

SPRING CREEK FOREST PUBLIC UTILITY DISTRICT

Bond and Maintenance Tax Election

Tuesday, November 4, 2008

7:00 a.m. to 7:00 p.m.

17515 Fairway Oaks Drive

Spring, Texas

FREQUENTLY ASKED QUESTIONS ABOUT SPRING CREEK FOREST PUBLIC UTILITY DISTRICT AND THE UPCOMING BOND AND MAINTENANCE TAX ELECTION

1. **What is Spring Creek Forest Public Utility District?**

Spring Creek Forest Public Utility District is the entity that provides water and sewer and garbage collection services in Spring Creek Forest, La Fone Estates, Spring Creek Court, and Cypress Trace residential subdivisions. The District also serves several businesses on Louetta Road and Seven Pines Drive.

2. **Is Spring Creek Forest PUD a utility company?**

No. Spring Creek Forest PUD is a governmental entity of the State of Texas. Spring Creek Forest PUD is governed by a Board of Directors, all of whom are residents of the District and are elected by the community. The District engages contractors and consultants to operate the utility system, provide back door garbage service, and take care of administrative duties as necessary.

3. **What is the District's tax rate?**

The District's tax rate has two components: debt service and maintenance. The tax for debt service pays principal and interest on bonds, while the maintenance tax (along with water and sewer revenues) pays for operations of the District's plants, facilities and other administrative costs. The 2007 tax rate was \$0.32 debt service and \$0.15 maintenance, for a total of \$0.47. The Board plans to levy the same tax rates in 2008. The District has enjoyed healthy growth and has been able to reduce its tax rate over the past few years. The 5 prior years' tax rates of the District were:

<u>Year</u>	<u>Tax Rate</u>
2007	\$0.47
2006	\$0.49
2005	\$0.55
2004	\$0.594
2003	\$0.594

This tax rate is slightly lower than the average tax rates of most utility districts in the Houston/Spring/Woodlands area.

4. **What are the purposes of the elections on November 4, 2008?**

The bond election is to obtain voter approval for bonds to finance improvements to the existing water supply for the chloramine conversion project, capital replacements and improvements to existing facilities, capital contributions to the North Harris County Regional Water Authority, and to pay the costs of issuing bonds. If approved, the total bond authorization will be \$5 million. Because bonds that are issued by the District are paid from taxes, the District is required to have voter approval of the bonds.

The maintenance tax election is to obtain voter approval to raise the current cap from \$0.15 per \$100 assessed valuation to \$0.50. Maintenance tax revenues can be phased in as outstanding bonds are paid off and District assessed value grows, minimizing the impact on the total tax rate.

5. **What is the chloramine conversion project and why does the District have to participate?**

The District is located in the North Harris County Regional Water Authority. The Authority is charged by law with converting the water supply in its area to surface water to reduce land subsidence associated with pumping water from wells. The Authority has notified the District that it is going to deliver surface water to our area in the near future. The District is required to convert its water disinfection to a chloramine disinfection system so that it can receive, treat and distribute the surface water. The District must participate in the surface water conversion, or it will be subjected to cost prohibitive disincentive fees for failing to do so.

6. **Under what circumstances will the District issue bonds from the new authorization?**

The District will only issue bonds when the Board of Directors has determined that there is a need to finance a particular project, funds are not otherwise available to pay for that project, and there is sufficient tax base to pay for tax bonds **with the minimum tax rate impact to residents**. In the near term, the Board has plans to sell only \$1,000,000 in bonds to pay the costs of the chloramine conversion. Before bonds can be issued, the District must obtain approval from one of the two state agencies with regulatory authority, the Texas Commission on Environmental Quality (“TCEQ”) or the Texas Water Development Board. These agencies review the technical and economic feasibility of each project to be financed with bonds, and **the District cannot spend bond money for any purpose unless one of these agencies approves it**. The District must also receive the approving opinion of the Attorney General of Texas to issue bonds.

7. **Does the election mean that tax rates will increase in the District?**

Not necessarily. The Board of Directors of the District is committed to maintaining a level tax rate or reducing the District's tax rate whenever possible. The Board of Directors continuously monitors the District's financial situation and will attempt to minimize the tax rate impact. Currently, the financial advisor has estimated that if the District's assessed value does not increase at all next year and any of the following years (a worst case scenario), the District could issue the \$1,000,000 in bonds needed in 2009 with a slight tax rate increase of \$0.03 (In this scenario, the average homeowner's tax burden would increase by \$52 per year). If the District's assessed value grows sufficiently, the amount may even be less, or the tax rate may be able to remain constant.

If it becomes necessary to upgrade or improve existing District facilities because of equipment obsolescence, breakdown or new regulatory requirements, the Board of Directors will make every effort to schedule such bond issues so that tax increases will be avoided, if possible. Some of the District's facilities are over 30 years old and need maintenance and/or replacement, but barring emergencies, the Board will attempt to schedule bond issues to minimize or avoid increasing taxes.

