

MINUTES OF REGULAR MEETING
MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
MONTGOMERY COUNTY, TEXAS

22 August 2019

THE STATE OF TEXAS §
COUNTY OF MONTGOMERY §

The Board of Directors (the "Board") of Montgomery County Utility District No. 4 (the "District") of Montgomery County, Texas, met in regular session, open to the public, on the 22nd day of August, 2019, at the offices of Hays Utility North Corporation, 375 Lake Meadows Drive, Montgomery, Texas 77356, and the roll was called of the duly constituted officers and members of the Board, to-wit:

Gary North	President
Maurice Williams	Vice President
Carl Clay	Secretary-Treasurer
Mike Ganson	Assistant Secretary-Treasurer
Ron Cunningham	Assistant Vice President/Assistant Secretary-Treasurer

and all of said persons were present, with the exception of Director Clay, thus constituting a quorum.

Also present were Travis Walker, P.E. of Bleyl Engineering ("Bleyl"), the District's Engineer; Philip Wright of Hays Utility North Corporation ("Hays"), the District's Operator; Katherine Turner of Municipal Accounts & Consulting, L.P. ("Municipal"), the District's Bookkeeper; David Wood of Robert W. Baird & Co. Incorporated ("Baird"), the District's Financial Advisor; Doris Hickman, President of the Board of Directors of Montgomery County Utility District No. 3 ("MCUD 3"); and Dick Yale, Cole Konopka, and Susan Stebbins, representing Coats Rose, P.C. ("Coats Rose"), the District's Attorney.

Public Comments

Director North called the meeting to order, and he noted that there were no members of the public present who wished to address the Board.

Wastewater Treatment Plant Committee

Mr. Wright stated that the chemical scan unit at the Wastewater Treatment Plant (the "WWTP") was being examined for potential concerns because of the excessive level of phosphorus measured in the effluent at the WWTP in June 2019 without triggering an alert to Hays. He said that a possible replacement of the chemical scan unit would be discussed at the next meeting of the WWTP Committee.

Joint Water Operations Committee

Director North stated that the 8 August 2019 meeting of the Joint Water Operations Committee ("JWOC") had been attended only by himself, Director Clay, Ms. Hickman, and Janis Boulware, Secretary of the Board of Directors of MCUD 3. He commented that the JWOC members had discussed the proposal by Jim Dougherty, special counsel to MCUD 3, to amend the 22 March 2012 Agreement for Financing, Construction, Ownership, Operation, and Maintenance of Water Facilities (the "2012 Water Facilities Agreement") between MCUD 3 and the District.

Approval of Minutes

The Board then considered approval of the minutes of the meeting of the Board of Directors of 25 July 2019. Upon a motion duly made by Director Ganson and seconded by Director Williams, the Board voted unanimously to approve the minutes of 25 July 2019 as written.

Engineer's Report

Mr. Walker presented the Engineer's Report, a copy of which is attached hereto as an exhibit to these minutes.

Rehabilitation of the District's Sanitary Sewer Lines in Lakeview Village. Mr. Walker informed the Board that Texas Pride Utilities, LLC ("Texas Pride") had completed the rehabilitation of the District's sanitary sewer lines in Lakeview Village. He added that Bleyl had performed the final inspection of the project and that no outstanding items had been identified for further work.

Sealing of the District's Sanitary Sewer Manholes in April Sound Subdivision. Mr. Walker reported that Infrastructure Rehabilitation, USA Inc. had repaired and sealed the inner walls of 33 sanitary sewer manholes located on the west side of the District. He called attention to photographs of a certain brick-lined manhole before and after the project. Copies of the photographs are included in the Engineer's Report.

Proposed Annexation of 2.893 Acres – MHW Development and Construction Corp. Concerning MHW Development and Construction Corp.'s ("MHW Development") request for the annexation of 2.893 acres to the District, Mr. Walker reported that the survey of the property had been scheduled and that the metes and bounds description of the land to be annexed would be prepared. He added that Bleyl would submit the new map redefining the boundaries of the District for the Board's consideration upon the formal approval of the annexation by the City of Conroe.

