

MINUTES OF THE BOARD OF DIRECTORS

September 1, 2016

The Board of Directors (the "Board") of Bilma Public Utility District (the "District") of Harris County, Texas, met in regular session, open to the public, at the Spring Creek Oaks Clubhouse II, 6002 Bur Oak, Spring, Texas 77379, on Thursday, September 1, 2016, at 5:00 p.m.; whereupon, the roll was called of the members of the Board, to-wit:

H. Mark Stoebner	President
Dennis E. Winkler	Vice President
F. Anthony Musgrave	Secretary
Cynthia D. Day	Assistant Secretary
Steve Hoffmann	Director

All members of the Board were present, thus constituting a quorum. Also attending the meeting were: Mr. Dayne Burson of Accurate Meter & Supply ("Accurate Meter"); Ms. Julie Williams of Rathmann & Associates, L.P., financial advisor for the District; Mr. Jerrell Wolff of Residential Recycling & Refuse of Texas ("RRRT"); Ms. Christina Cole of Myrtle Cruz, Inc. ("MCI"), bookkeepers for the District; Ms. Robin Secrest of Hays Utility South Corporation ("Hays"), operators for the District; Ms. Sara Ahlschlager of Wheeler & Associates, Inc., tax assessor/collector for the District; Messrs. Ed Shackelford, P.E. and Justin Abshire, P.E., of Jones Carter Inc. ("Jones Carter"), engineers for the District; Mr. Ron Brooks of Chesmar Homes, developer of the Country Lake Estates Village (the "CLEV"), Sections 1 and 2; and Ms. Robin S. Bobbitt and Mr. Joshua Ellery, of Radcliffe Bobbitt Adams Polley PLLC ("RBAP"), attorneys for the District.

Whereupon, the meeting was called to order and evidence was presented that public notice of the meeting had been given in compliance with the law. The posted notices of the meeting are attached hereto.

TRASH PICK-UP ISSUES

Director Stoebner noted that RRRT missed picking up trash on several streets in Country Lakes Estates ("CLE") on Monday, August 29, 2016, and returned on Tuesday, August 30th, but still missed picking up on two (2) streets that were missed on Monday. Director Stoebner stated that Mr. Wolff will attend tonight's meeting to discuss how the issue was resolved.

CONSENT AGENDA

Director Stoebner then reviewed with the Board the items reflected on the Consent Agenda. Director Stoebner explained that this portion of the agenda deals with routine matters of the Board, and that no separate discussion of such items will occur unless a Board member or a member of the public requests that an item be moved to the regular portion of the agenda.

Mr. Abshire noted that there were no pay estimates or change orders for the Board's approval.

Upon motion by Director Winkler, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted four (4) votes in favor, with Director Musgrave abstaining, to approve the minutes of the regular meeting of August 4, 2016.

REGULAR AGENDA

REVIEW SERVICE/ANNEXATION FEASIBILITY STUDY FOR AHMED REALTY I FOR A 1.024-ACRE COMMERCIAL TRACT (THE "AHMED TRACT")

Mr. Abshire first informed the Board that the Ahmed Tract is located at 19234 Kuykendahl Road at Spring Cypress Road, outside the boundaries of the District. Mr. Abshire next reviewed the feasibility study prepared for such proposed development, a copy of which is attached hereto.

Mr. Abshire explained that the owner intends to develop the Tract as a commercial retail shopping center. Mr. Abshire noted that the owner would be responsible for extending the water, sanitary sewer and drainage facilities to the Ahmed Tract and that such facilities would be eligible for reimbursement under the rules of the Texas Commission on Environmental Quality.

Mr. Abshire went on to explain that the owner has requested approximately 2,667 gallons per day ("GPD") average daily flow of water capacity and noted that the District currently has adequate water supply to serve the Ahmed Tract. Mr. Abshire added that the owner would be responsible for extending the current 12-inch (12") water line 610 linear feet north to the Ahmed Tract and for acquiring the necessary 10-foot (10') water line easement along the western boundary of the four (4) tracts immediately south of the Ahmed Tract.

Ms. Williams then entered the meeting at 5:12 p.m.

Concerning sanitary sewer service to the Ahmed Tract, Mr. Abshire explained that the owner has estimated that he will require 2,500 GPD average daily flow of sanitary sewer capacity for the development. Mr. Abshire stated that the District currently has adequate sanitary sewer capacity to serve the development, but that the owner will be responsible for extending a public sanitary sewer line approximately 610 feet north to the proposed development. Mr. Abshire added that the owner will be also required to dedicate a 15-foot (15') wide sanitary sewer easement to the District.

