

LONE STAR GROUNDWATER CONSERVATION DISTRICT

April 10, 2018

MINUTES OF SPECIAL MEETING

The Board of Directors of the Lone Star Groundwater Conservation District (“District”) held a “Special Meeting,” open to the public, in the Lone Star GCD – James B. “Jim” Wesley Board Room located at 655 Conroe Park North Drive, Conroe, Texas, within the boundaries of the District on April 10, 2018.

Vice President Stinson called the meeting to order at 9:00 AM, announcing that it was now open to the public.

The roll was called of the members of the Board of Directors, to wit:

John D. Bleyl, PE
Gregg Hope
Jace Houston
Roy McCoy, Jr.
Webb Melder
Rick J. Moffatt
Jim Stinson, PE
M. Scott Weisinger, PG
W. B. Wood

All members of the Board were present, with the exceptions of Director(s) Moffatt, and McCoy thus constituting a quorum of the Board of Directors. Also, in attendance at said meeting were Kathy Turner Jones, District General Manager; Samantha Reiter, Assistant General Manager; Brian L. Sledge, District Counsel, District staff and members of the public. **Copies of the public sign-in sheets are attached hereto as Exhibit “A”.**

After a proper and legally sufficient announcement to the public by Vice President Stinson, the Board of Directors went into a Closed Executive Session at 9:01 AM pursuant to Texas Government Code, Sections 551.071, to consult with the District’s attorney regarding pending or contemplated litigation, settlement offers, personnel matters, or on matters in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with the Texas Open Meetings Act, Chapter 551, Government Code.

Director Weisinger joined the Executive Session at 9:13 AM. Following Executive Session, the Board reconvened in Open Session and Vice President Stinson declared it open to the public at 9:58 AM.

No additional action was taken on matters discussed in Executive Session and Vice President Stinson adjourned the meeting at 9:58 AM.

PASSED, APPROVED, AND ADOPTED THIS 8th DAY OF MAY 2018.


Gregg Hope, Board Secretary

LONE STAR GROUNDWATER CONSERVATION DISTRICT

April 10, 2018

MINUTES OF PUBLIC HEARING ON PERMIT APPLICATIONS

The Board of Directors of the Lone Star Groundwater Conservation District (“District”) met in regular session, open to the public, in the Lone Star GCD – James B. “Jim” Wesley Board Room located at 655 Conroe Park North Drive, Conroe, Texas, within the boundaries of the District on April 10, 2018.

CALL TO ORDER:

Vice President Stinson called to order the Public Hearing on Permit Applications at 10:01 AM announcing the meeting open to the public.

ROLL CALL:

The roll was called of the members of the Board of Directors, to wit:

John D. Bleyl, PE
Gregg Hope
Jace Houston
Roy McCoy, Jr.
Webb Melder
Rick J. Moffatt
Jim Stinson, PE
M. Scott Weisinger, PG
W. B. Wood

All members of the Board were present with the exceptions of Director(s) Moffatt and McCoy, thus constituting a quorum of the Board of Directors. Also, in attendance at said meeting were Kathy Turner Jones, General Manager; Samantha Reiter, Assistant General Manager; Brian L. Sledge, District Counsel; District staff; and members of the public. **Copies of the public sign-in sheets are attached hereto as Exhibit “A”.**

PRAYER AND PLEDGES OF ALLEGIANCE:

Director Melder gave the opening prayer. Next, Vice President Stinson led the Pledge of Allegiance and the Pledge of Allegiance to the state flag.

Assistant General Manager, Samantha Reiter informed the Board that there were five permit applications received for the month. Ms. Reiter stated that the first group included items #1-4 and that it is the General Manager's recommendation to approve those items as requested. Ms. Reiter then noted the second group included item #5 was a request for a new permit which received the General Manager's approval to drill and also authorization for a reduced permitted allocation.

Item #1, T & W Water Services (Falls of Wildwood)

Applicant is requesting an amendment to an Operating Permit for drilling authorization only. No additional production authorization is being requested at this time. Based on technical review of the information supplied, it is the General Manager's recommendation to approve that which is requested.

