



## MEMORANDUM

**TO:** Mayor and Council Members

**FROM:** Rey Arellano, Assistant City Manager 

**DATE:** October 9, 2020

**SUBJECT:** Shady Hollow Municipal Utility District Agreements (Resolution No. 20200521-010)

---

The purpose of this memo is to provide a response to Council Resolution No. [20200521-010](#), which directed the City Manager to negotiate agreements to resolve outstanding issues with the Shady Hollow Municipal Utility District.

On April 21, 2020, the Law Department met with Council in executive session to discuss legal issues related to impact of recent legislation, SB 1468, on the City's Strategic Partnership Agreement (SPA) with Shady Hollow Municipal Utility District (District). On May 21, 2020 Council adopted the Resolution directing the City Manager to negotiate with representatives of the District to amend the SPA to address, among other things, the ownership of the fire station, compensation to the City for fire service and ownership of the District's former water and wastewater system.

Staff believes the negotiations have resulted in a set of proposed agreements on the key issues that address both the City's and District's interests. This memo is to update Council on those results and the proposed agreements, which will be brought to Council for your consideration at your October 15, 2020 meeting.

### Fire Station Purchase and Fire Service Agreements

In alignment with terms of the SPA, a key objective with regard to fire service and ownership of the fire station issues identified by Council's resolution was to place the City as close as reasonably possible to the results that would have happened if the City had annexed the District. In annexation, the City would have assumed ownership of the fire station along with the outstanding debt of the station. The City would also have started collecting an ad valorem tax in the annexed area that, among other things, would pay for fire service to the residents of

the annexed area. The proposed agreements result in a similar outcome. The District is willing to sell its fire station to the City for the amount of the outstanding debt, so like in annexation, the City will take ownership of the fire station and assume the outstanding debt on the fire station of \$1,709,175 with closing scheduled for March 12, 2021. (Besides the purchase agreement, two items on Council's agenda relate to the financing of the purchase through Certificates of Obligation.) Also, the District is willing to enter into an agreement for fire service. In negotiated terms, the annual payments ramp up over a period of 7 years such that by FY2029-30 the District will be paying a rate similar to Sunset Valley that is intended to set payments at an amount similar to what residents would pay if they were a taxpayer in the City.

## Water/Wastewater System Transfer

Austin Water concluded that a favorable outcome for the utility was to return the District's former water and wastewater system and return to the wholesale service arrangement that the City had with the District prior to April 2018, but with updated wholesale service rates and terms of service, which will be on a future Council agenda. With the return of the system, the District has agreed to make the City whole for the cost of system improvements totaling more than \$714,387. The system will be transferred also in March 2021.

## Termination of SPA Annexation Provisions

The District has asked the City to formally terminate the provisions of the Strategic Partnership Agreement related to the automatic annexation of the District. As the automatic annexation has been disrupted by SB 1468 and the parties have reached agreement on alternative arrangement for the disposition of assets and services between them without annexation, the City is agreeable to terminating the automatic annexation provisions prior to the December 15, 2020 automatic annexation date and fully terminating the SPA upon closing in March 2021.

## Timing of Asset Transfers and Execution of Agreements

Due to timing considerations related to the District's bond payments, as noted, the closing on the fire station, start of the fire services agreement and the transfer of the water and wastewater system are scheduled to happen in March 2021. The City's lease on the fire station, currently expiring on December 15, 2020, will be extended until the closing date in March 2021. Because the automatic annexation provisions in the SPA are also set for December 15, 2020, the amendment to the SPA terminating those provisions, and all the related agreements with regard to the fire station purchase, fire service and the system transfer will all be executed prior to December 15, 2020.

## October 15<sup>th</sup> City Council Agenda

The Council is scheduled to consider and take action on items related to the Shady Hollow Municipal Utility District at its October 15<sup>th</sup> Council meeting. Staff recommends Council's approval of the following six items in response to the direction provided by Council in May 2020:

- Fire Service Agreement with the District.
- Purchase and Sale Agreement for the District's fire station for \$1,709,175.
- Two items related to the financing of the fire station purchase:
  - Amendment to Austin Fire Department's budget in an amount of \$1,710,000.
  - Reimbursement resolution noticing that the City may reimburse itself the amount of \$1,710,000 through the issuance of certificates of obligation.
- Agreement for transferring the District's former water/wastewater system back to the District and the District making the City whole by paying the system improvement costs of \$714,387.
- Termination of the annexation provisions in the SPA.

A wholesale water and wastewater service agreement is also being prepared for consideration by the District and will be brought to Council on a future agenda.

Please do not hesitate to contact me should you have questions or require additional information.

cc: Spencer Cronk, City Manager  
CMO Executive Team  
Chief Joel Baker, Fire Chief, Austin Fire Department  
Alex Gale, Real Estate Services Interim Officer