

LONE STAR GROUNDWATER CONSERVATION DISTRICT

July 12, 2016

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 July 12, 2016.

President Tramm called the meeting to order at 9:01 a.m., 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
Greg Hope
Jace Houston
Roy McCoy, Jr.
Rick J. Moffatt
Jim Stinson, PE
Richard J. Tramm
M. Scott Weisinger, PG
W. B. Wood

All members of the Board were present with the exception of Director Weisinger, thus constituting a quorum of the Board of Directors. Also, in attendance at said meeting were Kathy Turner Jones, District General Manager; Paul R. Nelson, Assistant General Manager; Brian L. Sledge, General 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 President Tramm, the Board of Directors went into a Closed Executive Session at 9:03 AM pursuant to Texas Government Code, Sections 551.071, to consult with the District’s attorney regarding pending or contemplated litigation, settlement offers, 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 arrived to the meeting at 9:10 AM.

Following Executive Session, the Board reconvened in Open Session and President Tramm declared it open to the public at 9:57 AM.

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

PASSED, APPROVED, AND ADOPTED THIS 8th DAY OF AUGUST 2016.



Rick Moffatt, Board Secretary

LONE STAR GROUNDWATER CONSERVATION DISTRICT

July 12, 2016

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 July 12, 2016.

CALL TO ORDER:

President Tramm called to order the Public Hearing on Permit Applications at 10:06 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.
Rick J. Moffatt
Jim Stinson, PE
Richard J. Tramm
M. Scott Weisinger, PG
W. B. Wood

All members of the Board were present thus constituting a quorum of the Board of Directors. Also, in attendance at said meeting were Kathy Turner Jones, General Manager; Paul R. Nelson, Assistant General Manager; Brian L. Sledge, District Counsel; Mark Lowry, District Consultant; District staff; and members of the public. *Copies of the public sign-in sheets are attached hereto as Exhibit “A”.*

Permitting Director, Samantha Reiter stated there were three applications received for the month and that the items listed would be taken in two groups.

Item #1, **Rita Biespiel** – Applicant is requesting registration of an existing well and production authorization in the amount of 400,000 gallons for 2016 and annually thereafter. Based on technical review of the information supplied, it is the General Manager’s recommendation to approve that which is being requested.

Item #2, **Jamatt Ventures, LLC** – Applicant is requesting registration of an existing well and production authorization in the amount of 262,080 gallons for 2016 and 700,800 gallons for 2017 and annually thereafter. Based on technical review of the information supplied, it is the General Manager’s recommendation to approve that which is being requested.

Item #3, **High Meadow Estates POA** – Applicant is requesting an amendment to an Operating Permit for an increase in production authorization in the amount of 1,115,000 gallons for 2016 and annually thereafter. Based on technical review of the information supplied, it is the General Manager’s recommendation to approve that which is being requested for 2016 and 2017. Further, it is the General Manager’s recommendation to authorize a reduced allocation amendment of 721,090 gallons (for a total permitted allocation of 896,090 gallons) for 2018 and beyond.

Following Ms. Reiter’s report, a motion was made by Director Stinson, and seconded by Director Bleyl to approve items #1-2, in accordance with the General Manager’s recommendations. The motion passed unanimously.

A second motion was made by Director Stinson, and seconded by Director Bleyl to approved item #3 in accordance with the General Manager’s recommendations. The motion passed unanimously.

President Tramm adjourned the public hearing on permit applications at 10:08 AM.

PASSED, APPROVED, AND ADOPTED THIS 9th DAY OF AUGUST, 2016.



Rick Moffatt, Board Secretary

**LONE STAR
GROUNDWATER CONSERVATION DISTRICT**

July 12, 2016

**MINUTES OF PUBLIC MEETING TO ADOPT DESIRED
FUTURE CONDITIONS (“DFCs”) FOR THE GULF COAST AQUIFER
THAT APPLY TO THE LONE STAR GROUNDWATER CONSERVATION
DISTRICT**

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 July 12, 2016.

