

LONE STAR GROUNDWATER CONSERVATION DISTRICT

June 6, 2017

MINUTES OF BOARD WORK SESSION

A "board work session" sponsored by the Budget and Finance Development Committee, open to the public, was held 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 at 9:00 a.m. on June 6, 2017.

CALL TO ORDER:

President Moffatt called to order the Board Work Session at 9:02 A.M.

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

Director Wood, chair Budget and Finance Development, stated that the District's Budget & Finance Committee has worked to submit a balanced budget for 2018. Revenues were projected based on permitted allocations. Expenses were projected based on knowledge of historical amounts and expected obligations for 2018. The Budget and Finance Development Committee proposed a rate increase from \$.075 per 1,000 gallons to \$.11 per 1,000 gallons.

Ms. Kay Martin, CPA presented a spreadsheet that detailed the historical allocations for 2016 and 2017 and the allocations forecasted for 2018. GRP allocations increased 182,139,661 gallons from 2017 to 2018; approximately 1%. This analysis illustrated the revenue that would be generated from these allocations, assuming rates ranging from \$.075 to \$.11.

Ms. Martin also presented a proforma income statement that calculated a net income for 2018 based on the various rates. The expenses remained constant. This analysis resulted in net loss for all rates, except \$.11 per 1,000; which resulted in a net income of \$75,395.

Ms. Martin also stated her concern for the equity position for the District. An additional year of net loss will cause the District to have negative equity and could result in a going concern audit opinion.

Director Stinson noted that the projected 2018 rate of \$.11 was the only viable scenario.

Discussion focused on, excessive, ongoing litigation expenses and a new expense in 2018 to conduct an election required by recent legislation. The election is scheduled for November 2018. Ms. Jones explained that she had been advised by the County Election Administrator's office that such an election could fall in the range of \$150,000 to \$200,000 depending on the number of other entities sharing in the cost of the election. Hence, \$175,000 was a conservative estimate of the cost of this election. Director Melder requested that Montgomery County Elections Administrator, Suzie Harvey, address the entire board for a public and open discussion regarding proposed costs related to the November 2018 board of director elections

Director Weisinger, stated for the record, that he had encouraged the Directors to hire a consultant to advise the District on the potential cost of the litigation, when the suit was initially filed. His criticism did not extend to the General Manager or District Staff.

Director Houston joined the meeting at 9:39A.M.

Director Houston questioned that a consulting firm could have accurately predicted the litigation expense.

Director Stinson stated that James Stilwell of Martin, Earl, and Stilwell had met with the Budget and Finance Committee in 2016 and presented a possible scenario analysis, and the potential "what if" costs associated with each scenario.

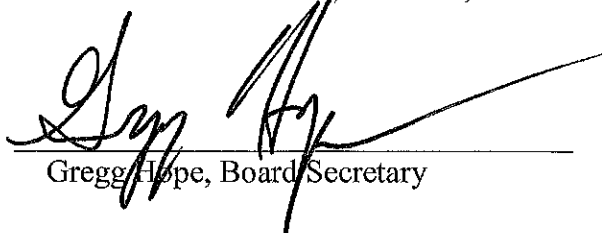
Director Melder requested the board consider cutting legal costs associated with attorney and lobbying contracts.

President Moffatt discussed the resolution of the Desired Future Conditions (DFC) appeal that will ultimately be decided by the District Board of Directors. LBG-Guyton and Associates have been retained to conduct expanded services to improve the original projections used to establish the DFC model. This report is expected to be available to the District in July/August.

Following further discussion, it was agreed that an additional workshop be held to further review and discussion of projected 2018 income and expenses. Ms. Jones will contact the attorneys representing the District to obtain more information on the expected legal fees for 2018 and provide the Board with details on how expenses were forecasted.

With there being no further comments to address, President Moffatt, adjourned the workshop at 10:02 A.M.

PASSED, APPROVED, AND ADOPTED THIS 19th DAY OF JULY, 2017.



Gregg Hope, Board Secretary