Item #2, Tranquility Ranch Sand & Gravel

Applicant is requesting registration of a new well and production authorization in the amount of 2,000,000 gallons for 2018 and annually thereafter. Based on technical review of the information supplied, it is the General Manager's recommendation to approve that which is requested.

Item #3, Crossed Flags Performance LLC

Applicant is requesting registration of a new well and production authorization in the amount of 50,000 gallons for 2018 and 100,000 gallons for 2019 and annually thereafter. Based on technical review of the information supplied, it is the General Manager's recommendation to approve that which is requested.

Item #4, Cherry Crushed Concrete (FM 1485)

Applicant is requesting registration of a new well and production authorization in the amount of 9,500,000 gallons for 2018 and annually thereafter. Based on technical review of the information supplied, it is the General Manager's recommendation to approve that which is requested.

Item #5, Watercrest at Kingwood Phase II, LP

Applicant is requesting registration of a new well and production authorization in the amount of 2,000,000 gallons for 2018 and annually thereafter. Based on technical review of the information supplied, it is the General Manager's recommendation to approve the registration and construction of the well and further authorize a **reduced** allocation of 1,447,000 gallons for 2018 and 2019 and 1,113,000 gallons for 2020 and beyond.

Following Ms. Reiter's report, a motion was made by Director Bleyl, seconded by Director Hope to approve items #1-4. The motion was approved. A motion to approve items #5 was made by Director Hope, and seconded by Director Bleyl. The motion was approved.

Vice President Stinson adjourned the public hearing on permit applications at 10:03 AM.

PASSED, APPROVED, AND ADOPTED THIS 8th DAY OF MAY 2018.



Gregg Hope, Board Secretary

LONE STAR GROUNDWATER CONSERVATION DISTRICT

April 10, 2018

MINUTES OF REGULAR MEETING

The Board of Directors of the Lone Star Groundwater Conservation District (“District”) met in regular session, open to the public, in the Lone Star GCD - James B. “Jim” Wesley Board Room located at 655 Conroe Park North Drive, Conroe, Texas, within the boundaries of the District on April 10, 2018.

CALL TO ORDER:

Vice President Stinson presided and called to order the regular Board of Directors meeting at 10:05 AM, announcing that it was open to the public.

ROLL CALL:

The roll was called of the members of the Board of Directors, to wit:

John D. Bleyl, PE
Gregg Hope
Jace Houston
Roy McCoy, Jr.
Webb Melder
Rick J. Moffatt
Jim Stinson, PE
M. Scott Weisinger, PG
W. B. Wood

All members of the Board were present, with the exceptions of Director(s) Moffatt and McCoy, thus constituting a quorum of the Board of Directors. Also in attendance at said meeting were Kathy Turner Jones, General Manager; Samantha Reiter, Assistant General Manager; Brian L. Sledge, District Counsel, District staff; and members of the public. *Copies of the public sign-in sheets are attached hereto as Exhibit "A".*

PUBLIC COMMENTS:

No comments.

APPROVAL OF THE MINUTES:

Vice President Stinson stated the Board would consider all meeting minutes as listed for approval on today’s agenda as one item. A motion was made to approve the meeting minutes by

Director Wood, seconded by Director Hope. The motion to approve the minutes was approved unanimously.

- a) March 13, 2018, Special Board Meeting
- b) March 13, 2018, Public Hearing on Permit Applications
- c) March 13, 2018, Regular Board of Directors Meeting

COMMITTEE REPORTS:

A. Executive Committee and/or Settlement Committee – Rick Moffatt, Chair

- 1) Brief the Board on the Committee’s activities since the last regular Board meeting – Vice President Stinson reported that the settlement team had met by conference call and asked District Counsel, Brian Sledge, to give an update.
- 2) Defense of the following lawsuit: City of Conroe et al. v. Lone Star Groundwater Conservation District (and the District’s directors and general manager in their official capacities) – Mr. Sledge confirmed the settlement team is continuing to work with the plaintiffs towards a resolution. A court date of April 25th is scheduled for the hearing on summary judgment which will include motions to recover legal fees in defending the directors and general manager.

