

**INTERLOCAL COOPERATION AGREEMENT REGARDING THE CREATION OF
“THE HIGHLAND LAKES FIRM WATER CUSTOMERS COOPERATIVE”**

This Interlocal Cooperation Agreement (the “Agreement”) is made to be effective on the 12th day of March, 2013 (the “Effective Date”), by and between each of the Local Governments who are signatories to this Agreement (collectively, the “Local Governments”). In this Agreement, the Local Governments are sometimes individually referred to as a “Party” and collectively referred to as the “Parties.”

RECITALS

WHEREAS, each of the Local Governments is a “local government” within the meaning of Section 791.003(4) of the Texas Government Code;

WHEREAS, each of the Local Governments has a firm water supply contract with the Lower Colorado River Authority (“LCRA”);

WHEREAS, the Local Governments recognize the importance of preserving a safe, firm, and reliable water supply and maintaining excellent water quality to benefit the health, economic, and recreational interests of their respective customers;

WHEREAS, on or about March 12, 2012 LCRA filed an application with the Texas Commission on Environmental Quality (“TCEQ”) to amend its water rights permits and/or certificates of adjudication to include a revised Water Management Plan (“WMP”), which is LCRA’s plan for operating Lake Buchanan and Lake Travis to meet water needs throughout the Lower Colorado River Basin;

WHEREAS, LCRA has also applied to the TCEQ for emergency relief from the requirements of the current (2010) WMP and the 2011 emergency orders related to the WMP;

WHEREAS, the Local Governments desire to participate in all proceedings before the LCRA, TCEQ, and any other court of competent jurisdiction or forum relating to the LCRA WMP, as well as in all other proceedings involving LCRA’s water rights and/or certificates of adjudication in order to fully protect all of the interests of the Local Governments and their respective customers;

WHEREAS, the Local Governments also desire to work together on other Water Matters (herein defined) that may arise from time to time;

WHEREAS, the Local Governments have determined that it is more effective and efficient to coordinate and collaborate with other similarly situated entities with regard to Water Matters;

WHEREAS, the Local Governments acknowledge by executing this agreement that each of them waive any legal conflict of interest as between each other, and have been provided, in writing, with an honest attempt by legal counsel at providing full and complete disclosure of

potential conflicts of interest, including the reasons for the conflict rule and the consequences of both waiving and not waiving the possible conflicts of interest;

WHEREAS, this agreement constitutes a written consent to waive such conflicts to permit the joint representation of the Local Governments and constitutes a Joint Defense Agreement as provided by law between the Local Governments for the purposes of this engagement of legal services;

WHEREAS, the Local Governments have been encouraged to seek independent legal counsel as to whether to waive the conflict;

WHEREAS, the Local Governments have engaged their own independent legal counsel as to the value and consequences of waiving any conflict of interest and desire to engage into this Interlocal Cooperation Agreement and establish a Joint Defense Agreement between the Parties; and,

WHEREAS, the Local Governments therefore support the creation of a Cooperative of LCRA firm water supply customers for the purposes of participating in planning activities and legal proceedings related to Water Matters as may be necessary to create and preserve a safe, firm and reliable water supply.

NOW, THEREFORE, the Parties agree as follows:

I. CREATION AND PURPOSE OF THE HIGHLAND LAKES FIRM WATER CUSTOMERS COOPERATIVE

1.01 The foregoing recitals are hereby found to be true and correct and are hereby approved and adopted.

1.02 There is hereby, upon execution of this Agreement by five (5) of the Local Governments represented on the Steering Committee as listed in Section 2.01.01 of this Agreement, created the Highland Lakes Firm Water Customers Cooperative (the "Cooperative"). The purpose of this Interlocal Agreement is to allow the Local Governments to form a Cooperative to aid, assist, and act on behalf of the Local Governments in the performance of their governmental functions relating to public health and safety and to preserve valuable rights related to water supply by:

