

**MINUTES OF MEETING
OF THE
BOARD OF DIRECTORS**

THE STATE OF TEXAS §

COUNTY OF GALVESTON §

GALVESTON COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 12 §

The Board of Directors of Galveston County Water Control & Improvement District No. 12 (the "District") met in regular session, open to the public, at its regular meeting place inside the boundaries of the District, on April 13, 2015; whereupon, the roll was called of the members of the Board of Directors, to-wit:

Ed Linck	President
Bill Kerber	Vice President
Nancy McDonald	Secretary
Terri Gale	Assistant Secretary
Linda Merryman	Assistant Secretary

All members of the Board of Directors were present except Director Linck.

Also present were Chris Richardson of Strawn & Richardson, P.C.; Ed Holdgraf of Municipal District Services, LLC; Michelle Lofton of ETI Bookkeeping Services; Wallace Trochesset of LJA Engineering; David Smalling of Robert W. Baird & Co.; Joseph Ellis of McCall Gibson Swedlund Barfoot, PLLC; and Ivan Langford of the GCWA and Lower Brazos River Coalition.

Whereupon, Vice President Kerber called the meeting to order and evidence was presented that public notice of the meeting was given in compliance with the law.

1. **PUBLIC COMMENTS.** A District customer discussed her water bill and asked for an adjustment after repairing a leak; the Board noted the lack of paperwork showing a

repair bill or receipt for parts. Director Kerber stated the Board has not adjusted bills in the past without such documentation; the customer stated her husband made the repair himself. Director Gale suggested the customer bring a written statement from her husband, and include a picture.

2. **DIRECTOR ANNOUNCEMENTS.** Director Gale discussed her meeting with the water subcommittee; Carl Joiner, Wayne Rast and Robin Collins were present and the 5 year plan was discussed; the subcommittee will need significant input from the two cities.

Director Kerber stated he had conversed with Howard White about the Kemah Boardwalk Garden Show. He discussed a District presence to educate customers and distribute materials.

3. **MINUTES OF MEETINGS.** The Board considered the minutes for the meetings of February 9, 2015, February 23, 2015 and March 9, 2015. Following further discussion, it was moved by Director Gale and seconded by Director Merryman that the minutes be approved, which motion passed unanimously, 4-0.

4. **APPROVAL OF AUDIT FOR FISCAL YEAR ENDED DECEMBER 31, 2014.** Joseph Ellis presented and reviewed a draft of the audit for the fiscal year ended December 31, 2014. He stated the firm's opinion is unqualified, which means there are no material weaknesses identified. Mr. Ellis reviewed the financial statements and discussed the GASB 34 requirements.

Following a full discussion, it was moved by Director Merryman and seconded by Director Gale that the audit for the fiscal year ended December 31, 2014 be approved, which motion carried unanimously, 4-0.

5. **2015 REFUNDING BONDS.** David Smalling addressed the Board regarding the Private Placement Sale of the District's 2015 Refunding Bonds. He explained they will be refinancing bonds at lower interest rates and the estimated interest rates and savings are based

upon the current market. He added the refinancing will allow for a constant tax rate so the tax rate will not need to be increased, as previously discussed. Mr. Smalling explained, for the sake of reference, the City of Houston Ordinance calculation requires at least 3% net present value savings for refunding bonds; but he expects these refunding bonds to achieve more than 15% net present value savings. He stated the refunding will provide some \$2.2 Million in total debt service savings, at more than \$200,000 debt service savings per year. Mr. Smalling informed the Board the interest rate on the new bonds is 2.53%. BB&T will be the Underwriter.

Mr. Smalling stated the District will contribute an additional \$1,000,000 in cash from the debt service fund, to be used along with the approximately \$9.9 Million in proceeds from the refunding bonds, to pay off old bonds on September 1, 2015. Chris Richardson explained the District is actually refinancing more than \$10 Million of its outstanding debt. The District can only issue \$10 Million in bonds per year, if those bonds are to be designated as "Qualified tax Exempt Obligations", which provide a tax-free investment for the Underwriter. He added that this refunding is so good that it has enabled the use of \$1 Million in cash from the debt service fund to refinance additional debt principal; that money had previously been pledged to pay principal and interest on the old bonds.

Following further discussion, it was moved by Director Gale and seconded by Director Merryman to authorize the Sale of the District's Unlimited Tax Refunding Bonds, Series 2015, which motion carried unanimously, 4-0.

The Board next considered approving the Bond Order and Certificate for the Series 2015 Refunding Bonds. A motion was made by Director Gale, seconded by Director Merryman, and unanimously carried that said Order and Certificate be approved and adopted.

