

HOLIDAY BEACH WATER SUPPLY CORP.

P.O. BOX 807, FULTON, TX 78358-0807 PHONE: 361-729-0538
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David Gill – President
Neil Adams – Vice President
Ronald King – Sec/Treasurer

Ken Ballard – Director
Ben Gray – Director
Ross Loeffler – Director

Board of Directors Meeting Minutes Of November 19, 2016

Present: David Gill, Neil Adams, Ken Ballard, Ross Loeffler and Ron King.

Absent: Ben Gray

We do have a quorum.

Visitors: Ron Raines, Ryan Hisel, Janet Blandford and Vernon Hale.

This meeting was published and/or posted on November 15, 2016

Posted: HBWSC'S Office, HBWSC Website & Fulton Post Office.

News Releases: The Rockport Pilot & The Herald Times.

Meeting was called to order at 8:30 AM by David Gill.

Minutes: We need to approve the meeting minutes of August 20, 2016. Neil Adams makes a motion to approve the minutes of the August 20, 2016 as written. It was seconded by Ron King. All in favor; none opposed; motion carries.

Operations:

- a) Well update: David – The well is still producing a lot of silt. I think we have a couple of scenarios that we can try: One of them is slowing the pump down to one hundred gpm or whatever it needs to run. The next thing we were going to try is raising the pump up. Check and see if we can rent one those backwash filters. This would be the third thing we'd try if can't get the other two things to work.
- b) Membranes: Vern – Both sets of membranes are new.
- c) Upgrade lines on Grapevine/Lakeview: Vern – That's all complete. Fox finished yesterday. He got everything covered up. We have two crossovers now from Grapevine to Lakeview. Those are valved off so if we need to work on just Lakeview we can do that. Grapevine can be isolated. It does end down there though; it doesn't go across the

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street like we always thought it did. There was only one feeder line that went to Grapevine and Lakeview and I don't know how that works. It came through 192 Grapevine. That's actually hooked up and it's got its own valve so we can isolate all of that now.

David asks where we came in on the money. Janet – Fox hasn't sent us an actual invoice yet but he did drop off a little handwritten note showing the original quote and then what it looks like he will end up charging us which is: \$51,875.00. David – The original quote was \$52,000.00 plus the tie end that we didn't know about which was going to be about \$2,500.00. From my understanding the \$51,875.00 now includes that.

- d) Storage Building Installed: Janet – The storage building has been erected/installed. David – I told Vern that I'm going to help him and Shawn run the electrical and put some lights in it and on top and outside. We're going to come with conduit from the well house; it has the breaker box. Ross said he thinks we should have run a conduit from inside out. David – They're going to put a work bench in there, a couple of lights inside and one outside. I don't think we'll need water. They're going to install some pipe racks, put all the pipe down there. That building down there is only for field parts and this building here at the plant is only for plant parts.
- e) Bush Hog: David – Janet got the bush hog in and these guys lit it off and it works great. Vern said we've used a couple of times already and I wouldn't put anything out there if you don't want it cut. It works like a champ.
- f) New Booster Pump #1: Vern – It seems to be working now. We were having problems with it where it wouldn't turn on. We'd have to go reset that breaker. We've had it running now. David asks, "So it's doing its automatic switching?" Vern – Yes, it's fine. We haven't had to reset that breaker in about a week now. David tells the rest of the board that all three booster pumps are identical now.

Membership Report: As per Holiday Beach Property Owner Association there are approximately 3700 lots and 2025 property owners.

746 Bills printed and mailed on 9/30/16 (September Usage)

As of 10/31/16: 693 Residential and 23 Commercial members

31 Customers are currently turned off, but billed.

747 Bills printed and mailed on 11/1/16 (October Usage)

Total This Year: 10

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Administrative & Financials:

- a) Draft of 2017 Budget: Neil said that board members will look over the budget and approve it at the next meeting.
- b) Approval of Expenditures Made and to be Made
- c) Approval of Financial Statements

Treasurers Report:

Billings for Month of October 2016

Total: Current - \$36,950.23

Total Past Due as of 10/31/16 - \$2,265.42

Total Collected: \$36,967.55

Operational Account

As of 10/31/16 we showed a balance of \$12,810.51

Deposits made total \$36,967.55

Checks and ACH payments issued total \$43,742.32

General Use Capital Reserve Account

As of 10/31/16 we showed a balance of \$217,801.05

Total Deposits for October - \$10,188.84

Checks issued October - \$4,800.00

Financial Report: David asks Vern if we went ahead and adjusted the unaccounted water loss for the RO.

There is a short discussion on the new line that was laid on Grapevine which is now in operation.

