

NOTICE OF REGULAR MEETING

May 9, 2017

MONTGOMERY CITY COUNCIL

STATE OF TEXAS

AGENDA

COUNTY OF MONTGOMERY

CITY OF MONTGOMERY

NOTICE IS HEREBY GIVEN that a Regular Meeting of the Montgomery City Council will be held on Tuesday, May 9, 2017 at 6:00 p.m. at the City of Montgomery City Hall, 101 Old Plantersville Road, Montgomery, Texas for the purpose of considering the following:

CALL TO ORDER

INVOCATION

PLEDGE OF ALLEGIANCE TO FLAGS

VISITOR/CITIZENS FORUM:

Any citizen with business not scheduled on the agenda may speak to the City Council. Prior to speaking, each speaker must be recognized by the Mayor. City Council may not discuss or take any action on an item, but may place the issue on a future agenda. The number of speakers along with the time allowed per speaker may be limited.

CONSENT AGENDA:

1. Consider approving a leave of absence for City Council member Jon Bickford.
2. Matters related to the approval of minutes for the Public Hearings and Regular Meeting held on April 25, 2017.

CONSIDERATION AND POSSIBLE ACTION:

3. Consideration and possible action regarding adoption of the following Resolution:
A RESOLUTION TO APPLY FOR THE TEXAS HOME INVESTMENT PARTNERSHIP PROGRAM.
4. Consideration and possible action regarding adoption of the following Resolution:
A RESOLUTION BY THE CITY OF MONTGOMERY, TEXAS AUTHORIZING THE AWARD OF CONTRACT FOR ADMINISTRATION SERVICES AND SOFT COST PROJECT MANAGEMENT SERVICES FOR THE HOME OWNER REHABILITATION ASSISTANCE PROGRAM.
5. Consideration and possible action regarding adoption of the following Resolution:
A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MONTGOMERY, TEXAS DENYING THE PROPOSED RATES OF LDC, LLC FOR NATURAL GAS; DIRECTING THE CITY SECRETARY TO SEND A COPY OF THE RESOLUTION TO LDC; DETERMINING THAT THE MEETING AT WHICH THIS RESOLUTION WAS PASSED COMPLIED WITH THE TEXAS OPEN MEETINGS ACT; AND ESTABLISHING AN EFFECTIVE DATE.

6. Consider/take action regarding participation in the County-wide Urban and Rural Transportation Implementation Strategy for Seniors, Persons with Disabilities, Veterans, Persons with Low Incomes and the General Public.
7. Consideration and possible action regarding the repair of the emergency generator at Water Plant No. 3.
8. Consideration and possible action regarding approval of Change Order No. 1 to the Water and Sanitary Sewer to Serve Pizza Shack Contract.
9. Consideration and possible action regarding presentation of the 2015-2016 Annual Audit for the year ending September 30, 2016, as prepared by Anthony Cardiel of Brooks and Cardiel, C.P.A.
10. Consideration and possible action regarding approval of Request for Proposals for Auditing Services for the City.

EXECUTIVE SESSION:


The City Council reserves the right to discuss any of the items listed specifically under this heading or for any items listed above in executive closed session as permitted by law including if they meet the qualifications in Sections 551.071(consultation with attorney), 551.072 (deliberation regarding real property), 551.073 (deliberation regarding gifts), 551.074 (personnel matters), 551.076 (deliberation regarding security devices), and 551.087 (deliberation regarding economic development negotiations) of Chapter 551 of the Government Code of the State of Texas. *(There are no items at this time.)*

COUNCIL INQUIRY:

Pursuant to Texas Government Code Sect. 551.042 the Mayor and Council Members may inquire about a subject not specifically listed on this Agenda. Responses are limited to recitation of existing policy or a statement of specific factual information given in response to the inquiry. Any deliberation or decision shall be limited to a proposal to place on the agenda of a future meeting.

