

9/23/04

Senator Gonzalo Barrientos
PO Box 12068
Austin, TX 78711

Dear Senator Barrientos,

I attended the LCRA board meeting last Wednesday and was very interested in the discussion that went on, particularly discussion which centered on Mr. Beal's presentation concerning strategic investments in water distribution infrastructure.

As a businessman running my own company these past 22 years, I have from time to time made strategic investments in hardware in an effort to keep my company ahead of the curve. I have always chosen to make these investments during our periods of relative corporate prosperity. These investments, in all but a couple of cases, paid off as demand caught up with the advanced services that the new gear allowed us to offer. The times the investments (gambles) turned out to be losers were when I went too far out on a limb and spent more than I should have, given the potential return.

As you well know, the LCRA's water business is currently not doing so well. Under the circumstances, if I were in an LCRA board member's shoes I'd be a bit nervous about the risk-reward ratio of the strategic investments being touted by Joe Beal and his staff. Tripling the current infrastructure seems to me to be a sort of far flung, "build it and they will come" dream. That wonderful movie magic just never seems to happen here in the real world. And pronouncements such as Beal's that about \$200 million of the projected investment would be with "no readily apparent way to pay for it now" scare the pants off of me. It seems like that is going out on a very flimsy limb. But maybe that's just me.

What's more, the areas of the highest projected concentration of Mr. Beal's strategic investment seem to be the least densely populated, most difficult to develop, most environmentally sensitive parts of the region. Rather than plan to provide services where dense population growth is already a given and customers will be easy to get and serve, his plan sets the organization up for struggle at every turn – lawsuits, angry residents, extra unnecessary expense – potential financial disaster. Could there be a worse way to commit borrowed funds? I don't think so.

Now, I did not hear unanimity among the board members on these issues. In fact, I heard some strong statements of objection to elements of the plan. I heard statements such as "We should be in retail only to preserve and protect resources", "...no strategic investment until we are in the black" and "We should be cheaper, more environmentally sensitive and more customer-oriented than anybody else." Board member Rosemary Rust said that she wants LCRA expansion to be first to the south and east of Austin where "installation is easier and there is denser growth." Later, I believe she said that there should be a moratorium only on "strategic investment, or what I call water welfare." I offer a hearty amen to both of those comments of hers. F. Scott LaGrone suggested a "freeze" on new systems until the board thinks that "the financial system is under control." To me, this was an excellent, thoughtful suggestion. Charles Moser was right (and brave) when he said that the LCRA's infrastructure installations "shouldn't be ahead of growth" and "should not create economic opportunities" for developers to exploit the land. But there was little indication to me that these objections were heeded by Mr. Beal. In fact, in his "summary" of what he said he heard from the board, he very smoothly slipped in a statement that the board didn't care if investments were made in environmentally sensitive areas or not, as long as they were good business. If the board did agree with that (key) policy statement, it wasn't apparent from the discussion I heard.

I know that Joe Beal comes from businesses where "grow or die" is the general philosophy of choice. Unfortunately, I think that if the board were to follow his recommendations it would be the antithesis of the fiscally responsible or environmentally sound thing to do. In fact, it would be setting the organization up to grow and die.

Sincerely,

Ric Sternberg
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