

**SONTERRA MUNICIPAL UTILITY DISTRICT
MINUTES OF BOARD OF DIRECTORS' MEETING**

June 20, 2016

THE STATE OF TEXAS §
 §
COUNTY OF WILLIAMSON §

A meeting of the Board of Directors of Sonterra Municipal Utility District was held on June 20, 2016, within the boundaries of the District, at 113 Limestone Terrace, Jarrell, Texas. The meeting was open to the public and notice was given as required by the Texas Open Meetings Act. A copy of the Certificate of Posting of the notice is attached as **Exhibit "A"**.

All of the members of the Board were present, as follows:

John Faske	President
David Chandos	Vice President
Michael McCloskey	Secretary
Tom Slowbe	Assistant Secretary
Dale Thornton	Treasurer

Also present at the meeting were Keli Kirkey of Municipal Accounts & Consulting, L.P.; Dennis Hendrix of Crossroads Utility Services ("Crossroads"); Jason Jones of Jones-Heroy & Associates; Andy Bilger of Vecendario Management, LLC; Bob West of West Davis and Company; Jennifer Glaess and Mike Fisher of Pape Dawson Engineering ("Pape Dawson"); Garry Kimball of Specialized Public Finance; and Sue Brooks Littlefield of Armbrust & Brown, PLLC.

Director Faske called the meeting to order at 6:00 p.m. After the Pledge of Allegiance, Director Faske inquired if there were any citizens communications or Board member announcements. There were no citizens communications. Director McCloskey stated that he had several items on the agenda under Board member announcements and explained that he would first like to discuss several items relating to meeting conduct and meeting times. He stated that, while he was campaigning, he had many requests from residents for a change to a later meeting time. Director McCloskey then moved that the Board meeting time be changed to 7:00 p.m. Director Faske seconded the motion for purposes of discussion. Director Faske then inquired how such a change would affect the District's consultants and potentially charges from the consultants. The consultants present at the meeting all indicated a change in the meeting time would be acceptable. Ms. Littlefield suggested that, if the purpose of the change was to determine if a later time it would increase resident participation at the meetings, the Board consider changing the meeting time on a trial basis. Director McCloskey stated that it was important to notify residents of the change in the meeting time and suggested that this be done via email. Mr. Bilger indicated that the District did not have email addresses for all residents, but noted that the change could be publicized by including a notice in the District's utility bills. Director Slowbe stated that he was not a big proponent of a later meeting time, since it would cause the meetings to go very late. Director Thornton inquired about the latest Board meeting time that Ms. Littlefield was aware of and she responded that the latest time that one of her district boards met was at 6:30 p.m. Director Thornton then suggested trying a 6:30 p.m. meeting time on a trial basis, noting that the Board had encouraged residents to come and there had been little participation, but he was willing to try it and see if it increased participation. Director McCloskey then amended his motion to change the meeting time to 6:30 p.m. on a trial

basis as discussed. Upon second by Director Slowbe, the motion was unanimously adopted. Director McCloskey then stated that he attended a lot of public meetings and one of the things that was unique in Texas was saying the pledge to the Texas flag. He proposed adding this to the agenda. The Board concurred and directed Ms. Littlefield to do so. Director McCloskey stated that he had the same question about including an invocation on the meeting agenda. The Board concurred that, if Director McCloskey wished to provide an invocation, he was welcome to do so, and directed Ms. Littlefield to add an invocation to the agenda. Director McCloskey then stated that he understood that the agenda either needed to be posted at the County Courthouse or on the District's website. Ms. Littlefield confirmed that the agenda was posted at the Courthouse but stated that she could also post it on the website if the Board wished. Director McCloskey stated that he had also learned at the CASE conference that the website needed to be ADA compliant. Mr. Bilger agreed to contact the website administrator, Robin Campbell, to discuss the question with him. Director McCloskey then stated that he wanted the Board to consider putting the meeting on film to make the proceedings available after the fact. The other Directors expressed concern about increased costs as well as the need to maintain additional records. Director McCloskey then recommended that the District purchase Director business cards and name tags. He stated that this was inexpensive. Mr. Bilger stated that this had been done in the past and agreed that having name tags and business cards was helpful when a Director was present at a public event. The Board agreed that, if Director McCloskey wished to have these, the District would purchase them for him. Mr. Bilger stated that the District had a logo that could be used on the cards.

