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April 13, 2011

Richard E. Gray, III
Gray & Becker, P.C.
900 West Avenue
Austin, Texas 78701

via facsimile to 482-0924 & U.S. Mail

Re: ShadowGlen Golf, L.P. and Golf Works, Inc. v. Cottonwood Holdings Ltd, et. Al

Dear Mr. Gray:

The City Council of the City of Manor requested that I communicate with your client regarding the above and the continuing efforts by the City of Manor to enable ShadowGlen Golf to obtain a supply of water for the golf course. In doing so, I want to first state a number of applicable facts that we hope your client will consider before again refusing the City's ongoing proposals and offers.

First. The City has never had any contract with ShadowGlen Golf. The City's contract was with Travis County MUD No. 2 and, in exchange for three wells and other property conveyed by the MUD to the City, in that contract the City agreed to provide the MUD with up to 500,000 gallons of water per day at a price of \$0.50/1000 gallons plus certain expenses and adjustments. (The MUD charged your client \$.60/1000 gallons.) The contract permitted the MUD to provide water to "a golf course" and did not require a specific minimum due to several factors, i.e. (1) the wells were to also provide water for the entire population of Manor¹; (2) it was doubtful the wells would continue to produce the volume of water required for both the City and the MUD contract; and (3) the MUD did not need or require 500,000 gallons of water every day. The contract with the MUD was for a period of ten (10) years, and expired in January 2011. During that ten year term, the water that could be produced by the wells declined and has continued to decline to the point that now one well does not produce any water and the other two wells combined produce an average total of only 318,000 GPD.

The MUD also acquired the right to take the treated effluent from the WWTP for a period of ten (10) years. The City complied fully with the terms, conditions and provisions of its contract with the MUD. In fact, the City did not increase the price of the water or add pumping and transmission expenses as the City was entitled to do so by contract. It should also be noted, the City does not provide water service to the golf course. The MUD and others installed the pipes and facilities to

¹ At the time the wells were transferred they were producing 1,000,000+ gallons per day.

Re: ShadowGlen Golf vs. Cottonwood Holdings

serve the golf course and now provides water service for the golf course. Manor has also offered to provide water for the golf course via the MUD at the rate Manor pays Pflugerville for water.

Due to declining water production from the wells and the growth of the City: (1) the City contracted with the City of Pflugerville for an interim water supply at the rate of \$2.25/1000 gallons plus the fee charged by Manville WSC for transporting the water to the City; (2) has contracted with Bluewater for water at rates that vary from \$2.80 to \$3.60/1000 gallons; and (3) is negotiating with a third company to purchase additional water at a rate of \$3.02/1000 gallons. The City has previously offered to sell the MUD water for the golf course, at the City's cost.

Second. The MUD agreed that ShadowGlen Golf could use its right to connect to the City of Manor WWTP, and pump the effluent back to the golf course for a period of ten years, without any charge for the effluent. Had ShadowGlen Golf done so, it would have been able to pay for the pipe and pumping cost by saving the \$.50/1000 gallons for the cost of the MUD water. Since 2006, the City has attempted to persuade ShadowGlen Golf to make the connection to the Manor WWTP and (as many courses do now and almost all will do in the future) pump the treated effluent back to the golf course for irrigation. Even though the City went to the TCEQ and obtained a permit for your client to use the effluent on the golf course, ShadowGlen has refused to connect to the WWTP.

Third. The MUD and others installed and constructed the effluent return lines under U.S. Hwy 290 that are required to transport the effluent back to the golf course. The City caused a point of connection to be constructed at the WWTP to enable ShadowGlen to connect the effluent pump stations and transport lines to the WWTP. As a result, the estimated remaining cost required to complete all requirements for pumping effluent from the WWTP to the golf course, e.g. install a pump station and connections, is approximately \$230,000. The estimated construction time is 90 days. ShadowGlen Golf refuses!

Fourth. The ShadowGlen Subdivision developers offered to build the pump station, lines and the required remaining connections without any cost or expense to ShadowGlen Golf. We do, however, understand such offer remains open and available to ShadowGlen Golf. ShadowGlen Golf refuses!

Fifth. We understand the MUD has also been unable to find any solution that you will accept.

Sixth. You filed a lawsuit against the City that does not allege any wrongful conduct whatsoever by the City, but does allege the City is somehow responsible for alleged representations to you by third parties. As a result, the Texas Municipal League Intergovernmental Risk Pool employed a qualified attorney to represent the City in that litigation. The response and answer filed by that attorney, together with the fact that you have not pursued the alleged claims, clearly evidences the City has no liability in that lawsuit. As a result, the City has requested you dismiss the City and work with the City for a reasonable solution. ShadowGlen Golf has continued to refuse any solution!

