.

- Developer Advance balance is reported each year-end in the audits
- Developer worked with District 1A to periodically pay down the liability when excess revenues would allow
- Per the 9/30/21 audits and the final 1H advance, the balances at the right were still due the developer

1A \$219,634

1B -\$0-

1C \$240,220

1D \$208,110

1E \$142,571

1F \$280,114

1G \$44,322

1H \$8,951,821

TOTAL \$10,086,792

DEVELOPER ADVANCES, CONT.

- Districts 1A through 1G have sufficient cash to reimburse the developer prior to annexation
- District 1H's developer advance to be paid by the TIRZ3 revenues per the developer agreement with the City

1A through 1G total
\$1,134,971

1H **\$8,951,821**

DEVELOPER ADVANCES, CONT.


- The developer initiated payments of these balances in the days prior to annexation
- Audits were not complete and balances believed to be owed were not confirmed with the auditor
- Total of \$3,147,210 was paid to the developer
 - \$2,012,239 more than districts 1A, 1B, 1C, 1D, 1E, 1F and 1G owed
 - These districts funded this extra \$2M with their excess revenues
 - City must adjust for this overpayment in the Excess Revenue calculation
- City has informed the developer that the 1H's developer advance balance will be reduced for the \$2M amount that would have otherwise been paid by TIRZ3 in the future

EXCESS REVENUES—RESULTS

As expected, some districts ended up with Excess Revenues while others did not



District 1H was removed from the calculations in the end since its deficit is mainly the developer advance balance and will be under the TIRZ₃ future funding



Total of **\$5,897,393** will be moved to a Capital Improvement Project (CIP) for park improvements, ADA improvements, and trails throughout Castle Hills

EXCESS REVENUES BY DISTRICT

EXCESS REVENUES BY DISTRICT										
LINE		1A	1B	1C	1D	1E	1F	1G	1H	TOTAL
1	9/30/2021 Audit	\$ (1,337,377)	\$ 507,137	\$ 1,191,302	\$ 1,465,742	\$ (500,019)	\$ 4,970,557	\$ 3,564,446	\$ (8,990,857)	\$ 870,931
	<i>Current Assets - Current Liabilities</i>									
2	Fiscal Year 2021/2022 Budget	-	230,219	(197,890)	(715,340)	(318,765)	436,417	(204,743)	482,558	(287,544)
	<i>Includes adjustments for board actions/changes (M&O tax rate adoption, added capital improvements)</i>									
3	Hidden Park Change Orders/Overage				(118,710)					(118,710)
4	Fitness Park Change Orders/Overage				(555,744)					(555,744)
5	Windhaven Median Lights Funding to Complete						(507,600)			(507,600)
6	Additional Advances (October 1-Nov 15)								(43,430)	(43,430)
7	Excess Revenues, Subtotal	\$ (1,337,377)	\$ 737,356	\$ 993,413	\$ 75,948	\$ (818,784)	\$ 4,899,374	\$ 3,359,703	\$ (8,551,729)	\$ (642,096)
8	Developer Liability Payments		(147,404)	(198,592)	(15,183)		(979,427)	(671,634)	2,012,239	(0)
	<i>Developer was reimbursed for all remaining liability of each district prior to annexation. The partial payment of 1H's liability utilized other districts' cash (\$2,012,239) and is prorated above.</i>									
9	Allocation of 1H's deficit to TIRZ3								6,539,490	6,539,490
10	Excess Revenues	(1,337,377)	\$ 589,952	\$ 794,821	\$ 60,765	(818,784)	\$ 3,919,947	\$ 2,688,069	-	\$ 5,897,393

RECAP OF STATUS OF PROJECTS IN PROGRESS AT ANNEXATION

1B FoamWorks "bird bath" street repairs-
COMPLETE

1B Castle Park Improvements-
COMPLETE

1B Bike Lane Signage
(\$8000 per 2021 quote);
no location map given
to City; not completed

1D Hidden Park-
COMPLETE

1D Fitness Park-
COMPLETE

1G CH Phase 8 North of
Windhaven Street
Lights; CoServ
installation; funded-
ONGOING

1F Windhaven Median
Lights; CoServ
designing; funded-
ONGOING