B. Water Awareness and Conservation Committee - Billy Wood, Chair

- 1) Brief the Board on the Committee’s activities since the last regular Board meeting – No meeting.
- 2) Update on public outreach activities, water efficiency, and conservation efforts – James Ridgway – Mr. Ridgway reported that the 7th Annual Gulf Coast Water Conservation Symposium was well attended with lots of useful information presented. This event was live streamed and is part of our library of Resources. Mr. Ridgway announced that on April 26th the Water Efficiency Network Meeting is planned and will feature guest speaker, Mark Bowen. Mr. Ridgway presented a timeline illustrating future education and public outreach events. Upcoming events include: Montgomery County Fair & Rodeo Kids Day on April 16-17 which is anticipating double the attendance from the previous year and Conroe Kidzfest on April 28th. May 11th there will be a Rainwater Harvesting Class the District is co-sponsoring with TX A&M AgriLife Extension and The Woodlands Joint Powers Agency.

C. Rules and Regulatory Planning Committee – Jim Stinson, Chair

- 1) Brief the Board on the Committee’s activities since the last regular board meeting – The committee met on March 29th to discuss well spacing parameters. They will meet again before bringing their suggestions to the board.

D. Policy and Personnel Development Committee – Jace Houston, Chair

- 1) Brief the Board on the Committee’s activities since the last regular Board meeting – No report.

E. Budget and Finance Development Committee – Billy Wood, Chair

- 1) Brief the Board on the Committee’s Activities – Director Wood stated that the committee met March 27th to review the draft of the annual financial report for the year ending December 31, 2017.
- 2) Review of monthly financial reports – Director Wood reported that, for the month of March, revenue was budgeted at \$198,929—actual was \$247,710. He said expenses were budgeted at \$176,303—actual expenses were \$137,732. Net income for the month was \$109,732. Year-to-date net income is \$302,612.
- 3) Review 1st Quarterly Investment Report 2018 – Director Stinson reported that the total balance of the investment pools, including TexPool and First Financial Bank (FFB) is \$593,000 and that \$2.9 million is pledged.
- 4) Receive audit presentation for fiscal year 2017 – Jon Watson, CPA; BrooksWatson & Co., PLLC. Mr. Watson presented the annual financial audit report for the District for the year ending December 31, 2017. Mr. Watson discussed the revenues, expenses and changes to net position for the year; emphasizing the decrease in net position is due to ongoing litigation. In discussing budget versus actual variances, the major variance was due to legal expense. A five-year comparative analysis of changes in net position illustrated the use of cash reserves to fund litigation. Mr Watson acknowledged the directors were prudent to increase rates as necessary to sustain District operations. ***(A copy of the PowerPoint presentation is attached hereto as Exhibit “B”.)***

Following questions and further discussion, Director Stinson made a motion to accept the audit report; seconded by Director Bleyl. The motion was approved with Directors Melder and Weisinger abstained.

F. Findings and Review Committee – Rick Moffatt, Chair

- 1) Brief the Board on the Committee’s activities since the last regular Board meeting – No report.
- 2) Groundwater Management Area 14 – update the board on the legal, technical, and financial issues related to joint planning activities and development of desire future conditions in GMA 14 – Ms. Jones reported that member districts and participants for GMA 14 met March 27th to continue working to accomplish statutory mandates to support the development of DFCs for the current round of joint planning. At the March GMA 14 meeting, Lone Star GCD requested GMA 14 to approve formal consideration of another request for amended DFCs and take action to consider the

DFC request referred to as “Run D of Task 3 of the Lone Star GCD Strategic Water Resources Planning Study” only as an amendment to the DFCs previously adopted for the second cycle of joint planning (2010 – 2016). The request was presented in the form of a written resolution to attempt to eliminate any confusion on what was being requested. The motion failed to meet the two-thirds requirement for approval. Following the failed vote to approve, Lone Star GCD made a motion that the GMA 14 district representatives amend their action taken at the December 8, 2017, joint planning meeting and approve formal consideration of Run D as requested by Lone Star GCD as both an amendment to the second joint planning cycle desired future conditions in response to the appeal of Lone Star GCD’s desired future conditions and to develop the third cycle desired future conditions. Motion was approved by the planning group. The next meeting of the GMA 14 is on Thursday, April 26.

