

MINUTES OF REGULAR MEETING
MONTGOMERY COUNTY UTILITY DISTRICT NO. 2
MONTGOMERY COUNTY, TEXAS

26 August 2022

THE STATE OF TEXAS §
COUNTY OF MONTGOMERY §

The Board of Directors (the "Board") of Montgomery County Utility District No. 2 (the "District") of Montgomery County, Texas, met in regular session, open to the public at 9:00 a.m. on the 26th day of August 2022, at Municipal Accounts & Consulting, LP, 611 Longmire Road, Suite 1, Conroe, Texas 77304, outside the boundaries of the District, and the roll was called of the duly constituted officers and members of the Board, to-wit:

Kevin Lacy	President
Charles Williams	Vice President
Pam Harton	Treasurer
Roy J. Smith	Secretary and Asst. Vice President
Jon Crenshaw	Asst. Secretary

and all of said persons were present, thus constituting a quorum.

Also present were Shammarie Leon of Bob Leared Interests, Inc. ("Leared"), the District's Tax Assessor/Collector; Sherry Grant, P.E., of AEI Engineering, a Baxter & Woodman Company ("AEI"), the District's Engineer; Jennifer Rowe-Baker of Regional Water Corporation ("Regional"), the District's Operator; Larry Currey of Larson & Weisinger, Attorneys at Law, the District's Delinquent Tax Attorney; Stephen Eustis and Trevor Konopka of Robert W. Baird & Co. Incorporated ("Baird"), the District's Financial Advisor; Michael Others of McCall Gibson Swedlund Barfoot, PLLC ("McCall"), the District's Auditor; and Cole Konopka of Coats Rose, P.C. ("Coats Rose"), the District's Attorney. Attending by videoconference were Dick Yale, Christopher Hsu, and David Green of Coats Rose.

Director Lacy called the meeting to order.

Approval of Minutes

First, the Board considered approval of the minutes of the meeting of 22 July 2022. After review, upon a motion duly made and seconded, the Board voted unanimously to approve the minutes of 22 July 2022, as written.

Tax Assessor/Collector's Report

Next, Ms. Leon reviewed with the Board the Tax Assessor/Collector's Report for the month of July 2022. She reported that the District's 2021 tax levy was 98.3% collected as of 31 July 2022. Ms. Leon requested the Board's approval of one check written on the District's tax account and two transfers by wire as follows: a transfer of \$7,192.23 in revenues from the tax account to the District's General Fund and a transfer of \$10,000 to the Debt Service Fund. She pointed out that the District did not currently have any payment plans for delinquent taxes requested by customers of the District.

After discussion, upon a motion duly made and seconded, the Board voted unanimously to: (1) accept the Tax Assessor/Collector's Report; and (2) authorize the disbursement of the sums from the District's tax account as listed in the Tax Assessor/Collector's Report. A copy of the Tax Assessor/Collector's Report is attached hereto as an exhibit to these minutes.

Resolution Declaring District Development Status

Next, Mr. Konopka informed the Board that pursuant to Section 49.236 of the Texas Water Code as amended by Senate Bill 2 ("SB 2") adopted by the 86th Texas Legislature – Regular Session (2019), the District must determine whether it is a "developed district" or a "developing district" with regard to the Truth-In-Taxation requirements promulgated by SB 2. He stated that the District's Engineer had confirmed that the District was a developing district because to date the District has not yet financed, completed, and issued bonds to pay for all land, works improvements, and appliances necessary to serve at least 95% of the projected build-out of the District. Mr. Konopka submitted for the Board's review and approval a RESOLUTION DECLARING DEVELOPMENT STATUS OF DISTRICT FOR 2022 TAX YEAR (the "Resolution"). He explained that the Resolution states that the Board has declared the District to be a developing district as defined by Section 49.23602 of the Texas Water Code for the 2022 tax year. After discussion, upon a motion duly made and seconded, the Board voted unanimously to adopt the Resolution, a copy of which is attached hereto and shall be considered to be part of these minutes.

Proposed Tax Rate for 2021

Mr. Eustis then reviewed with the Board a letter dated 26 August 2022 from Baird regarding an analysis of the proposed tax rate for 2022. A copy of the letter is attached hereto as an exhibit to these minutes. Mr. Eustis reported that the assessed valuation certified for the District by the Montgomery Central Appraisal District is \$242,284,722 with an additional \$20,284,722 remaining uncertified. He recommended that the Board consider setting a total tax rate of \$0.46 per \$100.00 of assessed valuation for the 2022 tax year. He added that the District could set a total tax rate of as much as \$0.4611 per \$100 of assessed valuation for the 2022 tax year without being subject to a rollback election by the qualified voters in the District. Mr. Eustis then discussed with the Board

the proposed sale of the District's Series 2023 Bonds with regard to the District's projected debt service tax rate in future years.