Mr. Abshire next explained that the assessed valuation of the proposed development is estimated to be \$3,000,000 and would produce tax revenue of \$12,825 per year based on the District's current \$0.40 per \$100 debt service tax rate. Mr. Abshire added that based on the financial feasibility analysis, the development would be 36% reimbursable.

Mr. Abshire went on to report that the project construction cost would be \$316,000, plus \$74,000 in estimated easement cost, plus \$98,000 in non-construction costs for an estimated total cost of \$488,000.

In addition to the cost to extend public facilities to serve the Ahmed Tract, Mr. Abshire explained that the owner will be responsible for all costs and fees associated with the annexation the Ahmed Tract into the District (approximately \$10,000).

Mr. Abshire then reviewed a map of the District and other potential annexation tracts in the surrounding area, a copy of which map is attached hereto.

Director Stoebner then suggested that the engineers work to identify the owners of the four (4) tracts located south of the Ahmed Tract to ascertain whether they are interested in participating in the costs to extend the utilities that will be needed to serve the Ahmed Tract and thereby obtain water and wastewater service from the District. Upon motion by Director Hoffmann, seconded by Director Musgrave, after full discussion and the question being put to the Board, the Board voted unanimously to approve the feasibility study, and to authorize Jones Carter to reach out to the owners of the four (4) tracts located along Kuykendahl Road adjacent to the Ahmed Tract to determine if they are interested in participating in the utility extension project.

REGULAR AGENDA

DEVELOPER'S REPORT

Mr. Brooks then reported that the average sales price of homes in CLEV is \$308,000. Mr. Brooks stated that during the prior month, there were two (2) home starts in CLEV, Section 2, for a total of 51 starts, 43 homes sold and 26 closings. Mr. Brooks noted that his contractor continues to work on the detention ponds in CLEV and stated that all of the CLEV lots have been developed.

BOOKKEEPER'S REPORT

Ms. Cole next reviewed the Bookkeeper's Report with the Board, a copy of which is attached hereto, including the revenues and expenses of the District, the budget comparison for three (3) months and the investment report for the month.

Upon motion by Director Winkler, seconded by Director Hoffmann, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Bookkeeper's Report, the checks presented for payment and the investment report.

ADOPT ORDER REGARDING ANNUAL REVIEW OF RULES, POLICIES, CODE OF ETHICS AND LIST OF AUTHORIZED BROKERS FOR THE INVESTMENT OF DISTRICT FUNDS (THE "ORDER")

Ms. Bobbitt then explained that the Public Funds Investment Act (the "Act"), as amended, requires the Board to review the District's investment policy on an annual basis and presented the Order for the Board's consideration and adoption. Ms. Bobbitt noted that the list of approved financial institutions/brokers has been updated by MCI.

Upon motion by Director Winkler, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted unanimously to adopt such Order, a copy of which is attached hereto.

DISCUSS AMENDING SECTION 2.08 OF THE DISTRICT'S RATE ORDER REGARDING THE COST OF IRRIGATION CONNECTIONS FOR PUBLIC SPACE USERS

Ms. Bobbitt then reviewed a redlined revision of Section 2.08 of the District's Rate Order that clarifies that Public Space Users will be charged the actual cost of making an irrigation connection, a copy of which is attached as an exhibit to these minutes. Upon motion by Director Musgrave, seconded by Director Hoffman, after full discussion and the question being put to the Board, the Board voted unanimously to approve the revision and adopt the Amended Rate Order, to be effective immediately.

DISCUSS FINANCIAL ADVISOR'S RECOMMENDATION FOR 2016 TAX RATE, AUTHORIZE PUBLICATION OF EFFECTIVE TAX RATE, AND ESTABLISH PUBLIC HEARING DATE REGARDING 2016 TAX RATE

