

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

12 September 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 special session, open to the public, on the 12th day of September, 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 Williams, thus constituting a quorum.

Also present were 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; Philip Wright of Hays Utility North Corporation ("Hays"), the District's Operator, who arrived while the meeting was in progress; Terry Delasalle, a resident of the District; and Dick Yale 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.

Analysis of Tax Rate and Revenue

Mr. Wood presented the District's 2019 Tax Rate Analysis (the "2019 Analysis") in four scenarios, a copy of which is attached hereto as an exhibit to these minutes. He stated that, per Director North's request, each scenario assumed that the District's 2019 tax rate would be \$0.875 per \$100.00 of assessed valuation and that the District would increase by either \$2.00 or \$3.00 the current minimum monthly charge in the residential water service rate for up to 4,000 gallons of water metered. He commented that at the proposed 2019 maintenance and operations tax rate in the amount of \$0.0875 per \$100.00 of assessed valuation, the balance of the District's combined Debt Service

Fund and Operating Fund (the "combined fund") would have an annual average deficit of \$415,000.00 until the District's combined fund balance had insufficient funds to pay the District's total operating expenses and debt service by the fiscal year ending 31 December 2027.

Turning to Scenario No. 1, as included in the 2019 Analysis, Mr. Wood called attention to the assumed increase of \$3.00 in the District's current minimum monthly charge in the residential water service rate for up to 4,000 gallons of water metered. He said that Baird had calculated that the District would have an annual average deficit of \$395,000.00 until the District's combined fund balance had insufficient funds by the fiscal year ending 31 December 2027. He predicted that the District would need to adopt a 2019 tax rate in the amount of \$0.1425 per \$100.00 of assessed valuation to achieve 50% annual coverage to pay the District's total operating expenses and debt service.

He next pointed out that Scenario No. 2 of the 2019 Analysis included an increase of \$2.00 in the District's current minimum monthly charge in the residential water service rate. He suggested that the Board increase the current minimum monthly charge to \$3.00 to further increase the District's revenue, and he recommended that the District maintain a minimum of 50% coverage in the combined fund so that the District could pay the total operating expenses and debt service. Mr. Wood stated that according to Scenario No. 2, the District would need to adopt a 2019 tax rate of \$0.1475 per \$100 of assessed valuation to achieve 50% annual coverage in the combined fund to pay the District's expenses.

The Board then reviewed Scenario No. 3, as included in the 2019 Analysis. Mr. Wood explained that this scenario also assumed an increase of \$3.00 in the District's current minimum residential water rate for up to 4,000 gallons of water metered. He stated that in Scenario No. 3, Baird proposed that the District use \$5,314,157 of the District's Series 2014 bond proceeds on hand to retire \$5,020,000 of the principal amount of the Series 2014 Bonds, and he continued that the District could sell the proposed Series 2020 Bonds in the principal amount of \$3,555,000.00 for the construction of a well in the Catahoula Aquifer at an interest rate of approximately 3.5%. Mr. Wood said that Baird had calculated that the District would need to adopt a 2019 tax rate in the amount of \$0.1075 per \$100.00 of assessed valuation to achieve 50% annual coverage to pay the District's total operating expenses and debt service according to Scenario No. 3. He pointed out that the District's interest expense would be reduced by retiring part of the outstanding bonds.

Mr. Wood stated that similar to Scenario Nos. 1 and 3, Scenario No. 4 included an increase of \$3.00 in the District's current minimum residential water rate for up to 4,000 gallons of water metered, but he noted that Scenario No. 4 assumed that the District could use \$2,111,442.00 of the District's Series 2014 bond proceeds on hand to retire \$1,990,000 of the principal amount of the bonds. He added that Scenario No. 4 also assumed that the District would use \$3,200.00 of the Series 2014 bond proceeds to drill a well in the Catahoula Aquifer. Mr. Wood said that the Board would need to adopt a 2019 maintenance and operations tax rate in the amount of \$0.1150 per

\$100.00 of assessed valuation to achieve 50% annual coverage to pay the District's total operating expenses and debt service.

Director Clay inquired what fees the Board could expect to pay to Baird for Baird's assistance to defease the District's Series 2014 Bonds. Mr. Wood responded that the District would not incur fees from Baird to defease the bonds. He mentioned that the Series 2014 bonds would become callable on 1 March 2022. He explained that the procedure to defease the Series 2014 Bonds would require that the District open an escrow account using part of the District's capital funds to pay off the desired amount of the principal when the bonds became callable. He added that the District would continue to pay interest on the bonds until 1 March 2022, when the District would pay off the desired amount of the principal and cease to make further interest payments on the defeased amount of the Series 2014 Bonds. Mr. Wood stated that the District could defease the Series 2014 Bonds now or the year 2022. He noted that the District's capital funds would be reduced, and he recommended that the District reserve approximately \$200,000.00 in capital funds to pay for the costs to design the proposed well. He speculated that the District's interest costs for the proposed Series 2020 Bonds would be lower at the present time than if the District sold bonds in the year 2022.

Mr. Yale estimated that the District Engineer's fees to prepare the bond application for the proposed Series 2020 Bonds could be \$30,000.00 to \$40,000.00. He stated that the Engineer would need to begin the design of the proposed new well and that the preparation of the bond application would take approximately two to three months. Mr. Wood added that the Texas Commission on Environmental Quality would probably take about two months to review and approve the District's completed bond application. He recommended that the District reserve part of the proceeds of the proposed Series 2020 Bonds to pay the District's debt service, which would require that the District sell an additional amount of bonds in excess of the cost to drill a new well in the Catahoula Aquifer.