ADJOURNMENT




Susan Hensley, City Secretary

I certify that the attached notice of meeting was posted on the bulletin board at City of Montgomery City Hall, 101 Old Plantersville Road, Montgomery, Texas, on the 5th day of May, 2017 at 2:30 o'clock p.m. I further certify that the following news media was notified of this meeting as stated above: The Courier

This facility is wheelchair accessible and accessible parking spaces are available. Please contact the City Secretary's office at 936-597-6434 for further information or for special accommodations.

Montgomery City Council
AGENDA REPORT

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|---|-------------------------|
| Meeting Date: May 9, 2017 | Budgeted Amount: |
| Department: | |
| Prepared By: Jack Yates City Administrator | Exhibits: |
| Date Prepared: May 3, 2017 | |

Subject

This is to consider approving a leave of absence for Council member Jon Bickford

Description

This was proposed by City Attorney, just for safety sake:
As the City Attorney wrote in a recent e-mail:

“”As you know, TLGC Section 22.041 provides that the office of a council member who misses 3 consecutive meetings is automatically vacated.

Sec. 22.041. VACANCY ON GOVERNING BODY IS CREATED. (b) If a member of the governing body is absent for three regular consecutive meetings, the member's office is considered vacant unless the member is sick or has first obtained a leave of absence at a regular meeting.

Since Jon Bickford has missed two consecutive meetings due to his work, I suggest that the following agenda item be on your next meeting agenda unless we are confident Jon can be there:

- Consider approving a leave of absence for council member Jon Bickford.

This action will not be necessary if Mr. Bickford is at the May 9th meeting.

Montgomery City Council
AGENDA REPORT

Recommendation

To approve a leave of absence to Jon Bickford for the April 25th meeting due to his work schedule.

Approve By

City Administrator

Jack Yates

Date: May 3, 2017

MINUTES OF PUBLIC HEARINGS and REGULAR MEETING

April 25, 2017

MONTGOMERY CITY COUNCIL

CALL TO ORDER

Mayor Kirk Jones declared a quorum was present, and called the meeting to order at 6:00 p.m.

Present: Kirk Jones Mayor
 John Champagne, Jr. City Council Place # 2
 T.J. Wilkerson City Council Place # 3
 Rebecca Huss City Council Place # 4
 Dave McCorquodale City Council Place # 5

Absent: Jon Bickford City Council Place # 1

Also Present: Jack Yates City Administrator
 Larry Foerster City Attorney

INVOCATION

John Champagne gave the invocation.

PLEDGE OF ALLEGIANCE TO FLAGS

PUBLIC HEARING:

Convene into Public Hearing:

Mayor Jones convened the public hearing at 6:03 p.m.

1. Alcohol Beverage Permit Application for Stoney's Liquor - Montgomery, located in Buffalo Springs Marketplace, 20212 Eva Street, Suite 240, Montgomery, on SH 105 at Lone Star Parkway, for a Package Store Permit, Beer Retail Dealer's Off-Premise License, Local Distributor's Permit and Package Store Tasting Permit; and

Dave McCorquodale asked if the business would be located in the Kroger Center. Mr. Yates advised that was correct.

There were no other comments made.

Mayor Jones closed the public hearing at 6:05 p.m.

Mayor Jones convened the second public hearing at 6:05 p.m.

2. Alcohol Beverage Permit Application for The Kroger Company, located at 20168 Eva Street, Montgomery for a Wine and Beer Retailer's Off-Premise Permit.

Mr. James Langley advised that he welcomed all the new businesses coming into the City and said for them to come on and open for business.

There were no other comments made during the public hearing.

Mayor Jones closed the public hearing at 6:06 p.m.

Reconvene into Regular Session:

VISITOR/CITIZENS FORUM:

Any citizen with business not scheduled on the agenda may speak to the City Council. Prior to speaking, each speaker must be recognized by the Mayor. Council may not discuss or take any action on an item, but may place the issue on a future agenda. The number of speakers along with the time allowed per speaker may be limited.

There were no citizens comments made during the meeting.