1.02.01 aiding, assisting, and acting on behalf of the Local Governments in the performance of their governmental functions, promoting the common good and general welfare within the areas of the Local Governments, their water customers, and their neighboring areas; and assisting the Local Governments to preserve valuable rights. It is a specific purpose of this Agreement to establish a group of firm water supply customers of LCRA having the authority to organize, finance, participate in, and act on behalf of the Cooperative on all LCRA water-related topics and proceedings, including but not limited to proceedings relating to the LCRA's WMP, permit and/or certificate of adjudication; drought contingency planning; water conservation planning; water supply projects (including new reservoir and groundwater development

projects); water rates and charges; joint water planning per Chapter 36 of the Texas Water Code and State Water Plan matters; and on any other water-related matters that the Steering Committee may determine to be appropriate and desirable to work on cooperatively, including any matter authorized by Section 791.026 of the Government Code (collectively, the “Water Matters”);

1.02.02 appointing a Steering Committee, to serve as the administrative agency as provided for in Section 791.013 of the Government Code, for the purpose of exercising the powers granted to the Cooperative; and

1.02.03 authorizing the Steering Committee to retain, on behalf of the Cooperative, attorneys, consultants, and experts to assist and act on behalf of the Cooperative on Water Matters subject to the provisions of this Agreement.

1.03 It is expressly understood and agreed by the Parties that the purpose of this Agreement is to provide the Local Governments with an opportunity to work together on Water Matters and act collectively through the Cooperative. Except as expressly authorized herein, the Cooperative has no authority to act on behalf of, or represent any of the Local Governments.

II. ADMINISTRATION OF THE COOPERATIVE

2.01 The Local Governments agree that the Cooperative created pursuant to this Agreement shall be administered as follows:

2.01.01 All powers of the Cooperative shall be vested in a Steering Committee (“Steering Committee”). The Steering Committee shall be responsible for performing the activities authorized by and within the scope of **Section 1.02** of this Agreement and shall act on behalf of the Cooperative and the Local Governments. The following entities are hereby appointed as the initial members of the Steering Committee:

City of Burnet
City of Cedar Park
City of Leander
City of Pflugerville
Lakeway Municipal Utility District
Travis County Water Control & Improvement District No. 17
West Travis County Public Utility Agency

A Party having a member on the Steering Committee may change its designated representative on the Steering Committee by giving written notice to the Steering Committee. The Administrator (defined in **Section 2.01.10**) shall promptly notify the other Parties by one of the means set forth in **Section 5.07** of this Agreement.

2.01.02 The Steering Committee may adopt such operational procedures (“Procedures”) as it sees fit to accomplish the purposes of this Agreement, provided that the Procedures shall not be inconsistent with this Agreement. The Steering Committee

shall establish a method to amend the Procedures, which shall be effective on adoption by the Steering Committee.

2.01.03 The Steering Committee Procedures may provide a means for changing the composition of the Steering Committee, provided that (a) the number of members on the Steering Committee shall not be less than five (5); and (b) the entity represented on the Steering Committee must have a firm water contract with LCRA and have the highest level of membership as provided for on **Table 1** of this Agreement, or as established by the Steering Committee from time-to-time ; and (c) a Steering Committee member may be removed by a majority vote of the Parties or a unanimous vote of the Steering Committee; and (d) the Steering Committee, by two-thirds affirmative vote, shall have the right to request a Party to change their Authorized Representative (defined in **Section 2.03.02** of this Agreement).

2.01.04 The Steering Committee may hold its meetings at such place or places within Central Texas as the Steering Committee may from time to time determine. All members of the Cooperative shall be entitled to notice of and shall be authorized to attend meetings of the Steering Committee.

2.01.05 The Steering Committee shall designate from among its members such officers as it may determine to be necessary to accomplish the purposes of the Cooperative, and each officer shall serve for the term and have the duties as may be set forth in the Procedures.