Mr. Konopka then reviewed the procedures for adopting the 2022 tax rate. He explained that the Board would discuss the proposed tax rate on this date and then Leared would publish the notice of the Board's intention to set the tax rate at least seven days prior to the date the Board would meet to adopt the Order Levying Taxes for 2022.

After discussion, upon a motion duly made and seconded, the Board voted unanimously to authorize publication of the tax rate calculation showing a debt service tax rate of \$0.21 per \$100 of assessed valuation and a maintenance and operations tax rate of \$0.25 per \$100 of assessed valuation, for a combined tax rate of \$0.46 per \$100 of assessed valuation. The Board agreed that the District's public hearing on the 2022 tax rate would be held at the regular Board of Directors meeting on 23 September 2022.

Delinquent Tax Attorney's Report

Mr. Currey presented the Delinquent Tax Attorney's Report as prepared by Larson & Weisinger and discussed the status of the legal action being taken against various delinquent tax accounts. A copy of the Delinquent Tax Attorney's Report is attached hereto as an exhibit to these minutes. He stated that notices had been sent to the delinquent tax accounts. After discussion, upon a motion duly made and seconded, the Board voted unanimously to accept the Delinquent Tax Attorney's Report.

Bookkeeper's Report

Then, Director Harton reviewed the Bookkeeper's Report prepared by Municipal Accounts & Consulting, L.P., the District's Bookkeeper. A copy of the Bookkeeper's Report is attached hereto. Director Harton noted the disbursements for payment at today's meeting as well as the fund balances for each of the accounts maintained by the District. She reviewed the District's Cash Flow Report, the Debt Service Payment Schedule, and a summary of Certificate of Deposit rates available to the District as included in the Bookkeeper's Report.

After review, upon a motion duly made and seconded, the Board voted unanimously to accept the Bookkeeper's Report and to authorize payment of the District's bills.

Audit Report for Fiscal Year Ended 30 April 2022

Mr. Others then submitted the draft of the District's Annual Financial Report for the fiscal year ended 30 April 2022. He reviewed the Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances. He called attention to the adjustments made in the accounting for the funds of the District to develop a Statement of Activities similar to a full accrual accounting for a business.

Mr. Others reviewed supporting data included in the Annual Financial Report, including information required by the Texas Commission on Environmental Quality (the "Commission"). He then summarized activity in each of the funds of the District. He added that there were no problems detected during the course of auditing the books and records of the District, and he added that the opinion from McCall specifies no reservations.

Mr. Others then reminded the Board that the District's consultants made representations to the District that they had provided all of the documentation related to the financial condition of the District. He explained that the Letter of Representations from the District included a statement regarding the District's "material weakness" in having the financial statements prepared by the auditor. He explained the requirements under Statement on Auditing Standards No. 115 ("SAS 115") for a written statement about any "material weaknesses" in the system of internal financial controls in place for the District noted by McCall. Mr. Others emphasized that under SAS 115, he had to issue a management letter noting the weaknesses but that the "material weakness" statement should not affect the District's ability to sell bonds in the future.

The Board then completed the review of the Annual Financial Report for the fiscal year ended 30 April 2022. Upon a motion duly made and seconded, the Board voted unanimously to: (1) approve the Annual Financial Report, pending review by the District's consultants; (2) authorize execution of the Letter of Representations by the Board of Directors; and (3) authorize filing of the Annual Financial Report with the Commission and with other agencies as required. A copy of the Letter of Representations is attached as an exhibit to these minutes.

Review of District's Investment Policy

The Directors then reviewed the District's investment strategies, pursuant to the requirements of the Public Funds Investment Act. The Board reviewed the strategies for each of the District's accounts. The Board also reviewed the List of Authorized Brokers included as Exhibit "A" to the RESOLUTION EVIDENCING REVIEW OF INVESTMENT POLICY AND INVESTMENT STRATEGIES. After discussion, upon a motion duly made and seconded, the Board voted unanimously to adopt the Resolution, a copy of which is attached hereto as an exhibit to these minutes.

Continuing Disclosure

Mr. Konopka reported that the District's consultants would prepare the necessary materials to fulfill the continuing disclosure requirements of the Securities and Exchange Commission ("SEC") pursuant to SEC Rule 15c2-12 prior to the deadline of 30 October 2022.

Engineer's Report

Next, Ms. Grant presented the Engineer's Report, a copy of which is attached hereto as an exhibit to these minutes.

Strategic Plan for the District. Ms. Grant stated that she had nothing new to report at this time regarding the Capital Improvement Plan (the "CIP") or the SWOT Analysis. She noted that AEI was updating the CIP to reflect current projects, project status, and estimated costs.