Director Faske then stated that the Board would consider approving updated account resolutions for the District's bank accounts. Ms. Littlefield explained that, originally, Director McCloskey had not wished to be a signatory on the District's bank accounts due to an identity theft problem, but that his problem had been resolved and he now wished to be included. She reminded the Board that, because Director McCloskey had not been on the signatory list, the Board had added Mr. Bilger as a third signer if necessary. She then presented the Resolutions Regarding Operating Account and Capital Projects attached as **Exhibit "B"**; the Resolutions Regarding Lock Box Clearing Account attached as **Exhibit "C"** and the Resolutions Regarding Park and Pool Account attached as **Exhibit "D"**. After discussion, upon motion by Director McCloskey and second by Director Thornton, the Board voted unanimously to approve the revised Resolutions and confirmed that Mr. Bilger should continue to be on the accounts as a third signatory.

Director Faske stated that the Board would next consider approving the minutes of the May 16, 2016 and the May 18, 2016 Board meetings. Upon motion by Director Slowbe and second by Director Thornton, the Board voted unanimously to approve the minutes.

Director Faske then stated that the Board would receive the operator's report and recognized Mr. Hendrix. He presented his report, attached as **Exhibit "E"**, and advised the Board that the District currently had 1,161 occupied single-family residences and total of 1,491 connections, as well as an estimated population of 3,500. He stated that the District had experienced a 0.20% water gain for the month of April after several months of large losses which he attributed to meter reading issues and noted that this loss report was getting back to where the District needed to be. He called the Board's attention to the well report, noting that it was excellent. Mr. Hendrix then stated that he had two write-offs to present, attached as **Exhibit "F"**, and explained that one was an in-District move so the write-off was unnecessary and one had been approved administratively under the Board's previous authorization. Mr. Hendrix then reported that the District's fluoride levels slightly exceeded the required parameters and so the District was required to include a notice in the District's consumer confidence report. He

added that fluoride naturally occurred in the well water in the District's system. Mr. Bilger stated that, once the District started mixing in Lake Granger water, the fluoride levels would decrease. Mr. Hendrix then noted that he had been directed to get an additional bid on the generator plugs and had obtain another proposal for the work for \$18,000 versus the prior low bid of \$23,000, and so had authorized the additional proposer, EBT Concepts, to do this work.

Director Faske then stated that the Board would receive the bookkeeper's report and recognized Ms. Kirkley. Ms. Kirkley reviewed the check register included in her report, attached as **Exhibit "G"**, and the supplemental check register attached as **Exhibit "H"**. She recommended that all of the payments be approved as presented. She also called the Board's attention to the check register for the District's Capital Projects Funds, attached as **Exhibit "I"**, and noted that one payment had been made from the fund to Pape Dawson. She reported that the District was 98.7% collected on its taxes. Upon motion by Director Chandos and second by Director Thornton, the Board voted unanimously to approve the payments as presented.

Director Faske stated that the Board would next receive the manager's report and recognized Mr. Bilger. Mr. Bilger advised the Board that he had bound insurance to cover the District's generator, with a \$1,000 deductible. He then reported that the District had had an active month from a development perspective, noting that an additional 75 lots in Section 7A were being developed for DR Horton Homes and Lennar Homes, which were about 96% completed. He stated that, in Section 10, also for Lennar Homes, across from the apartments, the utilities were complete. He also reported that Section 8J was complete, pending some final paperwork. Mr. Bilger stated that there had been a couple of problems at the pool and explained that a resident had notified the District that the basketball goals next to his home had created a problem due to noise, lights and trespassers and so he had the goals moved to the other side of the parking lot. He added that the resident's dog had bitten a trespasser and the dog was currently in quarantine. Mr. Bilger noted that there had been kids out at the basketball goals until 1:00 a.m. or 2:00 a.m. and so he wasn't sure that moving the basketball goals alone would be a sufficient solution. He stated that the goals attracted the neighborhood kids during the day, but possibly attracted a different clientele at night. Ms. Littlefield suggested posting a curfew. Director Slowbe stated that he also wanted to discuss getting additional security patrols. The Board requested that Ms. Littlefield add an agenda item to the Board's next meeting agenda to discuss imposing a curfew and adding additional security.