CALL TO ORDER:

President Tramm presided and reconvened the special-called Board of Directors meeting at 10:34 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.
Rick J. Moffatt
Jim Stinson, PE
Richard J. Tramm
M. Scott Weisinger, PG
W. B. Wood

All members of the Board were present thus constituting a quorum of the Board of Directors. Also in attendance at said meeting were Kathy Turner Jones, General Manager; Paul R. Nelson, Assistant General Manager; Brian L. Sledge, General Counsel; Mark Lowry, P.E., District Engineer; District staff; and members of the public. *Copies of the public sign-in sheets are attached hereto as Exhibit "A".*

President Tramm announced that no action would be taken on the agenda item #5 today but would entertain comment from the public should there be any today. Having none, President Tramm announced the special meeting of the District to adopt desired future conditions for the Gulf Coast Aquifer is hereby continued until 10:00 AM, August 9, 2016.

The Public Meeting was recessed at 10:36 AM, to be continued as stated above.

PASSED, APPROVED, AND ADOPTED THIS 9th DAY OF AUGUST 2016.



Rick Moffatt, Board Secretary

LONE STAR GROUNDWATER CONSERVATION DISTRICT

July 12, 2016

MINUTES OF SHOW CAUSE HEARING

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 – Board Room located at 655 Conroe Park North Drive, Conroe, Texas, within the boundaries of the District on July 12, 2016.

President Tramm called to order the Show Cause Hearing at 10:08 AM.

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

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

All members of the Board were present thus constituting a quorum of the Board of Directors. Also, in attendance at said meeting were Kathy Turner Jones, District General Manager; Paul R. Nelson, Assistant General Manager; Brian L. Sledge, General Counsel; District staff; and members of the public. *Copies of the public sign-in sheets are attached hereto as Exhibit "A" on the Regular Board of Directors Meeting minutes.*

President Tramm stated this was a Show Cause Hearing directing City of Patton Village, (Respondent), pursuant to District Rule 2.5, to appear before the Lone Star Groundwater Conservation District Board of Directors and show cause why the District should not issue a cease and desist order pursuant to District Rule 2.6(c) for failure to submit the Consent Order and/or remit the overproduction fees and fines associated with the 2015 withdrawal of groundwater in an amount which exceeded the specific amount authorized for withdrawal by ten percent (10%) or greater than the authorized amount; file a civil suit in this matter against Respondent ; and take all other enforcement action that is necessary and appropriate under the laws of the State of Texas.

President Tramm asked if anyone representing the City of Patton Village was in attendance and wished to speak. Mr. Alan Petrov, attorney for The City of Patton Village was in attendance and asked to speak on behalf of the City.

Mr. Petrov stated that the City does not actually own the water well or the system and it was turned over to the City by the previous owner free of charge. It was clarified for the Board that the City signed and submitted a Change of Ownership previously and has been paying the water use fees since the Change of Ownership was approved in 2013. Mr. Petrov stated that the City has an agreement with an operator and it is the operator that is currently collecting the rates. The well services less than 100 customers and there are many problems with the system.

Mr. Petrov continued that the City had applied to the State to take ownership and obtain grant funding to make repairs to the system but because the well and subdivision it serves is in a flood plain, they were not able to use the grant monies. The City has since withdrawn its application for funding and ownership. Mr. Petrov was able to get in contact with the Public Utilities Commission ("PUC") and they are currently working to appoint an emergency manager to take over for the City.

Mr. Petrov stated that currently the pumpage is down to a normal level due to improvements that have been made to the system and though the permit will likely overpump for 2016, he suspects the system will stay below its permit in the future years. Additionally, he stated that the current operator is collecting rates and will continue as operator until the State appoints a temporary operator and/or conservator. Mr. Petrov commented that it is favorable that the State is assisting now though he is still unsure when this matter will be resolved. Mr. Petrov asked that the District allow for time for the State to appoint a temporary operator and work with the City of Patton Village.

President Tramm commented that this is an unusual situation being that the City owns the permit but not the well. He added that he would like to see the contractor operating the system continue to take steps to better manage the system to help keep it under the permit. President Tramm stated that the District is encouraged that the City is working to right this situation.