Storm Sewer Outfall No. 17 / 7299 Kingston Cove Lane. The Board discussed the status of the emergency repairs to Outfall No. 17 (the "Outfall Repairs") being performed by T. Gray Utility/AIMS, LLC (called "AIMS"). Ms. Grant reported that AIMS had completed the cured-in-place pipe lining (the "CIPP Lining") of the 24-inch storm sewer outfall. However, she continued, AIMS informed the District's Engineer that the correct length of the CIPP Line for the entire storm sewer from the manhole to outfall was not ordered, and accordingly AIMS opted for the removal and replacement of the last five to ten feet of the corrugated metal pipe. Ms. Grant stated that AEI is awaiting detailed information on the change proposed by AIMS as well as the pre-television survey of the line. She remarked that AEI visited the site on 25 August 2022 and observed a sinkhole that was developing behind the retaining wall near the new pipe. She continued that AEI requested records for the soil compaction tests for the area that was excavated and backfilled. Once AEI has confirmed that the installation of the CIPP Lining is complete, she told the Board, URETEK ICR Gulf Coast will mobilize and inject polymer to fill the sinkholes that developed at Outfalls Nos. 17 and 35.

Storm Sewer Outfall No. 35 / 5334 Montego Cove Drive. The Board discussed the status of the emergency repairs to Outfall No. 35 (the "Outfall No. 35 Repairs") being performed by Texas Pride Utilities, LLC (called "TPU"). Ms. Grant reported that AEI was awaiting submission of the required insurance documentation and payment bond from the contractor. She stated that AEI issued the Notice to Proceed to TPU on 27 July 2022 with a commencement date of 3 August 2022 and a final completion date of 10 October 2022 for the Outfall No. 35 Repairs.

Inspection of Storm Sewer Outfalls. Ms. Grant reported that AEI was preparing a list of the storm sewer outfalls in the District, including location and easement information.

Lift Stations / Ragging Issues. Ms. Grant reported that Concentric Integration, LLC ("Concentric") is installing the control panels at the lift stations sites and expects to complete the installation in the following week if the weather conditions are favorable. Once installation of the control panels is complete, she continued, Concentric will begin the startup and testing of the de-ragger components.

Wastewater Discharge Permit Renewal. Ms. Grant discussed the status of the application submitted to the Commission (the "Application") for renewal of the District's

waste discharge permit (the "Permit"). She stated that no comments on the draft Permit were received during the public comment period and AEI is awaiting receipt of the final Permit. The existing Permit expired on 1 June 2022, she told the Board, but will continue to serve as a valid permit pending issuance of the new Permit because the Application was submitted prior to 1 December 2021.

Sanitary Sewer Line Rehabilitation. Ms. Grant reported that AEI was continuing to re-evaluate the proposed rehabilitation of certain sanitary sewer lines (the "Sewer Repairs") that have been classified as Priority II (Immediate) and Priority III (Non-Immediate) in order to phase the proposed Sewer Repair projects over the next five to ten years. She stated that AEI was preparing the bid package for the proposed Sewer Repairs that have been classified as Priority I (Emergency). Ms. Grant then reported that AEI was investigating certain segments of sanitary sewer lines that have been proposed for replacement.

Emergency Preparedness Plan ("EPP"). Ms. Grant stated that on 28 February 2022 the District's Engineer had submitted the EPP to the Commission.

Proposed Emergency Water Interconnection (the "Interconnection") with Far Hills Utility District ("Far Hills UD"). Ms. Grant reported that earlier this month the District's Engineer met with Tim Hardin, P.E., of Langford Engineering, Inc., the engineer for Far Hills UD, to discuss the proposed Interconnection. According to Mr. Hardin, she told the Board, Far Hills UD plans to install the water line for the Interconnection (the "Water Line") within the right-of-way along F.M. 830 and accordingly will not prepare estimated costs for the acquisition of easements. Mr. Yale pointed out to the Board that if the Water Line was constructed in the right-of-way and Montgomery County decides at some future date to widen F.M. 830, then the Water Line would have to be relocated at the District's expense. Ms. Grant then reported that the attorney for Far Hills UD is preparing an Emergency Water Supply Contract between the District and Far Hills UD.

Future Bond Issue Summary of Costs. Ms. Grant called the Board's attention to the draft Summary of Costs for capital improvement projects to be funded from the future sale of bonds by the District. A copy of the Summary of Costs is included with the Engineer's Report.