CONSENT AGENDA:

3. Matters related to the approval of minutes for the Public Hearing and Regular Meeting held on March 28, 2017 and Regular Meeting held on April 11, 2017.
4. Consideration and possible action to approve street closure of College, McCown, Caroline and John A. Butler Streets east of FM 149 for the Antiques Festival.
5. Consideration and possible action to schedule a public hearing regarding a zero lot line variance for 14419 Liberty Street -Monty West and Megan Stultz to be held on June 13, 2017 at 6:00 p.m.

Mr. Yates advised that the applicants for Agenda Item number 5 have requested to have their item removed from the Agenda at this time. Mr. Yates said that they will probably come back at a later date and have all their variance requests put together as one request. Rebecca Huss asked that when they bring the item back to City Council, she would like to request a larger map that would show their location. Mr. Yates said that he would advise them of the request for a large map.

Rebecca Huss moved to approve the Consent Agenda Items 3 through 4. Dave McCorquodale seconded the motion.

Discussion: Dave McCorquodale stated that the streets being closed for the Antiques Festival were the same streets that they had closed in years past.

The motion carried unanimously. (4-0)

CONSIDERATION AND POSSIBLE ACTION:

6. Consideration and possible action on Department Reports.
 - A. Administrator's Report – Mr. Yates presented his report to City Council. Mr. Yates reminded City Council that on Saturday, April 29, 2017 at 10:30 a.m., there will be a ceremony to unveil the official street naming of Giesinger and McWashington Streets. Rebecca Huss asked if the gate that is across McWashington Street will be open, since it is a public street. Mr. Muckleroy, Public Works Manager, advised that it would be closed, but the gate is located further back by the lift station.

John Champagne commented that the Simonton House at Fernland needed to be painted, even though it had been supposedly recently painted. Mr. Yates said that he would check into that matter. Mayor Jones said that he might have some volunteers if they are needed for painting.

- B. Public Works Report – Mr. Muckleroy presented his report to City Council. Mr. Muckleroy advised that during the month they conducted heavy trash collection, coordinated blight removal dumpsters on Liberty Street, completed a commercial property backflow preventer survey and made asphalt repairs on Caroline, Maiden and Old Plantersville Road. Mr. Muckleroy advised that they had repaired a water leak at Caroline Street and Liberty Street. Mr. Muckleroy noted that they had power washed all the sidewalks in Cedar Brake and Homecoming Park, the Community Center and the bridges at Memory Park. Mr. Muckleroy said that they had also repaired the bulkhead, in several spots, at Memory Park.

John Champagne advised that there was an exposed wire in the drainage creek on Bessie Price Owen Street. Mr. Muckleroy said that he thought it was telephone line and since it was part of Lake Creek, Section 2, he would contact Mr. Lefevre.

Mr. Muckleroy said that the Memory Park sign, which Don Carter built will be installed. Mr. Muckleroy advised that there were electric boxes throughout Memory Park, which he will check into getting a quote for low voltage lighting.

Mayor Jones asked about the markers that were put down at Pond Street and SH 105. Mr. Chris Roznovsky, City Engineer, advised that was related to the survey for the water line.

Mr. Muckleroy reported that the docents at Fernland Park reported a total of 1,149 visitors for the month and they provided 62 tours, which was a very busy month for them.

- C. Police Department Report – Chief of Police, James Napolitano, presented his report to City Council. Chief Napolitano advised that during the March Warrant Roundup, the

department decided to check the County warrants with City warrants, so that they could also serve City warrants at the same time. Chief Napolitano stated that they knocked on 22 doors and only took one in custody.

Dave McCorquodale asked about the A and B Shifts. Chief Napolitano advised that each shift is 12-hours, and each shift works two days, resulting in giving the officers every other weekend off and an opportunity for them to spend time with their families. Chief Napolitano said that with the weather getting warmer, the officers will begin wearing their tan uniforms during the day.