Mr. Bilger then stated that the Homeowner's Association ("HOA") usually did an annual project with any extra HOA funds and explained that the HOA had discussed adding sidewalk adjacent to the frontage road towards McDonalds as a lot of people walked on the frontage road. He stated that the HOA had asked for the Board's input on this, and noted that he was in the process of getting bids for replacing the sidewalk. Director McCloskey stated that this was a big topic for the residents he spoken to during the campaign, noting that people wanted sidewalks and that he would like to look at 313 frontage as well. The Board supported the concept. Mr. Bilger stated that, with this input, he would move forward with the project. Director Faske asked if the Board could see a rough plan and Mr. Bilger stated that he could provide one. Director Faske then asked who would maintain the sidewalks. Mr. Bilger stated that the HOA could provide the construction funds, but did not have the ability to provide continued maintenance. Ms. Littlefield stated that, if sidewalks were constructed in the road right-of-way, it would require a license agreement which would probably provide for insurance and maintenance. She agreed to add negotiating a license agreement to the Board's next meeting agenda. Mr. Bilger noted that sidewalks were under construction at the park, that irrigation and trees would be finalized the next week, and that the park should look finished in the next two weeks. He encouraged the Board members to look at the park improvements. He also reported

that all school busses would be moved to the front of school the next year and parent loading would be moved to 313, which would improve traffic flow and neighborhood safety. Director Slowbe inquired about the size of the park and Mr. Bilger reviewed parcels and explained their connection by sidewalks and a proposed bridge, which he explained would improve the ability of students to walk to school.

Director Faske then requested an update regarding the Lone Star Regional Water Authority (the "LSRWA"). Mr. Bilger introduced Mike Fisher, one of the District's Board members on the LSRWA. Mr. Fisher reported that he and Ken Heroy participated on the LSRWA Board on the District's behalf. He explained that there was an upcoming planning meeting and asked the Board members to provide him with any input. He noted that the District was a member of the LSRWA, which had been created in 2011 to do water projects in Williamson County. He stated that the original members included the District and CLL Municipal Utility District ("CLL"), that the City of Jarrell and Williamson County had become members, and that recently CLL had withdrawn as a member. He explained that each member had the right to appoint two directors, but, once the membership was more than five, representation could be reduced to one director per member. He stated that, to date, LSRWA had done three projects, one being a project with Jarrell for water supply, one being the Sonterra elevated storage tank, and the big project being the regional transmission line. He stated that these projects had been funded through revenue pledges of the membership entities. Mr. Bilger stated that there were two project budgets plus administrative costs that were contributed to by each member on a quarterly basis. Mr. Fisher noted that, the next month, a vision workshop would be held to review the three initial projects, to discuss any proposed future projects, and also to discuss how the LSRWA would like to market the LSRWA as a funding entity for other entities around the State. Mr. Fisher also requested Board feedback on the preferred size of the LSRWA and whether the Board would like to expand it or keep it small. He stated that a big part of his work was to review budgets and keep everyone accountable. Director Faske stated that he felt it was important to recover operating costs and to include those in the next project. Director McCloskey inquired who the District's directors on the LSRWA were and Director Faske responded that both of the District's directors were engineers. Mr. Bilger stated that the LSRWA had issued \$35 Million in bonds and the primary goal was to have a water authority that could serve as a funding source throughout the State. He added that, during the last legislative session, the LSRWA had received authority to issue wastewater and drainage funding in addition to funding water projects. Mr. Bilger stated that the LSRWA had been very localized, but that it had the ability to fund other projects and could generate origination fees to supplement the costs of the founding members. He stated that the goal was to avoid continuing cash calls to the members, which really required financing other projects. He noted that bringing in more members would dilute the District's control. Mr. Bilger added that there were two different ways of having the LSRWA be more self-sufficient. Director Slowbe inquired about the types of projects that could be funded and Mr. Bilger responded that they could be any public project. Director McCloskey stated that, if there were additional members, this would provide an additional funding source. Mr. Bilger agreed that this was an option, as was funding additional projects and collecting related fees. Director Faske asked if all of the members had voted in favor of CLL's withdrawing, as he felt there was a tipping point to have enough members to cover operations costs to the members. Mr. Fisher agreed, noting that there was also an optimum size for a board to operate efficiently. Director McCloskey inquired what was required to recruit additional members. Mr. Fisher stated that, in the past, entities that had a need in their communities for water projects had wished to be members. Mr. Bilger stated that the City of Georgetown and Jarrell-Schwertner Water Supply Corporation had expressed an interest in becoming members. Mr. Fisher stated that, in the past, there had been no LSRWA fees charged for a project, but, now that LSRWA had a resume and could show that it