Mr. Sledge, General Counsel, suggested that the Show Cause Hearing be continued to the August 9th board meeting to allow for the State to (hopefully) appoint someone to assist the system. Mr. Sledge explained to Mr. Petrov the difference between requirements for a small volume groundwater user ("SVGU") and a large volume groundwater user ("LVGU") and the potential requirements for the permit to join a Groundwater Reduction Plan if this matter did not get resolved, as the permit is technically producing as a LVGU. Mr. Petrov stated that he would relay the information to his client and get in contact with either Mr. Sledge or Ms. Jones regarding the future of the permit.

Director Stinson added that he would like to see the operator not only report monthly to the District but also report weekly to allow for the District to get a better idea of what the system demands actually are. Mr. Petrov said that he would instruct the operator to begin doing so.

President Tramm asked that the City stay in contact with the District as they receive updates from the State. President Tramm then stated that this hearing would be continued until 10:00 AM, August 9, 2016.

President Tramm adjourned the Show Cause Hearing at 10:34 AM.

PASSED, APPROVED, AND ADOPTED THIS 9th DAY OF AUGUST 2016.



Rick Moffatt, Board Secretary



LONE STAR GROUNDWATER CONSERVATION DISTRICT

July 12, 2016

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 July 12, 2016.

CALL TO ORDER:

President Tramm presided and called to order the regular Board of Directors meeting at 10:36 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.
Rick J. Moffatt
Jim Stinson, PE
Richard J. Tramm
M. Scott Weisinger, PG
W. B. Wood

All members of the Board were present thus constituting a quorum of the Board of Directors. Also in attendance at said meeting were Kathy Turner Jones, General Manager; Paul R. Nelson, Assistant General Manager; Brian L. Sledge, General Counsel; Mark Lowry, P.E., District Engineer; District staff; and members of the public. *Copies of the public sign-in sheets are attached hereto as Exhibit "A".*

APPROVAL OF THE MINUTES:

Upon review of the following, a motion was made by Director Moffatt and seconded by Director Bleyl to approve the minutes, including those to be amended by staff. The motion unanimously carried to approve the meeting minutes listed below.

- a) June 14, 2016, Special Board Meeting
- b) June 14, 2016, Public Hearing on Permit Applications

- c) June 14, 2016, Special Meeting on Desired Future Conditions
- d) June 14, 2016, Regular Board of Directors Meeting
- e) June 29, 2016, Budget Workshop Meeting

COMMITTEE REPORTS:

A. Executive Committee – Richard J. Tramm, President

- 1) Brief the Board on the Committee's activities since the last regular Board meeting – President Tramm noted that there had not been a meeting of the Executive Committee since the last board meeting.
- 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 noted that the Board was briefed and updated on issues related to the lawsuit filed by the City of Conroe et al during the closed executive session portion of the July 12, 2016 special board meeting.

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

- 1) Brief the Board on the Committee's activities since the last regular Board meeting - Director Wood reported that the committee had not met since the last board meeting.
- 2) Update on water efficiency, conservation efforts – Paul R. Nelson
Mr. Nelson reported on his presentation to the Bentwater Civic Center Townhall Meeting on June 23rd, and that the meeting was well attended and received. He added that there were presentations by several others as well. Mr. Nelson also reported that the monthly meeting of the Gulf Coast/Montgomery County Water Efficiency Network was held at H-GAC on Thursday, June 30. The presentation was on smart meters, which are able to record and store a great deal of information on the water use of individual customers, and a software that helps MUD's and cities share that information with the rate payer, thus increasing their awareness.
- 3) Briefing on public outreach activities – James Ridgway
Mr. Ridgway briefed the board. He stated social media analytics illustrate continued outreach growth online. Ridgway also discussed the District-sponsored Minecraft Water Challenge contest, stating that the initiative has had some good momentum via area media coverage. Currently, Mr. Ridgway said he is communicating with a representative from Microsoft, owners of Minecraft, who have expressed interest in potentially sponsoring a winners' celebration.

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

- 1) Brief the Board on the Committee's activities since the last regular Board meeting – Director Stinson noted there had not been a meeting of the committee since the last board meeting nor had any meetings been scheduled.