Chief Napolitano said that with the increase of traffic on FM 2854, people will begin seeing more traffic accidents. Chief Napolitano said that last Saturday night, while officers had a subject pulled over, a drunk driver ran into the traffic pulled over, thankfully the officer was able to get out of the way.

- D. Court Department Report – Ms. Rebecca Lehn, Court Administrator, presented her report to City Council. Ms. Lehn advised that last month had been another good month with increased warrant collections. John Champagne asked if there were any issues within the department. Mrs. Lehn advised that there had been no issues.

- E. Utility/Development Report – Mr. Yates presented the report to City Council. Mr. Yates advised that the total collected for utilities was \$78,782. The City collected \$4,572 for permit. Mr. Yates said that there were 571 active water accounts and a total of 27 permits were pulled during the month.

Mr. Yates advised that there had been only one paid rental of the Community Center, and the other eight rentals had been non-profit groups that do not pay to use the Community Center. John Champagne asked if Mr. Yates was tracking the costs for the Community Center. Mr. Yates said that he was tracking the costs. Mayor Jones said that a couple of the non-profit groups that use the Community Center had offered to do some work on the building.

- F. Water Report – Mr. Mike Williams, with Gulf Utility, presented his report to City Council. Mr. Williams advised that there was a high wet well at Lift Station 3, so the pump was pulled and cleaned and is now operating normally.

Mr. Williams said that there was a water main break on SH105 at Houston Street, which occurred during the last City Council Meeting. Mr. Williams advised that City staff made the repairs.

Mayor Jones asked if they were using Well No. 4 more because the water was softer. Mr. Williams advised that they had ramped up the usage at Well No. 2 to see if they could maintain the pumpage. There were electrical issues. Mr. Williams stated that Entergy had installed a higher quality meter. Mr. Roznovsky said that he would follow up to get the data from Entergy.

Mr. Williams advised that the flow for the month of February was 4,022,000 gallons. Daily peak flow occurred on February 21, 2017 at 305,000 gallons, which is 76% percent of the permitted value. The Average Daily Flow was 139,000 gallons, which is 35% percent of permitted value.

Rebecca Huss asked how the City was doing on the permit. Mr. Roznovsky reported that all the paperwork had been submitted to TCEQ. Rebecca Huss asked if there would be any problem if the new permit was not approved prior to the old one expiring. Mr. Roznovsky said that the current permit expires on June 1, and since everything has been filed TCEQ it will not be a problem.

John Champagne said that it would be nice if the graphs that show groundwater production could also show year to year, and maintain the previous years with the current month to show the comparison of the current month with the previous year.

Mr. Williams advised that regarding the effluent monitoring, everything was in compliance. There was 1.42 inches of rain for the month.

Dave McCorquodale asked when the calendar year rolled over. Mr. Williams advised that occurred in January. Dave McCorquodale asked if there was a plan regarding when Well No. 4 was being run. Mr. Williams confirmed that they did and advised that they had been running both wells to make sure that they stayed in compliance with the amount of water pumped. Mr. Shackelford advised that that City could file an amendment to the amount that they can pump if they can show that they need more water.

Mr. Williams advised that they had 71% percent of the water return to the sewer plant. Rebecca Huss said that it looks like the same amount of water sold in January and February due to infiltration. Dave McCorquodale asked if there was an auto call alarm feature on all the lift stations. Mr. Williams said that out of the 14 lifts stations only half have the auto call feature. Mr. Williams advised that all lift stations are critical and said that he had spoken to the City about all the lift stations being equipped with the monitors, which would not require operations to come out to the site. Mr. Roznovsky said that he would look at the capital costs and pay back. John Champagne said that he would like items that will save the City money moved up on the project list. Rebecca Huss said that if it were a short term pay back, the City could pay for the expenditure out of reserves.