could do these projects, it could generate funds to support operations through fees. Mr. Bilger stated that the District was now pressing the LSRWA to decide on its direction and become a self-sufficient entity. Director McCloskey stated that he appreciated the report. Director Thornton stated that, even though times were good right now, he felt it would be positive to get the involvement of additional, non-voting members as long as the LSRWA board didn't become too difficult to manage. Mr. Bilger stated that he didn't feel entities would be willing to pay to be a non-voting member, which was why he felt origination fees would be a good funding source. Director Slowbe stated that, if this was one of few organizations with these powers, then it should be marketed throughout the State. Director McCloskey stated that he felt there should be a commonality of interest between the members.

Director Faske then announced that he needed to leave the meeting shortly due to another commitment. Director McCloskey noted that he would not be present at the July Board meeting and requested that all documents requiring his signature use "Michael" and not "Mike".

Mr. Bilger then reported that the District had excess water capacity and had received an expression of interest from an entity that would like to have use of the water for a minimum of ten years and would cover the District's costs of the capacity although not necessarily provide a profit. Mr. Bilger noted that he would like to be able to sign a letter of intent that the District would be willing to consider doing this. The Board discussed the required Form 1295 and the need to be sure that the letter of intent included all provisions necessary to assure that it was not binding. Director Faske inquired what the downside of doing this would be and Mr. Bilger responded that there was no current anticipated need for the excess capacity, but not all uses had been factored in. Director Faske stated that this was what the District wanted to happen when it reserved the extra capacity. Mr. Bilger agreed and estimated that it would likely be a six-month negotiation process. Mr. Jones stated that there were two risks, one being that the District would not want to give up all of its excess capacity and the second being the fact that there was currently no pipeline. He noted that these two things needed to be considered, but the intention was very good because there was a lot of available capacity.

At this time, Director Faske left the meeting.

Director McCloskey then asked if the District could dictate the amount of water provided, and Mr. Bilger responded that it was likely that there would be a minimum amount that would have to be provided for it to be cost-effective due to the capital costs of transporting the water. He also noted that there was an option for this entity to go directly to the supplier. Upon motion by Director Slowbe and second by McCloskey, the Board voted unanimously to authorize Mr. Bilger to negotiate and execute a letter of intent with the disclaimers indicated, subject to delivery of the required Form 1295.

Director Chandos then stated that the Board would discuss the District's Bond Application No. 6. Mr. Kimball addressed the Board and called its attention to the proforma attached as **Exhibit "J"**. He explained he was the District's financial advisor and noted that the District financed facilities through the issuance of bonds and that the first step was an application to the Texas Commission on Environmental Quality ("TCEQ"), which reviewed the application and evaluated the feasibility of the issuance. He explained that TCEQ's approval was necessary in order to proceed. Mr. Kimball noted that the bond proforma was one of the pieces of information that was provided to TCEQ, and explained that the District would be able to support the debt service on this proposed additional debt with no additional growth in its tax base and no increase in its debt service tax. He stated that "no growth" was the most conservative approach and also reported that the Appraisal District had estimated that, mid-year, the District had a little over \$4 Million more than the \$220 Million in value he had