8. **Why is the water, sewer and drainage bond authorization larger than the amount needed for the chloramine conversion?**

The District has no remaining bond authorization. Many of the facilities in the District are over 30 years old and in need of maintenance or repairs. Without the ability to issue bonds, the District does not have any options to raise capital funds except to increase the water and sewer rates. Debt service taxes may be tax deductible (check with your own tax advisor). Water and sewer rates are definitely not deductible to homeowners. The increased amount of voted authorization would give the Board of Directors more options to deal with an emergency repair or replacement. The costs of conducting an election are substantial, and the Board decided to request enough authority so that they would be able to deal with emergencies and give the District more flexibility to pay for needed repairs and improvements. In its 30+ years of existence, the District's voters have only authorized a total of \$11,075,000, and that amount was not completely expended until 2003. The \$5 million requested authorization includes possible future projects in addition to the chloramine conversion, but please understand that all the bonds will not be issued at one time. **Whenever possible, bond issues will be sized to pay for projects only as they are needed and only when growth or appreciation in taxable value will substantially offset the cost of the new bonds**. This process is expected to take several years. Continued growth of the tax base may allow the District to issue bonds without higher tax rates.

9. What are the plans for the maintenance tax?

The current maintenance tax was voted in 1974 and is limited to \$0.15 per \$100 assessed value. (As a comparison, new districts typically have a \$1.00 maintenance tax cap or even an unlimited rate.) The District already levies the maximum amount of \$0.15, and the funds are committed to the District's budget. The District's facilities are over 30 years old and in need of maintenance, and operational costs continue to increase. The Board is requesting that the voters agree to raise the maintenance tax cap from \$0.15 to \$0.50. **This does not mean that the Board intends to levy the entire maintenance tax at once. The maintenance tax can be phased in as outstanding bonds are paid off and assessed values of the District increase, minimizing the impact on the total tax rate.** Maintenance tax revenues can also be used to build a fund for capital improvements or replacements. The only other way the District has to raise operations revenues is through higher water and sewer rates. Maintenance taxes may be tax deductible (check with your own tax advisor). Water bills are definitely not deductible to homeowners.

10. What is the District's financial condition?

Good. The District presently serves over 720 residential connections and 21 commercial connections, and that number increases gradually as new homes and businesses are built. The District's annual operating budget anticipates operating expenditures of \$876,373, excluding capital projects, and revenues of \$962,500. The general fund balance stands at \$555,316.52, which is over 63% of annual operational budgetary requirements. All the District's funds and accounts are audited on an annual basis by an independent certified public accounting firm. While the District's financial condition is stable, it does not have a large emergency reserve. Without any voted bond authority, the District's ability to pay for an emergency capital repair or replacement is limited.

11. Is the District's water quality good?

Yes. The District's water meets all state and federal standards for drinking water quality.

12. When and where is the election?

Early voting for the election is being held within the District at 6610 Stoney River Drive on weekdays between the hours of 9:00 a.m. to 5:00 p.m., beginning on Monday, October 20, 2008 and ending on Friday, October 31, 2008. No early voting will take place on a Saturday, Sunday or a holiday. Election day is Tuesday, November 4, 2008. The election will be held from 7:00 a.m. to 7:00 p.m. at the clubhouse at 17515 Fairway Oaks Drive, Spring, Texas.

Anyone who is a registered voter residing in the District may vote in the election.

13. If I have questions in the future, whom may I contact?

Please feel free to call any of the District's directors or consultants with questions.

<u>Name</u>	<u>Position</u>	<u>Contact Information</u>
R. W. (Rick) Kehlenbach	President	281/376-9428
Dave Simac	Vice President	713/201-0616
Janet Frakes	Secretary	281/379-4508
Kenneth W. Heussner	Ass't Secretary	281/320-1129
Derek Drawhorn	Treasurer	281/370-4508
Dale Conger	Engineer	713/462-3242
Lori Aylett	Attorney	713-652-6500
Anthea Moran	Financial Advisor	713/654-8677
Tom Rolen	TCB/NHCRWA	713-267-3181

BOND AND MAINTENANCE TAX ELECTION

The Board of Directors of Spring Creek Forest Public Utility District has called a very important bond and maintenance tax election. Early voting is Monday through Friday, 9:00 a.m. to 5:00 p.m., from October 20 through October 31 at 6610 Stoney River Drive. Election day is Tuesday, November 4. The polling place on election day will be the clubhouse at 17515 Fairway Oaks Drive.

A Town Hall meeting will be held on **Thursday, October 9 at 7:00 p.m.** in the clubhouse at 17515 Fairway Oaks Drive. The Board of Directors and consultants of Spring Creek Forest PUD will give a presentation and answer any questions that you may have regarding the upcoming bond and maintenance tax election. Please come!

Spring Creek Forest Public Utility District Spring, Texas

Board of Directors

R. W. (Rick) Kehlenbach, President

Dave Simac, Vice President

Janet Frakes, Secretary

Kenneth W. Heussner, Assistant Secretary

Derek D. Drawhorn, Treasurer