Repairs to the bottom of the District's Ground Storage Tank. Mr. Walker reminded the Directors that the Board had awarded the contract to fabricate a new bottom for the District's ground storage tank ("GST") at Water Plant No. 1 ("WP No. 1") to Superior Tank Co., Inc. ("Superior Tank") contracting through the District's Operator. He said that the fabrication of the new bottom for the GST was expected to take

approximately 12 weeks. He said that Bleyl had contacted CORRPRO Companies, Inc. ("CORRPRO") to discuss cathodic protection for the interior of the GST and where the bottom of the tank would come into contact with the ground. CORRPRO suggested that the District utilize impressed current cathodic protection for the interior of each tank at WP No. 1 at a cost of \$20,000.00 per tank, continued Mr. Walker. He stated that Bleyl had contacted two additional companies to request quotes for the same process.

Proposal to Drill a New Well in the District. Mr. Walker then presented Bleyl's Engineering Preliminary Opinion of Cost for a proposed well to be drilled in the Jasper Aquifer ("Jasper") and a proposed well to be drilled in the Catahoula Aquifer ("Catahoula"). A copy of the Engineering Preliminary Opinion of Cost is attached hereto. Mr. Walker stated that the estimated cost for the District to drill a well in the Jasper Aquifer is \$2,106,000.00 and that the estimated cost to drill a well in the Catahoula Aquifer, including elevated cooling towers, is \$3,669,000.00. In response to a question from Director North, Mr. Walker replied that a new well could be drilled at the site of the District's Water Well No. 2 ("WW No. 2"). A discussion ensued regarding the completion of a new well in the Jasper Aquifer at WP No. 1. Mr. Walker explained that if the District had two wells drilled in the Jasper Aquifer at WP No. 1, it would be necessary to screen the two wells separately. He speculated that sufficient funds are available from the District's Series 2014 Bonds to drill a well in the Jasper or the Catahoula Aquifer. Mr. Wright pointed out that the warmer water that would be produced from a well in the Catahoula Aquifer would require either cooling towers or the use of additional chlorine to mitigate water quality complaints. He opined that utilization of cooling towers would provide the optimal quality of water to the District's customers. Mr. Walker mentioned that if water from a new Catahoula well was to be blended with water from the District's existing Jasper well, Hays would need to comply with the Lone Star Groundwater Conservation District's ("Lone Star") regulations in determining the percentage of water to blend from each well.

Resident's Request for Relocation of the District's Storm Sewer at 29 Lakeview Village. Mr. Walker then discussed the findings of the limited title certificate prepared by Courthouse Specialists concerning the ownership of a portion of Lot 29 of Lake View Village, Section 1, along the edge of the lake. A copy of the limited title certificate is included in the Engineer's Report. Mr. Walker noted the San Jacinto River Authority (the "SJRA") retained ownership of the portion of the lot along the edge of the water and that the SJRA had granted an easement to the property owner so that the property owner could use the SJRA's portion of the property. He continued that Bleyl would inform the resident that the District had confirmed that the District's storm sewer is located within the portion of the lot owned by the SJRA and that the District is not under an obligation to relocate the District's storm sewer at the District's expense so that the property owner could construct a swimming pool. Upon a motion duly made by Director Williams and seconded by Director Cunningham, the Board voted unanimously to accept the Engineer's Report.

Operator's Report

Next, Mr. Wright reviewed the Operator's Report, a copy of which is attached hereto as an exhibit. He stated that the District had pumped approximately 54.76% of the water supplied to the District and to MCUD 3 and that the District's billed water consumption for the period of 27 June 2019 through 29 July 2019 was 19,229,000 gallons. The total pumpage for both districts in the reporting period was 33,044,000 gallons and the total water accountability for both districts was 94.87% (ratio of billed to pumped water), he added.

