



**To:** City of Bryan  
**From:** Weaver and Tidwell, LLP  
**Subject:** Analysis of Traditions Project Costs  
**Date:** April 25, 2016

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**Scope:** The purpose of our engagement is to assist the City of Bryan (the “City”) in assessing the costs associated with the Traditions development (the “Project”). It is our understanding this analysis will primarily be used to assist the City and the City Council in further understanding the project related costs and financing outflows associated with the Project.

We assessed certain attributes associated with the Project in accordance with the *Statement on Standards for Consulting Services No. 1* as established by the American Institute of Certified Public Accountants (“AICPA”).

We accepted information obtained from the City’s management (“Management”) in order to assess the reasonableness and specific cost components of the Project. As part of our analysis we did not perform an audit, a review or a compilation of the financial information provided by the City in accordance with procedures specified by the AICPA and/or auditing standards generally accepted in the United States of America. Therefore, in connection with this engagement we express no opinion, or any other form of assurance, regarding the accuracy of the source data used in our analysis.

We are independent of the City and have no current or prospective interest in the Project as part of this engagement. Our fee for this engagement was in no way influenced by the results of our analysis.

**Background:** In or about 1999, the City entered into an agreement to develop approximately 850 acres on the west side of the City of Bryan. According to Management and information provided in the Comprehensive Annual Financial Report (“CAFR”) the purpose of the development is to stimulate economic activity through the development of a resort, golf course, and planned community, which is currently known as the Traditions Development. Based on our understanding, in recent months certain members of the City Council have raised questions as to the outflows associated with the Project. Specifically, Councilman Mike Southerland (“Councilman Southerland” or “Mr. Southerland”) and other members of the City Council have asserted that approximately \$73 million has been spent on the project. However, the costs associated with Councilman Southerland’s assertion include both project related costs and financing outflows. Additionally, the \$73 million assertion includes projected (or “blue sky”) costs that appear to be speculative and not supportable as well as certain errors or oversights.

**Procedures performed:** As part of our analysis we performed a detailed assessment of all of the inflows and outflows associated with the Project between 2000 and 2015. Based on this analysis we were able to roll-forward and reconcile to amounts provided by Management. Additionally, we held discussions with Management in order to gain an understanding of certain costs and outflows identified during in our analysis.

**Reconciliation of Councilman’s Southerland’s cost estimates:** In preparing our analysis and understanding of the Project we began with the information and amounts set forth by

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Councilman Southerland. It should be noted there were several errors and unsupported amounts set forth in his analysis. The following is a reconciliation of Councilman Southerland's analysis to the project related costs associated with the Project.

Year	Southerland
FY00	364
FY01	12,182,934
FY02	9,072,979
FY03	7,664,458
FY04	2,770,217
FY05	3,825,069
FY06	3,039,189
FY07	1,822,829
FY08	4,137,637
FY09	1,794,838
FY10	2,275,237
FY11	1,452,840
FY12	1,408,143
FY13	1,418,184
FY14	1,462,724
FY15	2,015,815
<b>Total</b>	<b>56,343,457</b>
Water used	2,291,750
Initial land purchase	7,799,694
Lots given	6,400,000
Bridge	300,000
<b>Southerland Total</b>	<b>73,134,901</b>
Bridge	(300,000)
Initial land purchase	(7,799,694)
Water Wastewater projects	2,651,400
Other differences	(100,809)
<b>Subtotal</b>	<b>67,585,798</b>
Financing outflows	(23,507,338)
<b>Adjusted total</b>	<b>44,078,460</b>
Blue sky - land	(6,400,000)
Blue sky - water	(2,291,750)
<b>Project costs</b>	<b>35,386,710</b>

There are two glaring overstatements of the amounts reported by Councilman Southerland. The first is the \$7.8 million associated with the initial land purchases. An analysis of the cash flows associated with the Project indicates that the initial land purchase was included in the \$12 million in outflows during 2001. As such, Mr. Southerland's inclusion of a separate and distinct cost associated with the land purchase does not correctly illustrate the total project related costs and should be removed from his analysis. Additionally, the \$300,000 added back in Councilman Southerland's analysis is again overstating his assessment of the expenses. It appears this cost was already accounted for in the 2015 outflows. Therefore, it appears this amount should also be removed from Mr. Southerland's analysis.

Additionally, in an effort to reconcile Councilman Southerland's analysis to the appropriate project related costs we adjusted for certain wastewater project costs that were omitted from his analysis. Specifically, it was determined that Councilman Southerland did not include approximately \$2.7 million in wastewater project costs that should have been considered in arriving at the project related costs. As such, we proposed an adjustment to reflect these additional costs.

The most glaring error and overstatement of Councilman Southerland's analysis is the inclusion of the principal and interest payments. Councilman Southerland has indicated that these costs should be considered in determining the overall total outflow of funds. However, the inclusion of these payments does not consider the fact that the City had use of the funds to purchase the land and make the required infrastructure improvements as a result of the issuance of bonds and bank debt. As such the City has a requirement to repay the bondholders and bank for the use of these funds. It is also our understanding the City provided short-term financing for the bridge project in 2015, which was paid back during the same period. These costs are directly related to the financing of the project and should not be included in determining the project related expenses. The inclusion of such financing related outflows results in an overstatement and a mischaracterization of those costs associated with the Project.