Ms. Williams then handed out the financial advisor's 2016 Tax Rate recommendation and a combined debt schedule reflecting the District's debt out to 2032, a copy of which is attached hereto. Ms. Williams explained that the 2015 assessed valuation of the District has increased by 8.5% resulting in a total assessed valuation of \$455,575,967. Concerning the District's proposed 2016 tax rate, Ms. Williams first discussed the financial advisor's 2016 Tax Rate recommendation and stated that a debt service tax of \$0.38 per \$100 assessed valuation, and a maintenance tax of \$0.16 per \$100 assessed valuation, for a total tax rate of \$0.54 per \$100 assessed valuation was being recommended. Ms. Williams noted that the District's 2015 tax rate was \$0.56 per \$100 assessed valuation, comprised of \$0.40 for debt service purposes and \$0.16 for operation and maintenance purposes. Ms. Williams then reviewed the District's Rollback Worksheet for the 2016 tax year and noted that the current average appraised value of a homestead residence in the District is \$280,333 compared to \$267,443 in 2015. Ms. Williams went on to explain that the District cannot generate a tax rate that exceeds eight percent (8%) of the average residence homestead, which for 2016 is \$0.576990673 per \$100 assessed valuation without triggering a possible rollback action.

Ms. Williams then reviewed the 2016 Tax Rate Analysis using the District's 2016 assessed valuation of \$455,575,967 (an increase of assessed value of approximately \$25 million over the 2015 assessed valuation) and applying the recommended debt service tax rate of \$0.38 per \$100 assessed valuation.

Ms. Williams next informed the Board that they should consider keeping the 2016 maintenance tax at \$0.16 per \$100 per assessed valuation in order to help to fund the District's Capital Improvement Plan's maintenance/repair items that are scheduled for 2016, which total is approximately \$600,000. Ms. Williams further noted that the proposed 2016 debt service tax rate of \$0.38 per \$100 valuation also accounts for the District potentially making increased debt service payments in 2017 in connection with approximately \$2.75 million of bonds that may be issued by the District in order to reimburse the developer for CLEV eligible utility construction costs.

Director Winkler then asked how a total tax rate of \$0.53 per \$100 assessed value would impact residents' taxes. Ms. Williams responded that the average tax statement would be reduced by \$11.00 with such tax rate. Ms. Williams added that the District currently has an

operating reserve of 116% and that the District's maintenance tax rate could be reduced to \$0.15 without any negative impact.

Director Musgrave then informed the Board that he agrees with the financial advisor's initial recommendations for the proposed 2016 tax rates. Director Winkler commented that residents look at the overall tax statement and wonder why taxes are increasing if assessed values in the District are increasing.

Mr. Shackelford then cautioned the Board that they need to remain mindful of the items in the District's Capital Improvement Plan ("CIP") that have been budgeted. Upon motion by Director Day, seconded by Director Musgrave, after all discussion and the question being put to the Board, the Board voted in favor of authorizing the Tax Assessor/Collector to publish an effective tax rate calculation of \$0.54 per \$100 assessed valuation (comprised of a debt service tax of \$0.38 per \$100 assessed value plus a maintenance tax of \$0.16 per \$100 assessed value), to hold the tax hearing and adopt the 2016 tax rate at Board's next regular meeting scheduled for October 6, 2016.

Mr. Brooks then exited the meeting at 6:14 p.m.

TAX ASSESSOR/COLLECTOR'S REPORT AND DELINQUENT TAX ATTORNEY'S REPORT

Ms. Ahlschlager next reviewed with the Board the Tax Assessor/Collector's Report as of August 31, 2016, a copy of which is attached hereto. Ms. Ahlschlager noted that the District has collected 99.44% of its 2015 taxes to date.

Ms. Ahlschlager then reviewed the Delinquent Tax Attorney's Report, a copy of which is attached hereto. Ms. Ahlschlager noted that the taxpayer for Delinquent Account No. 1165920020020 had not paid their delinquent taxes as of the date of the report and that service to such residence will be terminated if the account has not been paid by today's meeting.

Ms. Ahlschlager next reviewed the Delinquent Account No. 1165920070020 delinquent account and stated that the property owner failed to respond to the notice of termination of service and that the District's delinquent tax attorney had recommended that the account be tagged for termination. Ms. Bobbitt suggested that the delinquent tax attorney try to contact the property owner and propose an installment payment plan for the delinquent taxes.

Concerning the Lotmakers Partnership Ltd, Ms. Ahlschlager noted that the delinquent tax attorney had spoken with Mr. Bob Hudson about setting up an installment plan for the outstanding delinquent taxes.