The Signature Identification and No-Litigation Certificate was presented to the Board. A motion was made by Director Gale and seconded by Director Merryman that the Signature

Identification and No-Litigation Certificate be approved, that the attorney be authorized to date said Certificate at closing, and that the Attorney General be authorized to date said Certificate upon approval of the bond transcript, which motion carried unanimously.

The Paying Agent/Registrar Agreement with BB&T was presented. The Escrow Agreement with Bank of New York was presented. It was moved by Director Gale and seconded by Director Merryman that said agreements be approved, which motion carried unanimously.

The Board next considered authorizing the Verification Report to be prepared by Barthe & Wahrman. A motion was made by Director Gale, seconded by Director Merryman, and unanimously carried to authorize the Verification Report.

The Order Calling Bonds for Redemption was presented to the Board. A motion was made by Director Gale, seconded by Director Merryman that the Order Calling Bonds for Redemption and the related Notice of Redemption to the Paying Agent for the Refunded Bonds be approved, which motion carried unanimously.

The Board next reviewed the General Certificate for the Series 2015 Refunding Bonds. The Certificate states, among other facts, the District is in compliance with all applicable requirements of all regulatory agencies. A motion was made by Director Gale and seconded by Director Merryman that the General Certificate be approved, which motion carried unanimously.

The Federal Tax Certificate, concerning the use of the proceeds of the Bonds and the exclusion of the interest from federal income taxation, was presented to the Board. A motion was made by Director Gale and seconded by Director Merryman that the Federal Tax Certificate be approved, which motion carried unanimously.

A motion was made by Director Gale and seconded by Director Merryman that the attorney for the District be authorized to obtain approval of the Attorney General of the State of

Texas for the Series 2015 Refunding Bonds and to secure registration by the Comptroller of Public Accounts for such issue. Said motion carried unanimously.

A motion was made by Director Gale, seconded by Director Merryman and unanimously carried that the financial advisor be authorized obtain CUSIP registration numbers as necessary for printing on the Bonds of the Series 2015 Refunding Bonds.

A motion was made by Director Gale, seconded by Director Merryman and unanimously carried to authorize the execution of Initial and Definitive Bonds of the Series 2015 Refunding Bonds as necessary.

A motion was made by Director Gale and seconded by Director Merryman that the attorneys for the District or the Paying Agent/Registrar, be authorized by formal letter to receive the Series 2015 Refunding Bonds from the Comptroller of Public Accounts after registration, to exchange the Bonds for payment of the purchase price, and to complete the closing of the bond sale, which motion carried unanimously.

The Board next considered authorizing the preparation and filing of the required IRS Form 8038-G. It was moved by Director Gale and seconded by Director Merryman that the IRS Form 8038-G be prepared and filed with the Internal Revenue Service, which motion carried unanimously.

A motion was made by Director Gale, seconded by Director Merryman and unanimously carried to authorize the preparation of the Information Required by the Public Securities Procedures Act and the filing of same.

A motion was made by Director Gale and seconded by Director Merryman and unanimously carried that all other necessary documents be executed and that all other necessary actions be taken for the issuance of the Series 2015 Refunding Bonds.

6. **LOWER BRAZOS RIVER COALITION (“LBRC”)**. Ivan Langford discussed the newly-formed LBRC, which is designed to have a broader membership than the GCWA. He stated the GCWA holds 380,000 acre/feet of water rights in the Brazos; with 400 miles of canals to move that water. The drought of 2008 demonstrated the need for more water sources, from: (1) effluent reuse from the COH, which has a 3 year timeline, but no contractual basis, yet; and (2) Allens Creek Reservoir, which has a 12 year timeline. The Brazos River Watermaster program was enacted by the TCEQ in 2014, with water rights enforcement power; it will go into effect on June 1st. Litigation has upheld the claim of Texas farmers: “first in time, first in right”. There are entities upstream in the Brazos (i.e., representing Lake Whitney and Lake Possum Kingdom) which are lobbying to maintain their “recreational use” of water, contrary to laws and regulations; the LBRC is forming to counter these efforts and maintain focus on the economic impact of the refineries and populations in the greater Houston/Galveston and surrounding areas. Director Gale asked about the need for a separate entity from the GCWA; Mr. Langford stated the LBRC will have a broader membership.

7. **BOOKKEEPER'S REPORT**. Michelle Lofton presented the bookkeeper's report, a copy of which is attached as Exhibit “A”. The Board reviewed the checks, investments, budget, and energy usage for the month of March. She reviewed the use of bond proceeds and the budget; she noted the District is currently ahead of its projected budget.

Following further discussion, it was moved by Director Gale and seconded by Director Merryman that the bookkeeper’s report, and those checks as listed thereon be approved, which motion passed unanimously, 4-0.