Mr. Wright reported that the WWTP treated 22,713,000 gallons of wastewater during July 2019. He noted that the average flow of wastewater to the WWTP had been 733,000 gallons per day during the same period.

Hays had mailed notices to 156 customers of the District whose accounts were delinquent in the payment for water and sewer services, stated Mr. Wright. He said that all of the past-due amounts had been paid prior to the deadline for termination of service.

Mr. Wright told the Board that no water quality complaints, sanitary sewer backups, or sanitary sewer blockages had been reported to Hays by the District's customers to date in August 2019. He said that Hays had been notified of and had repaired a water leak in the meter vault at 168 Lake Point Boulevard, a leak at the meter at 106 Cove Point, and a leaking fire hydrant located at 15663 Highway 105 South in the District.

Mr. Wright reviewed the District's Five-Year Plan, a copy of which is included in the Operator's Report. He reported that Hays had "pigged" the District's water distribution lines in August and that Hays would inspect the District's outfalls in September 2019. He said that he would meet with representatives of Bleyl to discuss possible adjustments to the Five-Year Plan. Director North mentioned that certain residents had contacted him to inquire whether the District recommends that residents turn off water softening systems. Mr. Wright replied that residences on the east side of the District are largely served by water from the District's WW No. 2 in the Jasper Aquifer, and he recommended that residents in that area turn off water softening systems. He opined that customers who reside west of April Sound Boulevard either use the lowest setting or turn off water softener systems. Director North said that certain property owners on the west side of the District suspected that a decrease in water pressure had caused lawn sprinkler heads to fail to pop up during operation of residential irrigation systems. Mr. Wright speculated that leaks in the irrigation systems were the more likely cause of the problem.

Mr. Wright commented that Tachus, LLC ("Tachus"), an Internet service provider, had begun local installation of conduit for fiber optic lines, including certain areas with the boundaries of the District. He stated that Tachus crews had damaged water lines in another utility district during excavation activities, and he opined that Tachus should be responsible for repairs to the District's water lines if Tachus crews caused such

damage. Mr. Yale explained that most water system operators provide drawings of the water distribution systems to excavation crews with instructions to contact the operators before commencing excavation in certain locations. He requested that Mr. Wright provide the name and contact information of a representative of Tachus so that Coats Rose could prepare correspondence to Tachus regarding possible responsibility for damage to the District's facilities.

Mr. Wright then presented the District's 2018 Drinking Water Quality Report and Hays' Certificate of Delivery of the District's Consumer Confidence Report to the Texas Commission on Environmental Quality (the "Commission"), copies of which are attached hereto as exhibits to these minutes. He stated that Hays had distributed the 2018 Consumer Confidence Report by posting the document on Hays' website and providing a direct Uniform Resource Locator (URL) on the billing to the District's customers. Upon a motion duly made by Director Ganson and seconded by Director Williams, the Board voted unanimously to accept the Operator's Report as presented.

Bookkeeper's Report and Tax Assessor/Collector's Report

Ms. Turner then presented the Bookkeeper's Report and the Quarterly Investment Report, copies of which are attached hereto as exhibits to these minutes. She reviewed the District's account balances, the District's balance sheet, and the actual versus budget comparison for the months of January through July 2019. She requested approval for payment of the District's bills. Ms. Turner reviewed the Construction Fund breakdown of interest and account maintenance fees from the District's Series 2011 Bonds and Series 2014 Bonds. She pointed out that the Texas Cooperative Liquid Assets Securities System had paid an average interest rate of 2.40% on the District's accounts in July 2019. After further discussion, upon a motion duly made by Director Cunningham and seconded by Director Williams, the Board voted unanimously to accept the Bookkeeper's Report and the Quarterly Investment Report and to authorize payment of the District's bills.