Upon motion by Director Winkler, seconded by Director Musgrave, after full discussion and the question being put to the Board, the Board to: 1) approve the Tax Assessor/Collector's Report and the checks reflected therein; and 2) authorize Perdue, Brandon, Fielder, Collins & Mott L.L.P. to contact the property owner for Delinquent Tax Account No. 1165920070020 about entering into an installment payment plan for delinquent taxes and authorize termination of service on such account if the property owner has not responded to the notice of termination of service by September 19th.

Ms. Cole and Ms. Ahlschlager then exited the meeting at 6:30 p.m.

REVIEW AND APPROVE ARBITRAGE REBATE AND YIELD RESTRICTION COMPLIANCE REPORT ("ARBITRAGE COMPLIANCE REPORT") PREPARED BY ARBITRAGE COMPLIANCE SPECIALISTS ("ACS")

Ms. Bobbitt then reviewed the Arbitrage Compliance Report and noted that all of the District's outstanding debt has been added to the ACS compliance program. Ms. Bobbitt explained that ACS found the District to be in full compliance with all arbitrage requirements of the Internal Revenue Service and that no payments are owed. Upon motion by Director Winkler, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted unanimously to acknowledge receipt of the Arbitrage Compliance Report, a copy of which is attached hereto and included in the District's files.

PRESENTATION REGARDING BADGER SMART METER SYSTEMS

Mr. Burson then addressed the Board and offered a quick summary of his presentation given at the Board's August meeting regarding the District's possible conversion to smart meter technology. Mr. Burson reviewed the three (3) available options (dependent on the type of smart meter that is used) for a 10 meter four (4) month pilot program in the District and asked if the Board wanted to initiate the pilot program. Director Hoffmann then noted that he did not see any advantage or value in choosing the stainless steel meters in light of the large cost difference.

Mr. Wolff then entered the meeting.

Director Winkler then stated that he would like Hays to provide more detail on the breakdown of costs and possible savings as well as a potential conversion schedule related to the implementation of smart meter technology in the District. Director Winkler added that he also would like to hear about other possible implementation options such as the program that The Woodlands has implemented. The Board concurred to defer implementing the Accurate Meter pilot program at this time.

Mr. Burson thanked the Board and exited the meeting at 7:01 p.m.

GARBAGE PICK-UP ISSUES

Mr. Wolff then addressed the Board and apologized for the missed pick-ups on three (3) streets in CLE and stated that the problem occurred when he reassigned two (2) of the Bilma drivers to Trail of the Lakes Municipal Utility District and brought in replacement drivers that were not familiar with the pick-up route in the District. Mr. Wolff further informed the Board that he has reassigned the former drivers back to the District and will monitor the situation to ensure proper garbage collection in the District.

Mr. Wolff thanked the Board and exited the meeting at 7:06 p.m.

OPERATOR'S REPORT

Ms. Secrest then presented and reviewed the Operator's Report with the Board for the period of July 16, 2016 to August 16, 2016, a copy of which is attached hereto. Ms. Secrest reported that currently there are 1,722 connections in the District. Ms. Secrest further reported that the District's water accountability for the month was 97.61%, that 81 delinquent notices were mailed during the month, and that three (3) accounts were cut off.

Concerning the District's Operations List, Ms. Secrest reported that there were no items over budget during the past month.

Ms. Secrest next reported that one (1) 1-inch (1") meter was scheduled for replacement next month.

Upon motion by Director Day, seconded by Director Winkler, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Operator's Report and authorize the termination of service to the delinquent accounts in accordance with the provisions of the District's Rate Order.

ENGINEER'S REPORT

Mr. Abshire then presented the Engineer's Report, a copy of which is attached hereto.

Mr. Abshire first reviewed the Water Plant Nos. 1 and 2 Inspection Reports regarding the inspections performed on June 17, 2016, a copy of which report is attached hereto. Mr. Abshire reported that Jones Carter had budgeted \$225,000 in the District's 2016 Capital Improvement Plan (the "2016 CIP") for Water Plant Nos. 1 and 2, but that the inspections had revealed only \$73,500 of needed repairs, including touch-up painting for the ground storage tanks, foundation sealant replacement, and a few other minor repairs. Mr. Abshire added that there were no electrical repair items identified during the inspections. Mr. Abshire then recommended that the work on the Water Plants commence after the peak water usage months. Mr. Abshire estimated that the recoating of the hydropneumatic tanks can wait one (1) or two (2) years. Mr. Abshire noted that page 3 of the Inspection Report includes a list of Operator Repair Items that Hays will complete. Mr. Abshire added that he will revise/update the District's CIP for the Board's review at the October meeting.