Discussion and possible action to issue a show cause order directing the following permittees, or their designated representative, to appear at a show cause hearing for that purpose and show cause why appropriate enforcement action should not be taken, including without limitation initiating a lawsuit against it for failure to submit 2017 production report and/or fines associated with timely submissions:

- 1) Eduardo Lopez – OP-14051301
- 2) LCBGH15, LLC – OP-08092501

Discussion of possible action to issue a show cause order directing the following permittees, or their designated representative, to appear at a show cause hearing for that purpose and show cause why appropriate enforcement action should not be taken, including without limitation initiating a lawsuit against it for failure to remit 2018 water use fees and/or fines associated with timely submissions:

- 1) Jim Fox – OP-07120501
- 2) LCBGH15, LLC – OP-08092501

Discussion and possible action to issue a show cause order directing the following permittees, or their designated representative, to appear at a show cause hearing for that purpose and show cause why appropriate enforcement action should not be taken including without limitation initiating a lawsuit against it for overproduction of 2017 permitted allocation and/or fines associated with timely submission:

- 1) ~~East Montgomery County MUD #4 – OP03-004/OP-07022201~~
- 2) Joe Worthy – OP-09111101
- 3) Quality Car Care – HUP182
- 4) Sanberg Investments – OP-13112101

Mr. Sledge discussed all three show cause hearings as a group. He stated that East Montgomery County MUD #4 was removed from the Show Cause Order, as they have reached an agreement with the District. Based on the information reported by District staff, Mr. Sledge recommended that the board consider action to direct the above listed permittees to appear at a

Show Cause Hearing to be held in conjunction with the May 8th board meeting and show cause why appropriate action should not be taken against them for the above listed violations. A motion was made by Director Wood, and seconded by Director Bleyl in accordance with the General Counsel's recommendation. The motion passed.

GENERAL MANAGER'S REPORT:

Ms. Jones updated the Board concerning Director's Hope request to research the effect Daylight Savings Time (DST) might have on local water consumption. Ms. Jones presented a white paper developed by Mr. Ridgway detailing the history of DST and water. While the original rationale (1784) for adopting DST was energy savings, modern research studies question the magnitude and even direction of the effect of DST on electricity consumption. In conclusion, Ms. Jones added that state representative Lyle Larson (San Antonio) was on record proposing Texas keep DST year-round, rather than changing the clocks twice a year citing various studies have proven that there are many health and economic benefits of maintaining DST year-round. In addition, some argue that there is a public health benefit to DST, as several studies in the U.S. and Great Britain have shown that the DST daylight shift reduces net traffic accidents and fatalities by close to one percent. An increase in accidents in the dark mornings is more than offset by the evening decrease in accidents. Additionally, it is estimated that the United States loses nearly \$434 million every year due to the reorganizational efforts and increased incidences of workplace injuries, heart attacks and cyber loafing that follow from switching time.

Ms. Jones briefed the Board on the status of TexCom Gulf Disposal, LLC.

1) Brief the Board on November 6, 2018, board of directors' election and process.

Ms. Jones confirmed the District is corresponding with the Montgomery County Elections Administrator and further stated the District intends to contract with Montgomery County in order for the county to conduct the election on behalf of the District. Following discussion, it was the consensus of the Board that discussion to authorize contract with Montgomery County Elections and notice of 'Order the Election' be placed on the June 12, 2018 agenda for consideration and possible action.

