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September 6, 2024

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Via Email

Michael Halla, City Attorney
City of McLendon-Chisholm
1371 West FM 550
McLendon-Chisholm, Texas 75032

RE: Sonoma Verde Water Related Infrastructure

Dear Michael,

This firm represents RCH Water Supply Corporation ("RCH"). RCH was made aware that the City of McLendon-Chisholm ("City") intends to or has placed on the Agenda for its September 10, 2024 City Council Meeting an action item related to approving you to prepare and send a letter to:

RCH WSC and any and all of its banks, lenders [sic], creditors, loan providers or like agents to put them on notice that all water related infrastructure within any and all phases of Sonoma Verde is solely the property of the City of McLendon-Chisholm and is not [to] be used to serve directly or indirectly as collateral or as security interest for any purpose that could or would promote the benefit of RCH WSC (the "Agenda Item").

While the Board of Directors of RCH had hoped that the City and RCH were once again on a positive path forward, it appears at least some members of the City Council intend otherwise. There is no reason for the above Agenda Item, other than a less than veiled attempt to interfere with RCH and its financial advisors and lenders. First, no one from the City has contacted RCH to inquire about RCH's position regarding the infrastructure at Sonoma Verde. Common courtesy and professionalism would suggest that is the first step. Second, RCH has at all times understood and recognized the existence of the PID and how it defines ownership of infrastructure. Several public records make this clear to RCH, the City, as well as any other party. If the City has any doubt about RCH's position, let this letter clarify it going forward. RCH is aware and agrees that the water related improvements and infrastructure located within the Sonoma Verde development are owned by the City and RCH cannot encumber those assets.¹ To the extent that you or the City Council have any questions related to this issue, please let me or David Naylor, President of the RCH's Board of Directors, know immediately.

The timing of the Agenda Item is suspect, as at RCH's September 3rd board meeting, RCH approved a \$20 million loan with CoBank. Contrary to what the Agenda Item seeks to confirm, RCH made it clear in its agenda and during the Board Meeting, that the CoBank loan will only be secured by RCH's revenues, and not any physical collateral. Moreover, RCH has made

¹ As detailed in the License Agreement between RCH and the City dated January 8, 2014.

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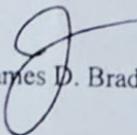
considerable progress in its goal of ensuring that it has reliable water to provide for its members, many of whom are citizens of the City, for years to come. The CoBank loan is a crucial financial piece of RCH's interconnect with North Texas Municipal Water District, which is a key part of RCH's ability to support this growth.

It's well known that certain members of the City Council, for reasons that may not be obvious to all, are working from an agenda that suggests whatever is bad for RCH must be good for the City. That is truly unfortunate. The timing of the Agenda Item suggests a desire for intentional interference by individual City Council Members with RCH's financial advisors and lenders. Such actions and the meetings behind those actions could render individual council members liable for acts outside of their role for the City. Should the City Council take such steps, it could render the City liable as well. To be clear, continued actions by individual City Council Members that seek to interfere with RCH's business, including with its financial partners, will not be tolerated.

Finally, considering the timing of the Agenda Item and the suspect involvement of prior and current City Council Members with Sonoma Verde, its counsel, and Blackland Water Supply Corporation, RCH notifies the City to preserve all electronically stored information, copies and backup, as defined by the Texas Rules of Civil Procedure, along with any paper files which the City or any of its agents, council members, or employees may possess or have access to that are relevant to RCH, Sonoma Verde, and Blackland Water Supply Corporation. RCH may seek in discovery requests copies of all internal emails and/or memoranda of the City related to RCH, Sonoma Verde, and Blackland Water Supply Corporation. RCH may also seek all data that is in the City's custody and/or control that is relevant to this investigation, including without limitation emails, voicemails, text messages, and other information contained on the City's computer systems and/or any other electronic storage systems. RCH considers any and all electronic data and/or paper files related to this matter to be valuable and irreplaceable sources of discoverable information. Accordingly, RCH places you on notice to preserve all documents, electronic or paper, regarding RCH, Sonoma Verde, and Blackland Water Supply Corporation. Further, RCH places you on notice not to delete, destroy, or make in any way unavailable all communications, such as emails or text messages, that may relate to or involve RCH, Sonoma Verde, and Blackland Water Supply Corporation.

Thank you for your immediate attention to this matter.

Sincerely,


James D. Bradbury

cc: Mayor Bryan McNeal
Senator Bob Hall