D. Policy and Personnel Development Committee – Richard J. Tramm, Chair

- 1) Brief the Board on the Committee’s activities- President Tramm noted there had not been a meeting of the committee since the last board meeting but that there was a meeting scheduled for July 20th at 10:00 AM to review and consider possible revisions to policies of the District.

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

- 1) Brief the Board on the Committee’s Activities – Director Wood briefed the Board on the budget workshop meeting held on June 29, 2016 to review and discuss the five year budget forecast prepared by District staff.
- 2) Review of monthly financial reports – Director Wood reported an actual month net income for June 2016 of \$105,305 and was over budgeted month net income by \$52,948. Year to date actual net income is \$169,795, with year to date budgeted net loss at (\$251,232). Over budget by \$423,106.
- 3) Review 2nd Quarterly Investment Report 2016-Director Stinson advised the board that the 2nd quarterly investment report is included in the board packet.
- 4) Discussion, consideration and possible action to approve proposed amendments to the 2016 FY operating budget – Resolution #16-002. Ms. Jones commented both the Budget and Finance Development and Water Awareness and Conservation committees had meet several times to discuss and review proposed budget amendments to reduce the 2016 budget. Ms. Jones referenced the itemized reductions in expenses totalling \$116,250.82 and \$100,000 in reserve funds as the proposed amendments being recommended to amend and reduce the 2016 FY operating budget.. Without further discussion, upon a motion by Director Stinson, seconded by Director Moffatt and unanimously carried, the Board approved Resolution #16-002 adopting the amendments to 2016 FY operating budget as recommended by the Budget and Finance Development Committee. *Copy of the approved resolution is attached hereto as Exhibit “B”.*
- 5) Discussion budget forecast and water use fee structure – Kay Martin
District bookkeeper Kay Martin presented a summary of the permits issued by the District with a comparison of water use fees charged in 2016 versus fees charged in 2015. Ms. Martin noted that while the permittee base for both years remained the same, permit allocations for 2016 differed dramatically in comparison to 2015 due to the groundwater reduction regulations in effect for 2016. Effective 2016, water use fees for all large value groundwater users in the Gulf Coast Aquifers are based on 70% of the Total Qualifying Demand (TQD); resulting in the Initial Conservation Obligation (ICO) and 30% decline in revenues of \$561,126 compared 2015 revenues.

Ms. Martin further discussed the methodology used to compute the projected permit allocations for the next five years. In coordination with permitting and the District's engineer, each joint and individual Groundwater Reduction Plan (GRP) was reviewed to estimate projected future water needs for 2017 to 2021 as the basis for the forecasted revenue as shown below:

<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
21,192,659	25,506,667	26,291,703	27,106,844	27,894,049	26,682,401

Projected expenses for the same planning period were forecast based on the following:

- a. Operating and maintenance expenses were based on a historical average of 2011 to 2015 operating and maintenance expenses;
- b. Projected 5% increase annually for Education/Public Awareness expenses;
- c. Projected a 5% annual increase to Personnel/Employee Benefits;
- d. Legal expenses were projected at \$400,000 for 2017, with a reduced projection of \$150,000 beginning in 2018 through 2021; and
- e. Program expenses for the planning forecast remained constant based on 2016 budget numbers.

Using these projections, several scenarios were developed to forecast the financial future of the District. The first scenario discussed was no change to the current \$.06 per 1,000. This resulted in the District depleting its cash in 2017; with a projected deficit of (\$1,112,301) by 2021. Following further discussion, a projected rate increase of one and one-half cents was discussed for 2017 with a continued increase of one-half a cent for years 2018 thru 2020 while remaining constant beginning 2021. Revenue scenarios based on these projections were discussed as well.

Directors Stinson and Wood both commented that this is a planning forecast and the intention is to review annually. Director Wood noted that revenue forecasts were developed predominately utilizing LVGU permitted numbers and designed to be reviewed annually. Director Weisinger expressed concern that the fee increase is a burden to the community and asked legal counsel if other water use fee structures might possibly be an option. In conclusion, the Board asked that the Budget and Finance Development Committee to review additional rate scenario options and bring additional recommendations it might have back to the Board in sixty (60) days for further consideration.