GENERAL COUNSEL'S REPORT:


Mr. Sledge commented that the majority of his month's work for the District focused on the litigation and GMA 14 activities. He had previously briefed the Board in Executive Session on the upcoming GMA 14 meeting. Mr. Sledge updated the Board of next week's House of Natural Resources committee meeting on Hurricane Harvey flooding and discussions on aquifer storage/drainage project's viability to help alleviate flooding in the future.

NEW BUSINESS:

There was no new business.

There being no further business, upon a motion made by Director Weisinger and seconded by Director Hope, the meeting was adjourned at 10:51 AM.

PASSED, APPROVED, AND ADOPTED THIS 8th DAY OF MAY 2018.



Gregg Hope, Board Secretary

Exhibit "B"

Lone Star Groundwater Conservation District

Audit Presentation

December 31, 2017

Presented By: Jon Watson, CPA
April 10, 2018



OVERVIEW OF THE AUDIT PROCESS

Audit Planning and Risk Assessment

- Preliminary analytics – changes year over year
- Internal controls – gain understanding
- Assessing financial and fraud risk
- Designing audit procedures – Risk Based Approach

OVERVIEW OF THE AUDIT PROCESS

Audit Fieldwork & Completion and Reporting

Typical audit procedures as part of our audit fieldwork include:

- Agreeing financial statements to underlying records and activity
- Inspection of documents, inquiry of individuals providing information
- Confirmations – cash, debt, receivables, revenue, grants, etc.
- Analytical procedures – comparing actual results to expectations

Audit Completion and Reporting Procedures Include:

- Evaluate the sufficiency and appropriateness of audit evidence obtained.
- Perform an overall analytical review.
- Evaluate and conclude on the results of audit procedures.
- Prepare District's Annual Financial Report.
- Issue the Auditor's Opinion (report).

COMPONENTS OF THE ANNUAL FINANCIAL REPORT



- ❖ Auditor's Opinion
- ❖ Management's Discussion and Analysis
- ❖ Basic Financial Statements
 - Financial Statements
 - Notes to the Financial Statements
- ❖ Other Supplementary Information
 - Budgetary Comparison Schedule
- ❖ Texas Supplementary Information
 - Information required by TCEQ