Ms. Turner presented the Tax Assessor/Collector's Report, prepared by Tammy McRae, Tax Assessor/Collector for Montgomery County, Texas, for the month of July 2019, a copy of which is attached hereto. Ms. Turner noted that the District had collected 98.65% of its 2018 tax levy as of the end of the reporting period. She mentioned that it would be necessary that she report the District's 2019 tax rate to the Tax Assessor/Collector by 18 September 2019.

Upon a motion duly made by Director Cunningham and seconded by Director Ganson, the Board voted unanimously to accept the Tax Assessor/Collector's Report.

Consideration of the District's Proposed Tax Rate for 2019

Next, the Board discussed the District's proposed tax rate for the 2019 tax year. Mr. Wood reviewed with the Board a letter with a cash flow analysis dated 22 August 2019 concerning Baird's analysis (the "2019 Tax Rate Recommendation") for the proposed tax rate. A copy of the 2019 Tax Rate Recommendation is attached hereto.

Mr. Wood reported that the assessed valuation certified for the District by the Montgomery Central Appraisal District ("MCAD") was \$476,059,398.00 with an additional \$20,586,200.00 remaining uncertified. He reminded the Board that the District had levied a maintenance and operations tax rate of \$0.0775 per \$100.00 of assessed valuation for the 2018 tax year. Mr. Wood stated that the District could set a maintenance and operations tax rate of \$0.1525 per \$100.00 of assessed valuation for the 2019 tax year without being subject to a rollback effort by the qualified voters in the District. He explained that the District has a better opportunity to increase the maintenance and operations tax rate in the 2019 tax year because Senate Bill 2 would become effective on 1 January 2020 and that thereafter the District would be limited to an increase of less than 3.5% of the average tax bill to homeowners in the District. He added that the Board would need to determine a maintenance and operations tax rate that would be sufficient for the District to fund maintenance of the District's facilities and upcoming capital projects. Mr. Wood recalled that funds from the District's maintenance and operations tax levy were being used to pay the debt service requirements of the District. Mr. Yale mentioned that there are no limitations on increases to the District's debt service tax rate but he noted that the maintenance and operations tax rate would be subject to increased limitation with Senate Bill 2.

Mr. Wood commented that the Board could also consider the defeasance of some of the District's Series 2014 Bonds so that the Board could reduce the District's debt service, then submit a new bond application to the Commission to drill a new water well. He noted that the Series 2014 Bonds would be callable as of 1 March 2022. He stated that the District could then authorize publication of a total tax rate of \$0.100 per \$100.00 of assessed valuation if the Board planned to defease the Series 2014 Bonds.

Mr. Yale then reviewed the procedures for adopting the 2019 tax rate. He explained that the Board would discuss the proposed tax rate on this date and then a notice of the proposed tax rate and hearing date would be published, with the Board's intention to set the tax rate, at least seven days prior to the date that the Board would meet to adopt the Order Levying Taxes for 2019. He added that the District could authorize publication of a total tax rate of \$0.100 per \$100.00 of assessed valuation on this date and that if the Board decided to adopt a lower tax rate, then the Board had that authority. After discussion, upon a motion duly made by Director Ganson and seconded by Director Cunningham, the Board voted unanimously to authorize publication of the tax rate calculation showing a total tax rate of \$0.100 per \$100 of assessed valuation; to call a public hearing on the 2019 tax rate at a special meeting to be held on Tuesday, 17 September 2019; and to schedule a special meeting of the Board of Directors on Thursday, 12 September 2019 to discuss the possible defeasance of the District's Series 2014 Bonds.

Request for Annexation of Property

The Board then discussed the proposed annexation of 2.893 acres on Marina Drive, located outside the boundaries of the District. Mr. Yale presented the proposed Letter Agreement between the District and MHW Development explaining the conditions to be met by MHW Development for the District's proposed annexation of the property.