- 6) Consider and act on Resolution #16-007 authorizing water use fee rate schedule for 2017 – Following the discussion, upon a motion by Director Wood, seconded by Director Stinson, with Directors Bleyl, McCoy, and Weisinger voting nay, the Board approved Resolution #16-007 adopting the water use fee schedule for 2017. *Copy of the approved resolution is attached hereto as Exhibit "C".*
- 7) Discuss, consider, and possible action regarding approval of Resolution amending authorized representatives for Texas Local Government Investment Pool (TexPool) - This

resolution is an update to amend and designate Authorized Representatives. Following discussion, Director Houston motioned and Director Hope seconded the motion and unanimously carried to approve.

F. Findings and Review Committee – Rick Moffatt, Chair

- 1) Brief the Board on the Committee’s activities since the last regular Board meeting - Director Moffatt reported that the Findings and Review Committee had not held a meeting since the last board meeting.
- 2) Status Update: update regarding development of a strategic plan evaluating opportunities for additional development of water resources in the District while ensuring long-term viability of the aquifers within the District – John Seifert, LBG Guyton & Associates. Mr. Seifert reported his team is continuing to work on the Task 2 draft report and that relevant comments received from stakeholders will be addressed in the Task 2 report. Seifert added that it was hoped to have a preliminary report of the draft available for internal review by first of August. Once reviewed, it will be presented to the Findings and Review Committee.
- 3) Groundwater Management Area 14 – Update the board on the status of the current desired future conditions development process in GMA 14 – Kathy Turner Jones – Ms. Jones stated that there had not been a meeting since the last board meeting. The planning group is waiting to hear back from the Texas Water Development Board on the administrative completeness status of its desired future conditions explanatory report and other materials required.

Director Weisinger left the meeting at 11:44 AM.

ENGINEERING REPORT:

Mark Lowry, District Consultant, reported that a copy of his report was included in the Board’s packet.

GENERAL MANAGER’S REPORT:

Kathy Turner Jones stated that a copy of this month’s general manager’s report is included in the board packet and that the majority of the items included had previously been discussed in earlier agenda items today. Ms. Jones noted that the District received word last week that Denbury Onshore, LLC had filed a petition against TexCom Gulf Disposal, LLC seeking an order allowing Denbury to take oral and videotaped depositions of corporate representative(s) of TexCom Gulf Disposal LLC to obtain testimony for use in an anticipated suit and to investigate other potential claims. A court hearing was set for June 29th in the 284 Judicial District Court at which time the Court granted the plaintiff’s (Denbury) request to depose the defendant (TexCom). However, the court found the plaintiff’s request overbroad and ordered both parties to agree via Rule 11 on the scope of the deposition. In the event both parties

are unable to agree and/or the deposition has not occurred within 90 days of the hearing, the parties are ordered to return to the court for further instruction.

GENERAL COUNSEL’S REPORT:

Mr. Sledge provided a report to the Board on pertinent legal issues and developments impacting the District since the last regular Board meeting. Mr. Sledge noted that the Board was briefed and updated on issues related to the lawsuit filed by the City of Conroe et al. during the closed executive session in today’s special board meeting. Mr. Sledge noted that the Senate Committee on Agriculture, Water, & Rural Affairs held a hearing on June 20 for invited testimony on its charge to study and make recommendations on improving the process of developing and executing the State Water Plan, and gave a brief summary of the testimony at the hearing. Mr. Sledge further noted that the committee would be holding another hearing on water planning and groundwater management issues on July 25th.

Director Wood left the meeting at 11:51 AM.

PUBLIC COMMENTS:

There were no public comments.

NEW BUSINESS:

No new business was reported.

There being no further business, upon a motion made by Director Wood, and seconded by Director Stinson, the meeting was adjourned at 11:52 AM.

PASSED, APPROVED, AND ADOPTED THIS 9th DAY OF AUGUST 2016.



Rick Moffatt, Board Secretary