- G. Engineer's Report – Mr. Chris Roznovsky, City Engineer, presented his report to City Council. Mr. Roznovsky advised that they had received and recommended for approval of progress payment requests 3 and 4 in the amount of \$382,196 from Key Construction for the Kroger project. Mr. Roznovsky stated that they conducted the final inspection on March 22, 2017 and the contractor is addressing the punch list items identified at the final inspection. Mr. Roznovsky said that Pizza Shack was nearing completion of their project.

Mr. Roznovsky stated that they are proceeding with preparation of the bid package for the Flagship Boulevard Pavement Repair and they expect to present the bids at the May 23, 2017 City Council Meeting.

John Champagne said that he had sent some technical information to Mr. Shackelford regarding the Buffalo Springs Bridge, and asked if he had looked at the information. Mr. Shackelford said that he had not looked at it yet.

Mr. Roznovsky advised that they were addressing internal comments on the Mobility Study. Mr. Shackelford said that they were completed. Dave McCorquodale asked if it would be feasible to get a copy of the draft of the Mobility Study so that he could get some degree of knowledge of the document before it was finalized. Mr. Shackelford said that they would still need to review the document with their partners and Precincts 1 and 2. Mr. Shackelford apologized for the delay. Mr. Shackelford said that both Precincts 1 and 2 had been invoiced. Mrs. Cathy Branco, Financial Consultant, advised that she had edited the invoices, which were both in the amount of \$15,000, and mailed them.

Rebecca Huss said that they had discussed rotating City Council and having them participate in the earlier meetings and asked if that idea had been ratified. Mr. Yates said that he just forgot to invite anyone else.

Mr. Shackelford discussed the Lone Star Parkway to FM 149 County project. Mr. Shackelford said that he would bring a work schedule back to City Council. Mr. Shackelford said that the Lone Star Parkway project might be $\frac{3}{4}$ done before the Bridge Project.

John Champagne asked Mr. Shackelford to look at the information that he sent to him regarding the bridge.

- H. Financial Report – Mrs. Branco, Financial Consultant, presented her report to City Council. Mrs. Branco reported the following account balances: General Fund - \$868,593, Construction Account - \$1,090, Debt Service - \$54,057, Court Security - \$4,287, Court Technology - \$22,418, Grant Fund - \$297, Hotel Occupancy - \$9,399, Montgomery EDC - \$729,121, Police Asset Forfeitures - \$4,272, Utility Fund \$373,943 and the Operating Fund is \$57,000 over in wages for the month. Ms. Branco advised that the wages show \$132,000 and the budget is

\$86,000. Mr. Yates said that it might be that the funds have not been transferred yet. Mayor Jones asked Mr. Yates to send City Council the answer to the difference in the wages once it had been determined. Mr. Yates advised that he would do that.

Dave McCorquodale moved to approve the Departmental Reports as presented. T.J. Wilkerson seconded the motion, the motion carried unanimously. (4-0)

7. Consideration and possible action regarding approval of Montgomery EDC funding for the following:
 - a. Houston Street Rehabilitation Project;
 - b. Water Line Placement in Houston Street; and
 - c. Water Line Placement on SH 105 at Houston Street.

Jack Yates presented the information to City Council advising that at the February MEDC Meeting the Board agreed to fund \$120,000 for resurfacing and widening Houston Street as part of the support of the Heritage Medical Plaza II, which is being built at the northeast corner of SH 105 and Houston Street. Mr. Yates said that since February two things have occurred that affect that decision.

First, County Commissioner Mike Meador agreed to place and pay for the asphalt to be placed on Houston Street, which reduces the estimated \$160,000 down to \$80,000. There is an estimated \$5,000 to be paid for the design of the road, making the Houston Street total \$85,000. Mr. Cheatham's participation in the Houston Street Rehabilitation is to be based on the 20.3 participation rate, which is \$17,255. MEDC's portion for this would be \$67,745.