Councilman Southerland also included speculative and overreaching claims to arrive at his estimated project costs. Mr. Southerland suggested the City is forfeiting approximately \$2.3 million in revenues associated with water that is being supplied to the golf course. However, Mr. Southerland neglects to consider that the water supplied to the development is reclaimed non-potable water. Based on discussions with Management the water supplied to the development represents only approximately 10% of the total reclaimed water. Additionally, it is our understanding that City attempted to enter into an agreement with Dow Chemical to purchase the reclaimed water. However, this agreement was never consummated and as such there is no support that the City is forfeiting revenues it would otherwise have generated from the sale of the non-potable water. Councilman Southerland also fails to consider that the water supplied to the golf course provides a long-term benefit to the overall success of the Project and potentially will result in increased property values and tax dollars. Given the uncertainty of the assumed lost revenues they should not be considered in arriving at the project related costs and should be removed from Councilman Southerland's analysis.

The analysis provided by Councilman Southerland also includes approximately \$6.4 million in lost value of the land contributed to the Project by the City. However, his assessment fails to consider the fact that the increased value is primarily related to the success of the project. The infrastructure and the development of the golf course, the resort, the residential development and commercial developments have resulted in increased property values. His analysis also does not consider the fact these improvements and the overall success of the development will potentially lead to increased tax dollars for the City.

**Conclusion:** Based on our analysis it is our opinion that Councilman Southerland's analysis is overreaching and mischaracterizes the project related costs. His analysis fails to consider the fact that a substantial portion of the outflows relate to the financing of the project. Additionally, his analysis contains certain errors that further call into question the validity of his analysis, such as the double counting of the land purchases and the bridge construction. Councilman Southerland further includes speculative and unsupported additional revenue sources that the

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City is forfeiting. Adjusting Councilman Southerland's analysis for the errors and oversights discussed above results in project related costs of approximately \$35.4 million

Based on our analysis we determined that the actual project related costs associated with the project approximated \$35.4 million and the financing outflows approximated \$23.5 million through 2015. The table below sets forth project related costs and financing outflows.

Description	Amount	Description	Amount
Construction expense	(9,114,105)	Principal & Interest on CO's	(16,056,676)
Purchase of land	(7,813,942)	Debt	(3,293,304)
Public & street improvements	(4,071,176)	Note on Cashion land (7 year)	(1,928,571)
Professional services	(3,545,645)	Note on Cashion land	(1,673,711)
Street system improvements	(287,208)	Bond Expense (sales & arbitrage)	(255,076)
Design Guidelines and Land Planning for TIRZ	(53,739)	Transfer to General Fund	(300,000)
Contractual Services (Legal)	(36,126)	<b>Financing related outflows</b>	<b>(23,507,338)</b>
Judgments & Claims	(29,397)		
Publication of Legal Notices	(3,483)		
Water/Wastewater bond	(7,099,702)		
Transfer to Debt Serv(abandoned ROW)	(1,645,950)		
Transfer to General (Spine Road ROW)	(1,194,050)		
Administrative Reimb. to General Fund	(84,339)		
Professional Services - Admin. Exp. Reimb. TAP	(407,849)		
<b>Project related costs</b>	<b>(35,386,710)</b>		

## Brian A. Reed, CPA/ABV

Partner-in-Charge, Transaction Advisory Services

### Professional Experience

- More than 15 years of diversified financial advisory experience ranging from acquisition due diligence to valuation services
- Performs acquisition due diligence on engagements ranging from \$1 million to more than \$500 million
- Values transactions and portfolios related to financial reporting, gift and estate taxes, and mergers and acquisitions
- Before joining Weaver, founded Lone Star Value Advisors, Inc., a professional valuation and advisory firm that offered comprehensive services to middle-market private equity funds and corporate clients
- Served in Ernst & Young's Transaction Advisory Services group, AlixPartners LLP's Financial Advisory Services group and CBIZ Valuation Group, LLC
- Industry experience in manufacturing, retail, software, distribution, professional services, and oil and gas

### Professional Involvement and Recognition

- Member, Texas Society of Certified Public Accountants (TSCPA)
- Member, American Institute of Certified Public Accountants (AICPA)
- Member, National Association of Certified Valuation Analysts (NACVA)

### Recent Publications and Presentations

- "Energy Transactions: What's the Deal?," Weaver CPE event, January 2014
- "How to prevent deal-breaking mistakes when selling your business," *Smart Business Houston*, June 2013
- "Valuation of Oil and Gas Companies," Louisiana Society of Certified Public Accountants CPE event, October 2012
- "Business Valuation: Where Should I start and what should I know," University of Texas Arlington's 2<sup>nd</sup> Annual Ethics and CPE event, August 2012
- "Due Diligence and the technology industry," *Fort Worth Business Press*, (co-authored with Dale Jensen) April 2012
- "How IFRS will influence oil and gas M&A activity," *Oil & Gas Financial Journal*, (co-authored with Trey Hunt) March 2012
- "Is There a GAAP in M&A?" AICPA's *Corporate Financial Insider*, December 2011
- "Determining the Value of Oil & Gas Companies," Permian Basin CPE Expo, November 2011
- "Valuations of Oil & Gas Companies," AICPA National Oil & Gas Conference, November 2011
- "The Impact of IFRS on Merger and Acquisition Activities," *Accountingweb.com*, October 2011
- "New Accounting Standard Impacts M&A Market," *Buyouts*, August 2011
- "Economic climate heightens the importance of due diligence" (co-authored with Greg Bailes), *Austin Business Journal*, July 2011
- "Tough Times Require Tougher Due Diligence," *Buyouts*, November 2010
- "Looking Under a Microscope: Up-close scrutiny of an acquisition target can reveal problems that could derail a deal," *Dallas Business Journal*, February 2010
- "Company Valuations: Never An Exact Science", *Privcap Report*, 2015 Dealmakers Compendium

### Education and Certifications

- Certified Public Accountant, Texas
- Accredited in Business Valuation (AICPA)
- Master of Business Administration, Finance and Accounting, Tulane University
- Bachelor of Arts, The University of Texas at Austin