Seventh. A water supply company that is connecting to the City's water supply system has offered,

April 13, 2011

and is now trying to negotiate with you so that you will accept, over 7,000,000 gallons of water, within the next week and without any cost, fee or charge. You initially refused to speak with them.

The City believes you should accept the offer described in the preceding paragraph. This will afford very significant benefits to the golf course, at no cost. It will enable you fill your water storage ponds and then have water available for irrigation for several months. The City is willing to consult with the developers in an attempt to get them to renew their offer to complete the system for return of the treated effluent to the golf course. However, the City cannot provide potable water to the MUD, for the benefit of the golf course, for \$.50/1000 gallons. That was a ten year contract in exchange for property deeded to the City by the MUD, and the water production of the wells has declined dramatically.

Almost all of the above solutions previously offered to ShadowGlen Golf are far less expensive to ShadowGlen Golf than was your purchasing water at the rate of \$.50/1000 gallons. Had ShadowGlen Golf exercised the option to complete the effluent reuse project (or to have allowed the developer to do so) it would have had very substantial savings over the cost of water it purchased before the City's contract with the MUD expired.

If there is a reasonable resolution available, it will necessarily lie with the effluent return. This has become the answer du jour for golf courses that can get access to a supply of effluent. The following is just one example, assuming the golf course will use an average of only 200,000 gallons of water per day for irrigation. If the City sells water to the golf course for \$.50/1000 gallons the net cost to the citizens of Manor will be \$167,900 per year. That cost will increase as more water is provided.

The MUD had a contract right to take all effluent for a period of ten years, by paying only the cost of pumping and transporting. The MUD made that right available to ShadowGlen Golf, which refused to build the effluent return system during the ten (10) years preceding 2011. The MUD's right to the effluent expired. Third parties now want to purchase the effluent for their developments.

The following alternative is proposed to enable ShadowGlen Golf to obtain water for irrigation at less than the price that is now paid by Manor for potable water, and at a price that is less than the \$.50/1000 gallons (plus the expenses and cost adjustments permitted in the MUD contract). This proposal is made subject to the terms provisions and conditions of the documents being satisfactory to and approved by the City Council of the City of Manor. (1)²ShadowGlen Golf will install and complete the effluent transmission lines, pump station and WWTP connection based on plans, specifications and construction approved by the City; (2) ShadowGlen Golf will document to the City the actual cost incurred for the engineering and construction to complete the work described in the prior sentence; (3) ShadowGlen Golf will own and operate the effluent transmission lines, pump station and its connection at the WWTP; (4) ShadowGlen Golf will execute and deliver to the City the indemnification agreement previously provided by the City to ShadowGlen Golf (and effectively

² If ShadowGlen Golf gets a third party to pay for the effluent line that will be acceptable.

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Re: ShadowGlen Golf vs. Cottonwood Holdings

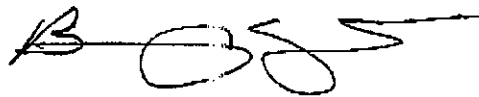
4

April 13, 2011

required by TxDOT) whereby ShadowGlen Golf will be responsible for any damages that may be caused by the section of the effluent line that it will maintain under U.S. Hwy 290; (5) the City will grant ShadowGlen Golf the contract right to take up to 200,000 gallons/day (or other agreed amount) of effluent and deliver the same to the golf course for a period of ten (10) years; (6) ShadowGlen Golf will agree to pay the City an initial rate of \$.25/1000 gallons of metered effluent plus pumping costs; (7) the City will agree to rebate to ShadowGlen Golf \$.25/1000 gallons of effluent until the earlier to occur of the expiration of ten (10) years or an amount equal to the documented cost of the engineering, installing and constructing the effluent transmission line, pump station and WWTP connection; (8) ShadowGlen and Golf Works, Inc. will dismiss the City of Manor from the above referenced lawsuit, with prejudice; and (9) the agreements will provide other customary terms and conditions that are not inconsistent with the foregoing.

During the interim in which you and your client are giving this initial consideration, I will be in discussions with the attorney appointed by the Texas Municipal League Intergovernmental Risk Pool for the City to resolve any customary technical issues required consistent with the City's coverage.

Very truly yours,



Barney L. Knight
Assistant City Attorney

cc: Mayor & Councilmembers
Phil Tate, City Manager
Joanna Salinas