Second, the water line in front of Heritage Medical Plaza II will need to be lowered to accommodate the sewer connection needed by this development. The cost of the line is estimated to be \$60,000. This section of the water line is part of the major water line replacement program, which will replace the existing 6 inch water line with 12 inch lines, as part of the TWDB projects. Mr. Yates advised that the section of the new 12 inch line can be placed now in front of Heritage Medical Plaza and connected to the new replacement

line when that work is done. Mr. Yates said that Mr. Cheatham requires the water line to be lowered now and has already paid his \$17,288 tap fee to the City.

Mr. Yates said that the City Engineer has recommended replacing the existing water line on Houston Street rather than placing new pavement over an old water line that might need replacing or repaired in the future. Mr. Yates said the cost of the new water line on Houston Street is estimated at \$20,000.

Mr. Yates stated that there was a peripheral issue concerning the escrow account amounts involving Mr. Cheatham, who has two escrow accounts. One has a balance of \$1,689.55, listed as Cheatham Development Agreement, which has no written agreement, nor implied agreement of any of any payment to the escrow account from Mr. Cheatham. A second escrow account has a balance of \$4,328.93 listed as Heritage Medical Plaza, which also has no written agreement nor implied agreement of any payment to the escrow account by Mr. Cheatham. Mr. Yates said that he and the City Attorney are reviewing the ordinances and minutes to determine a method of requiring payment. Mr. Yates said that he is also reviewing the engineering bills to determine appropriateness of the bills. Mr. Yates stated that he had sent a letter to Mr. Cheatham requesting him to place a \$3,000 deposit for an escrow account balance for further City involvement regarding Heritage Medical Plaza II.

Mr. Yates said that his recommendation on the matter of Houston Street and the water lines financing was to not take any formal action of denial based on back payment on the existing escrow accounts until a collection method is agreed to by him and the City Attorney, which may also require City Council action.

Mr. Yates said that another issue with Mr. Cheatham was the billing for the February 28th water line break caused by Mr. Cheatham's general contractor's plumber. A bill was sent to Mr. Cheatham on March 7, 2017 with a statement included in the amount of \$4,025 with a 30 day payment due date given. Mr. Cheatham has not paid the amount and has advised that he does not believe he is responsible for the payment, that the City should contact either the plumber who bore into the water line or the general contractor. Mr. Yates said that the City Attorney has advised him to send a statement to the general contractor and to

the plumber who did the bore into the water line. Mr. Yates said that if they do not receive payment within the 30 day period stipulated, he will advise the City Attorney who will determine who, if not all three, to sue in small claims court in order to collect the money.

Rebecca Huss said that she was concerned with the overall cost for Houston Street, as it stands, 10-20 people use the road every day. Rebecca Huss said that the urgency is purely driven by development.

John Champagne said that it would be much safer to have traffic turning out at the traffic light on Houston Street would be safer than just turning out onto SH 105. Rebecca Huss said that there are a lot of locations that don't have traffic lights where people turn out onto SH 105. John Champagne said that he does not want it to turn into FM 1960, so they have a choice to make.

Rebecca Huss asked why they had to lower the water lines. Mr. Roznovsky advised that they needed to be lowered to connect the tap. Mr. Yates said that they would have to lower the line either way.

After discussion, John Champagne moved to approve the MEDC \$120,000 cost share of Houston Street Rehabilitation and water line replacement, and authorize the use of \$27,745 from the existing Utility Fund Capital Outlay line item. Dave McCorquodale seconded the motion.

Discussion: Dave McCorquodale commented about the curb and gutter pipe as it was related to the drainage area. Dave McCorquodale said that with the Buffalo Springs Bridge being so close, if it is in the same watershed, he could not see why they putting in more pipes instead of looking at cost saving methods that won't use pipes.

Rebecca Huss said that in the future they might have to revisit this issue and wish they had the \$120,000. Mayor Jones said that if development keeps going on there will be more funds available.

The motion carried with a vote of 3-Ayes and 1-Nay by Rebecca Huss.