He stated that Coats Rose had ordered but not yet received the title reports for the property to determine whether there are outstanding liens on the property. He recommended that the District request an additional deposit of \$5,000.00 from MHW Development to cover the costs of proceeding with the proposed annexation. Upon a motion duly made by Director Williams and seconded by Director Ganson, the Board voted unanimously to authorize Coats Rose to request the additional deposit of \$5,000.00 from MHW Development.

Website Traffic Report

The Board reviewed the report on the traffic on the District's website for the month of July 2019. A copy of the report is attached hereto and made a part of these minutes.

Ms. Hickman departed the meeting at this time.

Attorney's Report

Next, Mr. Yale presented the Attorney's Report. With respect to Mr. Wood's proposal to defease the District's Series 2014 Bonds, Mr. Yale recalled that according to the provisions of the Strategic Partnership Agreement (the "SPA") between the City of Conroe (the "City") and the District dated 22 February 2013, the City had agreed to pay the District's debt service obligations for the District's Series 2011 Bonds. Mr. Yale continued that if the Board wishes to refund the District's Series 2011 Bonds, the City must first approve the refunding, and he said that the City may expect a reduction in the amount of the City's payments to the District for the debt service on the District's Series 2011 Bonds. A discussion ensued concerning the possibility that the City could determine to refinance the City's debt or to claim the District's savings if the District refinances the District's debt and the possible costs to the District to pursue the opportunity to refund bonds.

Lone Star Groundwater Conservation District

Ms. Stebbins distributed a memorandum regarding the 13 August 2019 meeting of the Board of Directors of the Lone Star Groundwater Conservation District ("Lone Star"), a copy of which is attached hereto.

Director North inquired whether the Board of Directors of MCUD 3 had raised MCUD 3's water rates in the past two years. Mr. Wright responded that MCUD 3 had increased the district's wholesale rate for water in 2019.

Ms. Turner noted that the District currently has approximately \$35,000.00 in surplus funds available from the District's Series 2011 Bonds. Mr. Yale stated that the District could adopt a resolution to use the funds without further approval of the Texas Commission on Environmental Quality for certain District projects. Ms. Turner requested that Mr. Wright assist MCUD 3's bookkeeper in the preparation of billing to the District for the shared costs related to maintenance of the joint water facilities. She

added that MCUD 3's bookkeeper had not submitted billing to the District for such shared costs in several months.

Mr. Walker, Mr. Wood, and Mr. Wright departed the meeting at this time.

Executive Session

Then the Board entered into an executive session at 12:09 p.m., pursuant to V.T.C.A. Government Code, Chapter 551, to discuss potential litigation. The Board reconvened in open session at 1:00 p.m.

Upon a motion duly made by Director Williams and seconded by Director Ganson, the Board voted unanimously to authorize Director North to execute the District's proposed First Amendment to the 2012 Water Facilities Agreement between MCUD 3 and the District subject to the review by Coats Rose of certain provisions in the 2012 Water Facilities Agreement and the proposed First Amendment.

Director North suggested that the Directors request that John Bleyl of Bleyl investigate whether the District could form a partnership with another utility district to sell water to a third party to increase revenue to the District.

There being no further business to come before the Board, the meeting adjourned.

(SEAL)



Secretary, Board of Directors

Montgomery County Utility District No. 4
Regular Meeting of 22 August 2019
Attachments

1. Engineer's Report
2. Engineering Preliminary Opinion of Cost
3. Operator's Report
4. 2018 Drinking Water Quality Report
5. Certificate of Delivery of the District's 2018 Consumer Confidence Report
6. Bookkeeper's Report
7. Quarterly Investment Report
8. Tax Assessor/Collector's Report
9. 2019 Tax Rate Recommendation
10. Website Traffic Report
11. Memorandum from Coats Rose, P.C. regarding the activities of the Lone Star Groundwater Conservation District on 13 August 2019