8. **RESOLUTION REQUESTING RELEASE OF ESCROWED FUNDS**. Mr. Richardson presented the Resolution Requesting Release of Escrowed Funds for approximately \$621,000 for the Kipp Lift Station, a copy of which is attached as Exhibit “B”. Following

further discussion, it was moved by Director Gale and seconded by Director Merryman that the Resolution be approved, which motion passed unanimously, 4-0.

9. **OPERATOR'S REPORT.** Ed Holdgraf presented the operator's report, a copy of which is attached as Exhibit "C". There were 1674 connections and no excursions at the wastewater treatment plant. Water accountability was 91.3%, and Mr. Holdgraf explained the accountability number is due to the timing of the reading of the meters. He stated the wastewater treatment plant was compliant with its permit.

Following further discussion, it was moved by Director Gale and seconded by Director Merryman that the operator's report be approved, along with the items presented, which motion carried unanimously, 4-0.

10. **REVIEW AND CONFIRM IDENTITY THEFT POLICY.** Mr. Richardson presented the Order Reviewing and Confirming the District's Identity Theft Policy, a copy of which is attached as Exhibit "D". Mr. Richardson and Mr. Holdgraf recommended no changes to the Policy; there were no incidents of ID theft identified. Following discussion by the Board it was moved by Director Gale and seconded by Director Merryman to confirm the District's Identity Theft Policy; the motion passed unanimously, 4-0.

11. **ENGINEER'S REPORT.** Wallace Trochesset presented the engineer's report, a copy of which is attached as Exhibit "E". He discussed the sanitary sewer rehabilitation project and stated some lines have already been rehabilitated, even by pipe bursting. He stated more lines would be televised and he will prepare a change order. He discussed the Kipp Lift Station, stating the low bid was 20% higher than the amount listed in the bond issue; he recommended award to the low bidder. He discussed the Vivian Well and stated it would cost \$70,000 to produce the extra capacity, and would also require chloramine disinfection due to the mixture of surface and well waters. He stated the City of Kemah has revised its capacity request

for the City Hall Parking Garage to merely three (3) connections' worth. He stated League City will not need emergency water and he would research the costs and benefits of this "one way" interconnect agreement.

Following further discussion by the Board it was moved by Director Gale and seconded by Director Merryman that the engineer's report be approved along with the items presented; the motion passed unanimously, 4-0.

12. AMENDMENT TO GCWA CONTRACT. Chris Richardson discussed the proposed amendment and asked Mr. Langford for permission to contact the GCWA's attorney. Mr. Langford agreed. Mr. Richardson explained the paragraph regarding replacement of the segment of line serving the District seems moot and overbearing, as that line is owned by GCWA and is to be maintained by other parties who also have capacity in that segment. Mr. Langford stated "pro rata" language could be added and he asked Mr. Richardson to contact the GCWA's attorney. Following further discussion by the Board it was moved by Director Gale and seconded by Director McDonald that the amendment to the GCWA contract be approved contingent upon further review and approval by the District's attorney, and that the amendment be executed thereafter; the motion passed unanimously, 4-0.

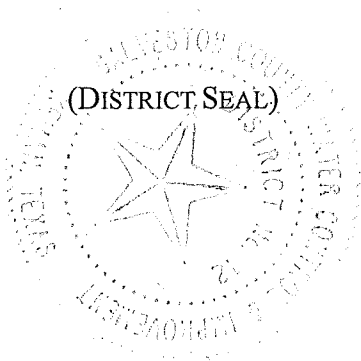
13. KEMAH VOLUNTEER FIRE DEPARTMENT REPORT. Director Kerber reviewed the KVFD report. There were a total of 41 calls in the District during the reporting period; 25 were EMS calls with an average response time of 4:11 and 16 were fire calls with an average response time of 4:25.

14. TAX ASSESSOR'S REPORT. Chris Richardson presented the Galveston County Tax Assessor's reports for February and March, copies of which are attached as Exhibits "F" and "G", respectively. The Board discussed the proposed renewal of the Tax Collection Agreement via Board Resolution as requested; Mr. Richardson recommended the Board

members contact Cheryl Johnson to make sure the tax collector's office would continue its calculation of the out-of-District surcharge. Director Kerber asked about whether the surcharge should be eliminated and what options existed. Mr. Richardson reviewed the history of the surcharge, and stated the removal would be a political decision; the vast majority of water districts use a simple multiple of in-District rates – most often 3 times – for out-of-District properties. Director Kerber stated he would contact Ms. Johnson.

15. **ADJOURNMENT.** There being no further business, it was moved by Director Gale, seconded by Director Kerber and unanimously carried that the meeting be adjourned.

PASSED, ADOPTED and APPROVED this 11 day of May, 2015.



Nancy McOand
Secretary

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