8. Consideration and possible action regarding approval of an Alcohol Beverage Permit Application for Stoney's Liquor - Montgomery, located in Buffalo Springs Marketplace, 20212 Eva Street, Suite 240, Montgomery, on SH 105 at Lone Star Parkway, for a Package Store Permit, Beer Retail Dealer's Off-Premise License, Local Distributor's Permit and Package Store Tasting Permit.

Rebecca Huss moved to approve the Alcohol Beverage Permit Application for Stoney's Liquor – Montgomery. T.J. Wilkerson seconded the motion, the motion carried unanimously. (4-0)

9. Consideration and possible action regarding approval of an Alcohol Beverage Permit Application for The Kroger Company, located at 20168 Eva Street, Montgomery for a Wine and Beer Retailer's Off-Premise Permit.

Rebecca Huss moved to approve the Alcohol Beverage Permit Application for The Kroger Company. Dave McCorquodale seconded the motion, the motion carried unanimously. (4-0)

10. Consideration and possible action regarding adoption of the following Ordinance:

AN ORDINANCE BY THE CITY OF MONTGOMERY, TEXAS, REGULATING LIQUEFIED PETROLEUM GAS WITHIN THE CITY'S JURISDICTION, ADOPTING THE TEXAS RAILROAD COMMISSION'S LP-GAS SAFETY RULES IN CONFORMITY WITH SECTION 113.054 OF THE NATURAL RESOURCES CODE; REPEALING ALL OTHER ORDINANCES OR PARTS THEREOF PURPORTING TO REGULATE LIQUEFIED PETROLEUM GAS WITHIN THE CITY'S JURISDICTION ONLY TO THE EXTENT THAT SUCH OTHER ORDINANCES OR PARTS THEREOF RELATE TO LIQUEFIED PETROLEUM GAS; AND PROVIDING A SAVINGS CLAUSE; PROVIDING A TEXAS OPEN MEETINGS ACT CLAUSE; AND PROVIDING AN EFFECTIVE DATE UPON PASSAGE.

Rebecca Huss asked what the Fire Marshal was willing to do regarding this information. Mr. Foerster said that as he reads the information, Mr. Williams, County Fire Marshal, objects to the fact that the propane company does not recognize the additional rules of Chapter 38, which deals with the propane cylinders. Mr. Foerster advised that the legislature had passed laws a few years ago, that were examined by TML, and they had no objection to. The Texas Natural Resource Code was created by the Texas Railroad Commission, and any ordinance that was in conflict with it would be preempted, as the statute provided. The Attorney General concluded that the Railroad Commission rules would trump any local issues. The State also passed a statute that provides that an entity can ask the Railroad Commission for the rules to be stricter if they want.

Mr. Foerster said that he recommended complying with the rules of the Railroad Commission, specifically Chapter 38, Article 5, and asked City Council to adopt the Ordinance adopting the Railroad Commission rules. Mr. Foerster said that the ordinance on file probably came from the County Fire Marshal.

John Champagne asked if a Fire Marshal can adopt ordinances. Mr. Foerster said that they cannot adopt ordinances, but they can require more stringent rules. Dave McCorquodale said that businesses that sell or store propane cylinders or restaurants that have patio heaters.

Rebecca Huss said that it did not make sense to do other than what the Attorney General said to do.

Dave McCorquodale moved to adopt the Ordinance as presented. Rebecca Huss seconded the motion, the motion carried unanimously. (4-0)

11. Consideration and possible action regarding adoption of the following Resolution:

A RESOLUTION OF THE CITY COUNCIL OF MONTGOMERY, TEXAS, IN SUPPORT OF A PROPOSAL BY ENTERGY TEXAS, INC. REGARDING THE APPLICATION OF ENTERGY TEXAS INC. TO AMEND ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO CONSTRUCT MONTGOMERY COUNTY POWER STATION IN MONTGOMERY COUNTY IN PUBLIC UTILITY COMMISSION OF TEXAS DOCKET NO. 46416

Mr. Foerster advised that this Resolution was going to all Entergy cities, and it was his recommendation to pass the Resolution.