2.01.06 Actions of the Steering Committee may be considered and acted upon at a meeting of the Steering Committee at which a quorum of the Steering Committee is present, via video or audio conferencing, or email to all members of the Steering Committee. A majority of the members of the Steering Committee shall constitute a quorum. The act of a majority of the members of the Steering Committee shall constitute an act of the Cooperative, unless a greater number is required by this Agreement or the Steering Committee's Procedures.

2.01.07 Members of the Steering Committee, as such, shall not receive any salary or compensation for their services as members of the Steering Committee. Expense reimbursement, if any, shall be the sole responsibility of the Local Government appointing such Steering Committee member.

2.01.08 The Steering Committee may retain the professional services of attorneys, experts, and consultants to assist it in the performance of its responsibilities under this Agreement, who shall take their direction from the Steering Committee.

2.01.09 The Steering Committee, by two-thirds affirmative vote, may allow additional Local Government or other LCRA firm contract holders, not originally a party to this Agreement, to become members of the Cooperative by execution of an interlocal agreement, or contract, as approved from time to time.

2.01.10 The Steering Committee shall appoint an administrator (the "Administrator") to carry out the responsibilities as provided for herein. The initial Administrator shall be the general manager of the Lakeway Municipal Utility District. The Administrator must be a member of the Steering Committee and may be changed by two-thirds affirmative vote of the Steering Committee members that are not then serving as the Administrator. The Administrator shall have the duties assigned to the Administrator under this Agreement, and shall also be responsible for keeping all of the records of the Cooperative.

2.02 The Steering Committee shall not:

2.02.01 Have the authority to amend, alter, waive, renew or otherwise change any of the terms or conditions of any of the Local Governments' existing contracts with LCRA;

2.02.02 Take any actions other than those actions authorized by this Agreement; or

2.02.03 Incur any financial obligation, debt, or encumbrance in excess of funds collected pursuant to this Agreement.

2.03 The Local Governments shall:

2.03.01 Promptly review draft public comments, pleadings, correspondence and other documents and provide comments to the Steering Committee as soon as practicable; and

2.03.02 Designate one person to act as its authorized representative ("Authorized Representative"). A Party may change its Authorized Representative from time to time by providing written notice to the Administrator, who shall promptly notify the other Parties. The Authorized Representative shall be solely responsible for reporting to their Local Government, any actions taken by the Steering Committee under this Agreement.

2.03.03 Make any payments required under this Agreement out of current revenues in accordance with Section 791.011(d)(3) of the Government Code.

III. FINANCIAL OBLIGATIONS

3.01 Establishment of an Operating Fund. The Parties agree to establish a separate fund (the "Operating Fund") for the purpose of paying for the Operating Expenses (as defined in **Section 3.03** of this Agreement). Lakeway Municipal Utility District, as the initial Administrator, will open an initial account for the Operating Fund at Chase Bank, N.A., and the initial signatories on the Operating Fund will be the general manager of Lakeway Municipal Utility District and the general manager of Travis County WCID #17. The depository at which the Operating Fund is held may be changed from time to time by the Administrator, provided that notice of such changes are reported to the Steering Committee. Signatories may be changed at any time by a majority vote of the Steering Committee.

3.02 Operating Fund Administration. The Administrator will have the responsibility and authority to establish the Operating Fund and to disburse funds from the Operating Fund in the manner and for the purposes set forth in this Agreement. All expenditures, including encumbrances, of funds must be approved by the Steering Committee in accordance with **Section 3.03** of this Agreement prior to issuing payment. The Administrator will have the duty to deposit all sums received from the Parties under this Agreement into the Operating Fund and to maintain proper books and records of the Operating Fund as provided for herein. The Operating Fund shall be kept separate and apart from all other accounts of the Administrator. The Party serving as Administrator will furnish a good and sufficient bond, or insurance coverage (which may be provided through the Texas Municipal League Intergovernmental Risk Pool). The cost of such insurance or bond will constitute an expense of the Cooperative. All sums on deposit in the Operating Fund will at all times either be insured by the Federal Deposit Insurance Corporation or collateralized in the manner required by Chapter 2257, Texas Government Code.