Director Cunningham opined that the District should defease the Series 2014 Bonds to reduce the District's interest expense. Director Clay opined that the District's 2019 tax rate should be set at \$0.1000 per \$100.00 of assessed valuation as published. He noted that the construction of a new well and cooling towers would be costly. Mr. Wood concurred. Director Cunningham reminded the Board that the District's current water service rates are lower than the rates charged by Montgomery County Utility District No. 3 and the City of Conroe (the "City") and that the District's current rates for sanitary sewer service and solid waste collection are lower than the rates charged by the City. He recommended that the District increase the minimum monthly charge for up to 4,000 gallons of water metered from \$11.00 to \$14.00.

Mr. Yale stated that the District could pursue a refunding of the District's Series 2014 Bonds after 1 March 2022, but he said that the interest rates could not be predicted at this time. Mr. Wood mentioned that the District could defease \$2,111,442.00 of the Series 2014 Bonds at the present time using a portion of the District's capital funds and use the remainder of the capital funds to plan for the

construction of the proposed new well. He added that the District could defease additional principal from the Series 2014 Bonds in the future.

A discussion ensued regarding the District's proposed 2019 tax rate. Director North suggested that the Board set the District's 2019 maintenance and operations tax rate at \$0.0899 per \$100.00 of assessed valuation and increase the District's minimum monthly water rate by \$3.00 as discussed. Ms. Turner opined that the District would be in a better financial position if the 2019 tax rate was set at \$0.1000 per \$100.00 of assessed valuation. She noted that the District has a cash reserve of 15 months in the Operating Fund and that the minimum suggested cash reserve is 12 months. Director North predicted that a tax rate of \$0.0899 would be adequate because the overall assessed valuation of property located in the District continued to increase. After further discussion, upon a motion duly made by Director Clay and seconded by Director Ganson, the Board voted unanimously to use \$2,200,000.00 from the District's capital funds to retire \$1,990,000.00 of the principal amount of the District's Series 2014 Bonds.

Director Clay recommended that the District begin to pass through to customers of the District any increases in the District's solid waste collection costs and power costs. Director Cunningham and Director Clay agreed that the District's 2019 tax rate should be set at \$0.0899 per \$100.00 per assessed valuation.

The Board then considered the proposed increase in the District's minimum monthly charge from \$11.00 to \$14.00 for residential water service for up to 4,000 gallons of water metered and the proposed increase in the District's minimum monthly charge from \$11.00 to \$14.00 for water service to apartments for up to 4,000 gallons of water metered. After further discussion, upon a motion duly made by Director Cunningham and seconded by Director Ganson, the Board voted unanimously to amend the District's Rate Order as discussed and to adopt the ORDER AMENDING RATE ORDER. A copy of the ORDER AMENDING RATE ORDER as adopted is attached as an exhibit to these minutes.

Mr. Wright then joined the meeting. Director North inquired how Hays calculates the cost of water supplied by the District to the Lake Lorraine Civic Organization, Inc. ("Lake Lorraine"). Mr. Wright explained that the rate calculated to residential units served by Lake Lorraine's master meter is the number of gallons of water metered divided by the number of residential units to determine the average usage per unit, rounded up to the nearest 1,000 gallons. He continued that the charge per unit is multiplied by the applicable number of units to determine the total amount to be charged, and he said that Lake Lorraine has approximately 40 connections and that each unit would pay an additional \$3.00 per month for water supplied by the District.

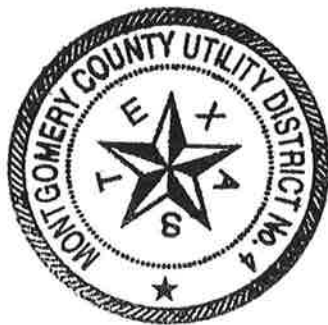
Bookkeeper's Report

Ms. Turner then presented the 3 July 2019 letter from Jose Espinoza, P.E. of Bleyl Engineering ("Bleyl"), the District's Engineer, to Director North transmitting Pay Application No. 1 from Texas Pride Utilities, LLC ("Texas Pride") in the amount of \$94,810.32 for the Lakeview Village Sanitary Sewer Repairs project. A copy of the

letter and Texas Pride's Pay Application No. 1 is attached to and considered to be part of these minutes. She also presented the 23 July 2019 letter from Mr. Espinoza to Director North transmitting Pay Application No. 1 from Infrastructure Rehabilitation USA, Inc. ("Infrastructure Rehab") in the amount of \$93,749.22 for the work performed by the contractor on the April Sound Sanitary Sewer Manhole Rehabilitation, Phase 1 project, A copy of the 23 July 2019 letter and Infrastructure Rehab's Pay Application is attached hereto. Ms. Turner stated that John Bleyl of Bleyl had reviewed and recommended payment of Texas Pride's Pay Application No. 1 and Infrastructure Rehab's Pay Application No. 1. Upon a motion duly made by Director Clay and seconded by Director Cunningham, the Board voted unanimously to approve Pay Application No. 1 for the Lakeview Village Sanitary Sewer Repairs project and Pay Application No. 1 for the April Sound Sanitary Sewer Manhole Rehabilitation, Phase 1 project.

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

(SEAL)



Secretary, Board of Directors

Montgomery County Utility District No. 4
Special Meeting of 12 September 2019
Attachments

1. 2019 Tax Rate Analysis
2. Order Amending Rate Order
3. Transmittal Letter from Bleyl Engineering with Pay Application No. 1 from Texas Pride Utilities, LLC
4. Transmittal Letter from Bleyl Engineering with Pay Application No. 1 from Infrastructure Rehabilitation USA, Inc.