Mr. Abshire next reported receipt of a service application from Mr. Drew Joiner for water and sanitary sewer service for a proposed Waffle House development to be located on the northeast corner of Sorrel Ridge Drive and Louetta Road within the boundaries of the District and noted that the feasibility deposit will be forthcoming.

Upon motion by Director Winkler, seconded by Director Musgrave, after full discussion and the question being put to the Board, the Board voted unanimously to: 1) approve the Engineer's Report; 2) approve the Water Plant Nos. 1 and 2 Inspection Report; 3) authorize Hays to make the Operator Repair Items listed on page 3 of the Inspection Report; 4) authorize Jones & Carter to request bids for the remaining repair/maintenance items to be done at Water Plant Nos. 1 and 2; and 5) authorize Jones & Carter to proceed with the Waffle House feasibility study, subject to receipt of the \$5,000 feasibility study deposit.

ATTORNEY'S REPORT

DISCUSS AND AUTHORIZE EXECUTION OF NON-EXCLUSIVE LAND USE AGREEMENT BETWEEN THE SPRING CREEK OAKS COMMUNITY IMPROVEMENT ASSOCIATION ("SCOCIA")

Mr. Ellery next reminded the Board that the District entered into a Non-Exclusive Land Use Agreement ("Land Use Agreement") with SCOCIA several years ago to authorize their use of the park use next to the Wastewater Treatment Plant in Spring Creek Oaks subdivision for sports parking and other SCOCIA events such as the annual Fourth of July fireworks display. Mr. Ellery informed the Board that the initial agreement had expired and presented a draft of an updated agreement for the Board's review and approval, a copy of which is attached hereto. Mr. Ellery added he will forward the Land Use Agreement to SCOCIA for approval.

Upon motion by Director Winkler, seconded by Director Musgrave, after full discussion and the question being put to the Board, the Board voted unanimously to approve the proposed updated Land Use Agreement as discussed above and authorize Mr. Ellery to forward the Land Use Agreement to SCOCIA for approval.

MISCELLANEOUS MATTERS

Director Winkler then stated that he knew of three (3) major utility districts that contract with Harris County to collect their taxes. Mr. Winkler asked if the Board should look at the cost paid to Wheeler & Associates to collect the District's taxes and request a cost estimate from Harris County to provide such services. Further discussion ensued. Ms. Williams explained that in her experience, districts that use the county as their tax assessor/collector experience issues with information reporting, including getting the necessary information to maintain the District's continuing disclosure reporting requirements. Mr. Shackelford echoed these same concerns. After a brief discussion, the Board concurred not to take any action at this time with regard to the District's tax collection service.

DISCUSS RECENT HOUSTON CHRONICLE ARTICLE REGARDING UTILITY DISTRICTS

Ms. Bobbitt next explained that *Deep in the MUD* was published on Sunday, August 21, 2016, in the Houston Chronicle as the first in a series of articles about utility districts. Ms. Bobbitt further stated that members of the Legislative Committee of the Association of Water Board Directors –Texas ("AWBD") had responded to the article on August 24, 2016 with *Fixing MUDS*, and followed that by circulating to all AWBD members a letter from Mr. Mike Haney of Brazoria County Municipal Utility District No. 6 published on August 25, 2016. Ms. Bobbitt noted that the AWBD, RBAP, and the Board had circulated such articles, copies of which are attached hereto.

Ms. Williams then reported that Director Winkler had asked her to offer some insight into the concerns voiced in the *Deep in the MUD* article regarding utility district bond debt at tonight's meeting. Ms. Williams then reviewed a District Facts sheet and a copy of the District Overlapping Debt Schedule, copies of which are attached as exhibits to the minutes.

Ms. Secest then exited the meeting at 7:59 p.m.


Director Winkler distributed a copy of Potential Message Points prepared by him regarding the August 21st article in the Houston Chronicle, a copy of which is attached hereto. A brief discussion ensued.

NEXT MEETING

Director Stoebner reminded the Board that the next regular meeting will be held on Thursday, October 6, 2016, at the Spring Creek Oaks Clubhouse II, 6002 Bur Oak, Spring, Texas 77379, at 5:00 p.m.

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

PASSED, APPROVED AND ADOPTED this 6th day of October, 2016.


Secretary, Board of Directors