In this packet are receipts for the new storage building and the bush hog that were recently purchased.

Discussion on past dues and what our policy is on disconnecting service, which is if a customer is two months behind or seventy five dollars or more in arrears then their service is disconnected.

Ken Ballard makes a motion that we accept the financials. Neil Adams seconded that motion. All in favor; none opposed; motion carries.

Letters & Correspondence: NONE

Executive Session: To discuss legal issues concerning the draft from Government Capital. The executive session is cancelled; there was no discussion. We are back in open session.

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New Business:

- a) Approval of Meeting Packet: David Gill and Ross Loeffler are up for re-election and we have one open spot on the board.
Ken Ballard makes a motion that we accept the meeting packet to be sent out for our upcoming election. Ron King seconded that motion. All in favor; none opposed; motion carries.
- b) Election Auditor: Neil Adams makes a motion to appoint Ben Gray as election auditor and Ron King seconds that motion. All in favor; none opposed; motion carries.
- c) Discussion of New Loan – Meter Project: David – We’re going to be discussing a proposal that was given to us. This proposal was to do a couple of things: One, we will be borrowing money from a company called Government Capital. They would be giving us the money to pay off the bank notes completely, and two, they would be giving us the money to purchase the remote reading meters. Neil asks Mark Zeppa, who is tied in by phone, how he read on the promissory note, paragraph two of page one regarding an escrow agreement. Mark – You will be creating an escrow account that you will fund over time similar to what HBWSC had with the Texas Water Development Board (TWDB). Janet – That’s not necessarily the way that Tara Clawson explained it to me in her email. The Board asks Janet to forward that email to Mark so he can respond. David – Gov’t Capital is saying that the escrow account is not a reserve account. The reason they do the escrow account is because we are buying one hundred forty thousand dollars’ worth of meters. They pay the bank notes and they are requiring us to put the money for the meters in an escrow and once the meters are paid for with that money, the escrow is closed. That’s what they’re saying the escrow is and once that’s done we go to standard loan payments and no escrow. They’re doing that to insure that we buy the meters. Mark – All the meters in the metering system will become part of the loan collateral. Neil – Mark, I know that you and I had a previous conversation about this, on paragraph fifteen on page three. I do not like the indemnification. I know this is standard language, I’ve read this many times. If we’re going to indemnify each other, we take care of our own legal fees on our own side. Mark – It’s common that the person or company providing the money is going to have any and all of its costs associated with this loan be paid by the debtors’. That’s why it’s tinted their way. An indemnification agreement can always be set to, they’re neutral. Everybody indemnifies everybody else in the event there’s a problem. If there is a liability associated with it, you pay for your own attorney or consultant. Neil said he would prefer that. I don’t know how staunch Gov’t Capital is on that particular clause. Mark – There’s nothing

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in there that we can't change if we have a problem with the words. From their perspective of administering this loan, they want to make sure that everybody they're doing business with is on the same set of documents and same set of rules. David – I have a question; on page four, number nineteen, default. We're going to be in default if something is lost, stolen, damaged or destroyed. We have no control over a loss or damage if we have a hurricane or something like that. Is this clause in here where they can actually call the note if we have a hurricane even though we have insurance? Mark says he doesn't see that this is going to be a problem; they just want to insure that we fix or replace whatever may get damaged or stolen. David – They are encumbering all of the property, correct? Neil says they own us just like the bank. David asks Mark, "How does this work in year seven or eight and we've never missed a payment and we need to borrow money or whatever it is to build a new storage tank? Mark – Just like any other loan that you might have if you want to go assume additional debt, you'll have to go back to these folks and get their consent. Janet – I have an answer from her, Tara Clawson. Janet leaves to go forward that email to Mark. Neil asks Vern if what we're paying on our bank loans right now is about ninety three hundred a month. Vern answers that it's right around ten thousand. Neil – So according to this, Gov't Capital would like to make this a twelve year note. I just want to see what that comes out to. The only thing it does is it gives us more working capital every year. Tell Tara that we need a spread sheet on this seven, ten and twelve annual payments. She gave us a rate of 4.347% for a twelve year payout and this other email has it at 5.175%. The newest email dated November 19 is the one with the 4.347% rate. Neil asks Mark if he sees anything in the agreement that would concern him according to the corporation. Mark – The only thing that I really had a concern with, which I've discussed with you and Janet is that there were a number of errors on one of the documents, a term sheet that Janet sent me from Gov't Capital; things that needed to be finalized before the final document. All of the other documents were pretty standard and I didn't see any problem with them. With the clarification on the reserve account, I don't have a problem with it at all. Neil then asks Mark what the advantage is of us having this meter reader. Mark – You've got very old meters there in your system. I would say that eighty to ninety percent of your meters unless you've done a big meter change out that I'm not aware of are past their life expectancy. Your meters are your cash registers. If they're not registering correctly then you're losing money. With this program you can come in and change out all of your meters at one time, get everything tuned up and working better. Having remote read meters increases accuracy and it cuts down your personnel costs or outside contractors because you're not having to go out and read each meter. With most remote read systems a