projected. He noted that this assessed value would support an additional \$5.9 Million in debt. Mr. Kimball also pointed out that the District was a rated entity and explained that investment grade debt was selling in mid to low 3percents at this time. Director McCloskey asked if there was a projected future growth rate and Mr. Jones responded that during the last few years, the District had had a pretty impressive growth rate, noting that it had more than doubled in appraised value over this period. Director Thornton stated that more than 200 permits a year were issued. Mr. Bilger stated that the projection going forward was 180 to 200 homes per year. Director Thornton stated that the market was now more in favor of the developer than in the past. Mr. Jones stated that there were well over 100 lots ready for homes that were not included in this valuation. Mr. Bilger stated that the estimated value was based on a snapshot as of June 1st. Mr. Kimball agreed that this was the most conservative approach, based on no growth and no increase in tax rate. He explained that the District was at the beginning of the bond process and that this sale would help reduce developer interest and amortize the cost of facilities over a longer period. He also pointed out that there were historically low interest rates in the tax exempt bond market. Mr. Jones then presented the Resolution Authorizing Application to the Texas Commission on Environmental Quality for Approval of Project and Bonds attached as **Exhibit “K”** and explained that he was requesting authorization to submit an application in an amount not to exceed \$5.9 Million. Director Thornton moved approval of the Resolution for an amount not to exceed \$5.9 Million in bonds. Director Slowbe seconded the motion, which was unanimously adopted.

Mr. Kimball then explained that his firm was regulated by the Securities and Exchange Commission (“**SEC**”) and that the SEC was in the process of generating hundreds of pages of new rules, and that one of these rules was a requirement that all SEC-regulated firms disclose any potential conflicts of interest. He presented the disclosure statement attached as **Exhibit “L”**. He stated that nine of the 11 listed by the SEC were not applicable, but two of them were, including the form of compensation, which he noted was paid to his firm based on a percentage of the amount of the bonds. He explained that any type of compensation needed to be disclosed under the new rules. He stated that the other potential conflict required disclosure of any related entities and explained that his firm also provided advice to LSRWA and so he needed to disclose that. Mr. Kimball noted that no Board action was required.

Mr. Jones then presented the Street and Utility Construction Agreements attached as **Exhibits “M”** and **“N”**, noting that the District currently did not have any 100% complete projects, but there was an advantage to submitting the application as soon as possible so the District could attempt to close before the presidential election. He noted that this required a contract that would allow the District to hold back funds representing the incomplete projects. Upon motion by Director Thornton and second by Director Chandos the Board voted unanimously to approve the Street and Utility Construction Agreements for Sections 7A, Phase 2A, Section 8J, Phases 1-3, and Section 10A and any related hold-back or escrow agreements required to proceed with the application.

Director Chandos then recognized Mr. West, who presented the engagement letter with West, Davis & Company for a report on reimbursable costs related to the 2016 bonds attached as **Exhibit “O”** and explained that his firm had been the District’s auditor for about the last five years and that, as part of the bond reimbursement process, the District would want its auditor to review the developer’s records to ensure that the developer was not reimbursed more than was appropriate. He stated that TCEQ required that this be done. He noted that this was not a full audit, but an agreed procedures report. Mr. West stated that the procedures were outlined in his engagement letter. Director Chandos stated that the fee appeared comparable to that for the last issue. Mr. West stated that he was hopeful that it would be less, and reviewed some of the

factors that affected the amount of effort required. After discussion, upon motion by Director McCloskey and second by Director Slowbe, the Board voted unanimously to approve the engagement letter.