3.03. Uses of the Operating Fund. Subject to the provisions of this Agreement, the Operating Fund may be used by the Administrator to pay for Operating Expenses, which may include (i) legal fees, (ii) expert or consultant fees, (iii) court costs and filing fees, (iv) photocopy costs, (v) postage, courier or delivery charges, (iv) other costs and expenses deemed necessary by the Steering Committee ("*Operating Expenses*"). All Operating Expenses shall be approved by a majority vote of the Steering Committee, prior to incurring any encumbrance, or expenditure of funds. Each check, or payment, must bear two signatures: that of the Administrator and that of one other Steering Committee officer designated as a co-signer by the Steering Committee.

3.04. Accounting. The Administrator shall maintain complete books and records showing all deposits into and expenditures of any nature from the Operating Fund, which books and records shall be deemed complete if kept in accordance with generally acceptable accounting principles as applied to governmental entities in Texas. Such books and records shall be available for examination at the offices of the Administrator by the duly authorized officers or agents of the Parties during normal business hours upon request made not less than thirty (30) days prior to the date of such examination. The Administrator shall maintain such books and records throughout the term of this Agreement and for at least four (4) years thereafter. If the Administrator is changed by the Parties, all books and records relating to the Cooperative and Operating Fund will be promptly turned over to the new Administrator. The Administrator will cooperate with the Parties to timely provide all information and confirmations required in connection with the annual audits of the Parties' respective financial statements.

3.05 Initial Funding of the Operating Fund. Each Party shall pay the amount set forth in **Table 1** as the initial Annual Membership Fee (as defined in **Section 3.06(b)** of this Agreement) to initially fund the Operating Fund. Each Party agrees that it shall provide payment to the Administrator within twenty (20) business days of its execution of this Agreement.

3.06. Annual Budget.

a. Initial Fiscal Year. The initial fiscal year shall be for the period from the Effective Date through September 30, 2013 ("Initial Fiscal Year"). The Steering Committee shall establish a budget for the Initial Fiscal Year based on current revenues. All subsequent annual budgets following the Initial Fiscal Year shall be for the period from October 1 through September 30.

b. Subsequent Fiscal Years. Commencing with the first annual budget for the year following the Initial Fiscal Year and for each fiscal year thereafter (October 1 through September 30), the Steering Committee shall establish an annual budget, based on estimates from its consultants, past operating experience, and related information (the "Annual Budget"). The Steering Committee may amend the Annual Membership Fee, such that it will be sufficient to cover operating and other anticipated expenses (the "Annual Membership Fee"). The Annual Membership Fee structure shall be at the sole discretion of the Steering Committee. The Steering Committee may increase or decrease the Annual Budget at any time and may utilize fund balance for any authorized purpose under this Agreement. If there is a budget surplus for any fiscal year, that surplus will be carried over as fund balance to be used at the discretion of the Steering Committee. Failure to make timely payment of the Annual Membership Fee shall be considered a Default of this Agreement.

c. Special Purpose Funds. From time to time, the Steering Committee may elect to undertake specific actions to benefit the Cooperative that require Additional Contributions. Individual Parties, at their sole discretion, may elect to participate by making Additional Contributions to support such efforts. The Steering Committee may elect to utilize fund balance to help fund such efforts. Failure to make an Additional Contribution shall not constitute a default under this Agreement. However, only Parties participating by making the Additional Contribution shall be allowed to vote on actions related to special purpose.

IV. WITHDRAWAL; DEFAULT; DISSOLUTION

4.01 Withdrawal from Participation in the Cooperative. Any Party may withdraw from participation in the Cooperative at any time, upon written notice to the Steering Committee. The Party withdrawing from the Cooperative shall not be entitled to a refund of any previously paid amounts, unless such withdrawal coincides with dissolution of the Cooperative as provided for in **Section 4.03** of this Agreement.

4.02 Event of Default. Failure to cure a default within 30 days of notice of said default may be grounds for removal of the party by a majority vote of the Steering Committee.