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computerized program is set up so that if a reading comes in that is out of a normal range it flags it and tells it to send your operator out there to check that meter. Most of the clients that I represent around the state have moved or want to move to remote read meters. Ryan Hisel who is here to represent the RG3 meters and answer any questions speaks up and answers David's question on warranty of the meters. Ryan – These meters have a ten year guaranteed accuracy from water loss and twelve years on the electronics. Another benefit is that these meters store thirty days' worth of data. When a customer comes in and says I didn't use any water, I wasn't here; you can actually print out a chart and show that someone was here and this is where you used it. It also has features that we can set up to say like these people are out of town or are only here during weekends so if you see usage during the week you can notify customer and let them know they have a leak. Ryan says that you can go back one hundred twenty days and see the hourly consumption. Ross asks if the meters work under water. The answer is yes. David said the only place they don't work is inside of a mower. LOL. Neil asks how high they stick up above the boxes. Vern answers that this depends on how far down they're buried. Ross asks who will be putting these in. Ryan – What we propose is that we come in and install the first twenty five meters and do a quick little training and then y'all take it from there. Vern says that we can do the rest. Ryan – These are just like the meters you have now except they have an electronic head on them. The program comes with the system. Ken asks how far away the meter can be read. Ryan – Its RF frequency and RF varies. Sometimes you can read it from a mile away and sometimes it's one hundred yards. Vern – This is not about not reading meters; it's about being more accurate and being able to explain to someone's usage to them. David asks Ryan if there's an extra cost for them installing the first twenty five meters. Ryan said no, it's all included in the price. Janet will find out the cost for integrating this program with RVS. David asks what the cost of just one meter will be. He needs to know because we will need to adjust our new tap & meter fee. Ron Raines with Unique tells us that one meter will cost approximately \$185.00. We're going to have to approve a rate increase on tap installation which we will do at our next meeting. Ross asks if residents will be able to read their own meter. Yes, they will. Neil requests a spread sheet that shows our bank note and when the first note drops out and what our fees would be at the term of the bank note, versus Government Capitals total payout on seven, ten or twelve year that they put together with the interest rate. I need a comparison. Ryan is on the phone with Tara Clawson and said that she is putting together the full payout of the loan for a twelve year, for the life of the loan. And Vern is getting the amortization schedules of both of loan with Charter Bank. Ryan says that Tara is sending that now in an

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email but the total payout for twelve years is \$1,156,632.00. This deal will free up \$2,000.00 per month and we get this new metering system. Then after a few years we will actually be paying a couple of hundred more dollars per month but we still have the meters. Neil – There are several schedules in this packet that need to be filled out. He asks who is going to do that. Mark – When you have your motion to approve this and designate officers or individual board members to execute any documents necessary. Again it is brought up that the tap fee will need to be increased which will be approved at the next meeting. Also the tariff will need to be updated with this charge and what a customer will be charged if they destroy a meter. Ross asks if the meters will be delivered on an as needed basis, a few at a time or all at once or what. Ron said this will be up to Vern. Ryan said that they can set it up where they send us one hundred meters every other week or however we would like to do it. They are flexible. If we want them all at once, it will be about three and a half pallets. Neil Adams makes a motion that we go forward the deed of trust with Government Capital Corporation for the twelve year agreement per the email addressed from Tara Clawson dated November 15, 2016 at 11:14 AM. This motion is seconded by Ken Ballard. All in favor; none opposed; motion carries. Ross Loeffler now makes a motion that the officers are in charge of scheduling and preparing the documents for Government Capital and for signing any legal documents. Neil Adams would like to amend that motion by naming the officers: David Gill – President, Neil Adams – Vice-President and Ron King – Secretary/Treasurer. This motion is seconded by Ken Ballard. All in favor; none opposed; motion carries. Ross Loeffler now makes a motion that the same named officers will be in charge of signing any necessary documents concerning the closing out of our existing loans with Charter Bank. Ken Ballard seconded the motion. All in favor; none opposed; motion carries. The Corporate Resolution for Government Capital is signed by David, Neil and Ron and then witnessed by Ken.

Next meeting will be held on February 18, 2017.

Motion to adjourn made by Neil Adams, seconded by Ken Ballard. All in favor; none opposed; motion passed.