Water Well Performance Testing. Ms. Grant reviewed with the Board the Performance Testing Reports dated prepared by G-M Inspection Services, Inc. ("G-M") in connection with testing conducted on 21 July 2022 of the District's Water Wells Nos. 1 and 3. Copies of the Performance Testing Reports are included with the Engineer's Report. Ms. Grant noted that according to G-M, the water wells were operating in good condition at this time.

After discussion, upon a motion duly made and seconded, the Board voted unanimously to accept the Engineer's Report.

Operator's Report

Next, Ms. Rowe-Baker presented the Operator's Report, a copy of which is attached hereto.

Water Plant Operations. Ms. Rowe-Baker reported that the billed-to-pumped water accountability ratio for July 2022 was 81.4% and that the 12-month water accountability average was 89.2%. She noted that 13,159,000 gallons of water were produced during the reporting period.

Wastewater Treatment Plant (the "Plant"). Ms. Rowe-Baker reported that the average daily flow at the Plant during July 2022 was 4,832,000 gallons per day, which is equal to 52% of the design capacity for the Plant.

Electronic Water Meters. The Board discussed the status of the replacement of the existing water meters on the service connections in the District with ultrasonic "smart" water meters (the "Smart Meters") as authorized at the Board's meeting on 17 June 2022. Ms. Rowe-Baker reported that the Smart Meters had been ordered and were scheduled for delivery in late December 2022 or early January 2023.

Installation of Sanitary Sewer Connection. Ms. Rowe-Baker informed the Board of the need to install a sanitary sewer tap at 7288 Edgewater Drive (the "Sewer Tap") at a cost of approximately \$1,500. She stated that the customer would be billed for the Sewer Tap, pursuant to the District's Rate Order.

Customer Appeals. Ms. Rowe-Baker reported that a District customer on Gunwale Court was requesting an adjustment to his service account due to unknown excessive water usage during the April 2022 billing period. She noted that this customer had paid the balance on his service account in full. Ms. Rowe-Baker then reported that the Harbour Town Club Association (the "Association") was requesting an adjustment to the service accounts for its irrigation system due to unknown excessive usage. If the lowest tiered rate for water usage is applied, she told the Board, the Association would be due a total credit of \$1,127.50 across all of its irrigation service accounts. After discussion, during which Director Smith stated that he would abstain, upon a motion duly made and seconded, the Board voted unanimously to authorize the adjustments to the service accounts as described above.

Termination of Service. The Board reviewed the Delinquent Accounts List of customers of the District who were delinquent in submitting payments for water and sewer service. Ms. Rowe-Baker asked the Board's authorization for the termination of services to accounts that remained delinquent in the payment of invoices from the District for water and sanitary sewer services as of the cut-off date. Ms. Rowe-Baker assured the Board that the customers on the list had been provided with all of the notifications required pursuant to the District's Consolidated Rate Order. The Board observed that there were no persons present to protest their billing from the District.

After discussion, upon a motion duly made and seconded, the Board voted unanimously to (1) accept the Operator's Report; (2) authorize the Sewer Tap on Edgewater Drive; and (3) terminate services to all of the accounts on the Delinquent List that remain unpaid on the due date;

Attorney's Report

Mr. Konopka presented the Attorney's Report.

Lead and Copper Rule Revision. Mr. Konopka reviewed with the Board a memorandum from the District's Attorney summarizing the revision to the Lead and Copper Rule promulgated by the U.S. Environmental Protection Agency (the "EPA"). A copy of the memorandum is attached hereto as an exhibit to these minutes. He explained to the Board that the most recent revision to the Lead and Copper Rule will require public water systems such as the District to: (1) create a lead service line ("LSL") inventory database; (2) meet new public notification requirements; (3) update the sampling protocols; and (4) develop a program for the replacement of LSLs. He pointed out to the Board that the EPA had established a deadline of 16 October 2024 for compliance with the revised Lead and Copper Rule.

Proposed Director Lot. The Board briefly discussed matters relating to the deeding a small parcel of property in the District to one of the Directors for purposes of qualification. Attached hereto as an exhibit to these minutes is a copy of a Special Warranty Deed dated 5 May 2022 conveying Lot 12 in Block 12 of Seven Coves Subdivision, Section 4, to Director Lacy as recorded in the Official Public Records of Montgomery County, Texas.

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

Secretary, Board of Directors

SEAL

Montgomery County Utility District No. 2
Meeting of 26 August 2022
Attachments

1. Tax Assessor/Collector's Report;
2. Resolution – Development Status of the District;
3. Tax Rate Analysis;
4. Delinquent Tax Attorney's Report;
5. Bookkeeper's Report;
6. Letter of Representations for Audit Report;
7. Resolution – Investment Policy;
8. Engineer's Report;
9. Operator's Report;
10. Coats Rose Memo – Revision to Lead and Copper Rule; and
11. Director Lot documents.