INDEPENDENT AUDITOR'S REPORT

REFERENCE AFR – PAGE 2

❖ Four possible outcomes

-  -Unmodified
-  -Modified
-  -Disclaimed
-  -Adverse

- ❖ The District received an unmodified opinion
- ❖ Highest level of assurance

FINANCIAL HIGHLIGHTS

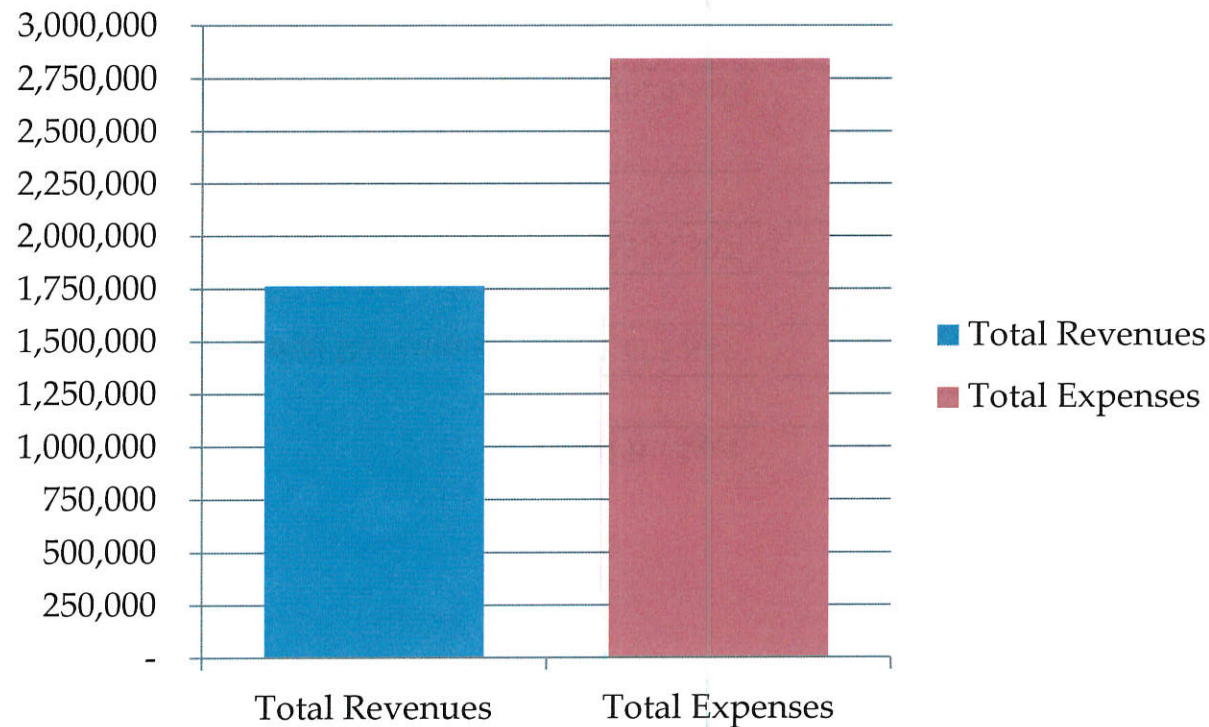
REFERENCE AFR – PAGE 7

- ❖ Total assets exceeded total liabilities by \$1,072,819, a decrease of \$1,078,439.
- ❖ Unrestricted net position was negative \$534,114.
- ❖ Cash decreased by \$650,133 during the year from \$1,221,230 to \$571,097.

District Revenues, Expenses, and Changes to Net Position

YEAR ENDING 12/31/17 - REFERENCE AFR PAGE 17

Operating Revenues/Expenses:



- ❖ Total Revenues were \$1,764,061
- ❖ Operating Expenses were \$2,842,500
- ❖ Net Decrease was \$1,078,439



SCHEDULE OF REVENUES, EXPENDITURES & CHANGES IN NET POSITION (Budget & Actual)

YEAR ENDING 12/31/17 - REFERENCE AFR PAGES 34 & 35

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Total Revenues	1,695,847	1,764,061	68,214
<u>Expenses</u>			
Total Expenses	2,320,307	2,778,409	(458,102)
Revenues Over (Under) Expenditures	(624,460)	(1,014,348)	(389,888)
Net Change in Net Position	<u>\$ (624,460)</u>	<u>(1,014,348)</u>	<u>\$ (389,888)</u>
Beginning Net Position		2,151,258	
Capital Expenses		-	
Depreciation Expenses		(64,091)	
Ending Net Position		<u>\$ 1,072,819</u>	

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES

YEAR ENDING 12/31/17 - REFERENCE AFR PAGE 40

	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>	<u>12/31/2013</u>
<u>Revenues</u>					
Application fees	\$ 27,542	\$ 33,400	\$ 34,850	\$ 44,460	\$ 42,939
Export fees	2,625	597	1,765	2,942	18,842
Water use fees	1,717,353	1,400,845	2,020,219	1,964,785	1,895,988
Interest income	4,602	3,542	4,657	5,096	6,744
Overpumpage income	5,714	30,748	16,712	7,296	27,534
Miscellaneous	-	50	11,372	11,560	2,401
Penalty & interest	6,225	7,085	16,630	1,930	14,351
Total Revenues	1,764,061	1,476,267	2,106,205	2,038,069	2,008,799
% Change	19%	-30%	3%	1%	
Total Expenses	2,842,500	2,254,888	2,203,781	1,902,987	1,668,815
% Change	26%	2%	16%	14%	
<u>Revenues over</u>					
(under) Expenses	\$ (1,078,439)	\$ (778,621)	\$ (97,576)	\$ 135,082	\$ 339,984



CONCLUSION

Other Communications and Questions

Presented By: Jon Watson, CPA
April 10, 2018