4.03 Dissolution. Upon dissolution of the Cooperative, the Steering Committee may: (1) distribute all remaining funds to the membership at the time of dissolution, or (2) transfer remaining funds to a successor organization created by the Steering Committee for the purposes established in this Agreement, or (3) other method as agreed upon by a majority vote of the Parties at the time of dissolution.

ARTICLE V. GENERAL PROVISIONS

5.01. Authority. This Agreement is made in part under the authority conferred in Chapter 791, Texas Government Code.

5.02 Severability. The provisions of this Agreement are severable and, if any provision of this Agreement is held to be invalid for any reason by a court or agency of competent jurisdiction, the remainder of this Agreement will not be affected and this Agreement will be construed as if the invalid portion had never been contained herein.

5.03. Cooperation. The Parties agree to cooperate at all times in good faith to effectuate the purposes and intent of this Agreement.

5.04. Entire Agreement. Except as otherwise expressly provided herein, this Agreement contains the entire agreement of the Parties regarding the subject matters addressed herein, and supersedes all prior or contemporaneous understandings or representations, whether oral or written, regarding the subject matter.

5.05. Amendments. Any amendment of this Agreement must be in writing and will be effective only if approved by the governing body and executed by the authorized representatives of each of the Parties.

5.06. Applicable Law; Venue. This Agreement will be construed in accordance with Texas law. Venue for any action arising hereunder will be mandatory in either Burnet, Travis, or Williamson County, Texas.

5.07. Notices. All notices under this Agreement must be in writing. Any notice given under this Agreement must be given: (i) by depositing it in the United States mail, certified, with return receipt requested, addressed to the Party to be notified and with all charges prepaid; or (ii) by depositing it with Federal Express or another service guaranteeing “next day delivery”, addressed to the Party to be notified and with all charges prepaid; (iii) by personally delivering it to the Party, or any agent of the Party listed in this Agreement; or (iv) by facsimile or (v) by email. Each of the Parties may change its respective address to any other address within the United States of America by giving at least five (5) calendar days’ written notice to the Administrator.

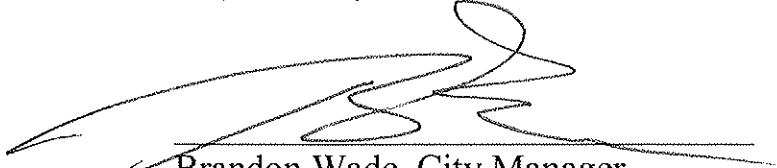
5.08. Force Majeure. Parties shall not be deemed in violation of this Agreement if prevented from performing any of their obligations hereunder by reasons for which they are not responsible or due to circumstances beyond their control. However, notice of such impediment or delay in performance must be timely given and all reasonable efforts undertaken to mitigate its effects.

5.09. Counterparts. This Agreement may be executed simultaneously in multiple counterparts, each of which will be deemed an original, but all of which will constitute the same instrument.

5.10 Term and Termination. The initial term of this Agreement shall be from the Effective Date until September 30, 2013. Thereafter, this Agreement shall automatically renew for successive one (1) year periods, beginning October 1st, unless earlier terminated.

Signed this 13th day of March, 2013.

Local Government
City of Pflugerville:



Brandon Wade, City Manager

INITIAL APPOINTMENTS:

The persons named below are hereby appointed by the City of Pflugerville as its initial designated representatives under this Agreement:

Steering Committee Member: Lauri Gillam, Assistant City Manager

Authorized Representative: Lauri Gillam, Assistant City Manager

TABLE 1

Levels	Annual Membership Fee
Level I (1-500 A/F/yr. Firm Contract)	\$500
Level II (501-1,000 A/F/yr. Firm Contract)	\$1,000
Level III (1,001-2,500 A/F/yr. Firm Contract)	\$2,000
Level IV (2,500 or Greater A/F/yr. Firm Contract)	\$4,000