Director Chandos then stated that the Board would receive the engineer's report and recognized Mr. Jones. Mr. Jones reviewed his report, attached as **Exhibit "P"**, noting that the general services item included in his report summarized his activities between the Board meetings. He then recognized Ms. Glaess to present the bids for the new well. Ms. Glaess stated that she had received two bids for the well project and called the Board's attention to the bid summary and recommendation attached as **Exhibit "Q"**. She noted that the low bidder was HydroResources and added that she was pleased with their bid. Ms. Glaess noted that there were a lot of unknowns, because the District planned to drill a couple of test wells and convert one of them to a permanent well. Director McCloskey inquired why there was such a difference in the bids, and Ms. Glaess explained the factors that she believed affected the bids. She stated that the low bidder was confident that it had the expertise to meet the project requirements. Mr. Bilger stated that the low bid was in line with the amount paid for the last couple of similar projects. He stated that the low bidder was a national company and that, although there was a possibility that the price would increase due to anticipated change orders, he was comfortable based on his experience with Whisenett-Bible, the predecessor company that had been acquired by HydroResources. Director Thornton inquired about protection of the District from cost overruns and Ms. Glaess explained that there were unit prices for all anticipated changes. She noted that the bid amount anticipated that there would be two test wells and one permanent well, for \$244,340. She stated that she did not anticipate any change orders. Director Chandos inquired which aquifer was being tapped and Mr. Bilger responded that it would be the Edwards Aquifer and that this well would be south of the existing wells, north of 314. He stated that the goal was to locate in an area with lower fluoride. Director Thornton moved approval of award of the contract to the low bidder as recommended. Upon second by Director Chandos, the motion was unanimously adopted. Mr. Bilger noted that typically the Board voted on change orders after the fact, unless there were some extremely unanticipated circumstances. The Board then discussed differences in developer projects and District projects and how change orders would be handled as a result.

Director Chandos then stated that the Board would receive a GIS update. Mr. Jones stated that a copy of the GIS maps would be in Crossroads' office and a copy in the engineer's offices. He stated that it was possible to put the maps online, but this would require a specific site and require updating. Mr. Jones then reported that construction activity was ongoing in Section 8J, Phase 4; Section 7A, Phase 2B; and Section 10A, Phase 2. He then presented Pay Estimates No. 12, 13 and 14, in the amounts of \$145,937.53, \$12,330.67, and \$34,676.44, respectively, and Change Order No. 4 in the amount of \$855.32 for repair of a broken valve cover repair for Sonterra West Section 7A, Phase 2A attached as **Exhibits "R" through "U"**, respectively. He explained that Pay Estimate No. 14 represented a partial release of retainage, and recommended approval of the Pay Estimates and Change Order. He then presented Change Orders No. 1, 2 and 3 in the amounts of \$6,531.17, \$49,950 and \$700 for Section 7A, Phase 2A, attached as **Exhibits "V" through "X"**, respectively, and recommended approval. Mr. Jones then presented Pay Estimate No. 4, in the amount of \$263,438.31 and Change Order No. 1 for Section 7A, Phase 2B, attached as **Exhibits "Y" and "Z"**, and recommended approval. After discussion, upon motion by Director McCloskey and second by Director Chandos, the Board voted unanimously to approve the Pay Estimates and Change Orders as presented.

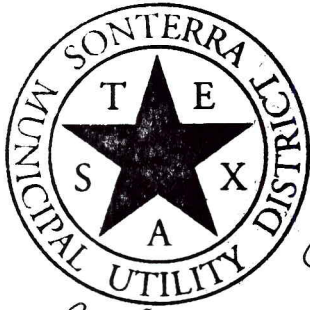
Mr. Jones reported that the apartments had installed a wastewater line that would be turned over to the District and that it had passed all testing, but needed an agreement for the

District to maintain it. The Board directed Ms. Littlefield to work with Mr. Jones on any necessary conveyance document or easement.

Director Chandos stated that the Board would next receive the attorney's report and recognized Ms. Littlefield. Ms. Littlefield presented the Resolution Adopting Amended District Code of Ethics and Financial Investment, Travel and Professional Services Policy, Amended Investment Strategies and Amended List of Qualified Brokers attached as **Exhibit "AA"** noting that the District's current policies were out of date and she and Ms. Kirkley recommended these new policies be adopted. Upon motion by Director Slowbe and second by Director Chandos, the Board voted unanimously to approve the Resolution.

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

(SEAL)



Tom Slowbe, Assistant Secretary
Board of Directors

Date: 7-18-16