Dave McCorquodale moved to adopt the Resolution as presented. Rebecca Huss seconded the motion, the motion carried unanimously. (4-0)

12. Consideration and possible action regarding approval of a Sponsorship Letter to TxDOT regarding Houston Street.

Mr. Roznovsky advised that he had drafted a letter tying the project into the TxDOT project.

John Champagne moved to approve the Sponsorship Letter to TxDOT regarding Houston Street. Dave McCorquodale seconded the motion, the motion carried unanimously. (4-0)

13. Consideration and possible action regarding approval of a driveway and pavement of parking area variance request for the property located at 300 Prairie Street as submitted by Jeffrey Angelo, owner.

Mr. Yates presented the information to City Council, and advised that the Planning and Zoning Commission had unanimously recommended approval of the variance requests.

Mr. Angelo was present and said that the variance request would be in lieu of concrete and asphalt surface. Mr. Angelo said that the permeable paving system was made of recyclable plastic and the grass will grow through the sub-base of gravel. Mr. Angelo advised that L-Squared was the design group and it will help with the water shed. Mr. Angelo said that he will hydro seed with Bermuda grass. Mr. Angelo said that he has brought in antique vendors and he will be using the existing facias to keep the antique look.

Rebecca Huss asked about the longevity of the plastic material. Mr. Angelo advised that it had a 25 year warranty, with 25-60 years without needing maintenance. Mr. Roznovsky advised that the plastic will hold the top soil and the weight will go to the plastic and gravel base. John Champagne asked if this material was recommended for daily use. Mr. Angelo said that it was, and stated that they would have a cement pad for handicapped parking.

Dave McCorquodale asked if this material would be acceptable for fire trucks, and would they have to designate a fire lane. Mr. Yates advised that they would have to check with the Fire Marshal.

Mayor Jones asked about the relative cost of the product. Mr. Angelo said that it was about \$2.00 less per square foot than asphalt, which runs \$7.00 - \$7.50.

Rebecca Huss asked if City Council could be invited out to see the installation of the product, and mentioned that this would be a way to preserve trees in the City. Mr. Angelo said that he would be glad to invite the City Council out to see the installation. Rebecca Huss asked if Mr. Angelo had spoken to his neighbor about his plans. Mr. Angelo said that he did inform his neighbor.

Dave McCorquodale moved to approve the driveway and pavement of the parking area variance request, using the True Grid product, as presented. John Champagne seconded the motion.

Discussion: Dave McCorquodale asked that if something should change, and they do not use the True Grid materials as presented, then he would like to have this brought back for a presentation of the other materials. Mr. Angelo advised that he would be using True Grid.

The motion carried unanimously. (4-0)

Mayor Jones said that he was very excited about this project. Mr. Yates advised that he will mention this product to the miniature golf development. John Champagne said that they should mention it to the Cozy Grape. Mr. Shackelford said that he has also seen that product used with crushed granite instead of grass.

14. Consideration and possible action regarding adopting an Encroachment and Maintenance Agreement by and between the City of Montgomery and Town Creek Storage, LLC.

Dave McCorquodale asked about the maintenance of the berm. Mr. Shackelford said that the top of the bank to the property line was approximately 10 feet wide. Rebecca Huss asked to

confirm that the fence was not part of the encroachment. Mr. Shackelford said that was correct.

Rebecca Huss moved to approve the Encroachment and Maintenance Agreement. Dave McCorquodale seconded the motion.

Discussion: Dave McCorquodale said that he did not want to see grass move than 12 inches tall in this area.

The motion carried unanimously. (4-0)

15. Consideration and possible action regarding a Terms of Service Agreement regarding Cedar Crest Home Park for City Utility Service.

Mr. Yates advised that he was requesting guidance, as he had done several months ago regarding a permanent meter at each mobile home.

John Champagne moved to authorize the City Administrator and City Attorney to proceed based on Option No. 1. Dave McCorquodale seconded the motion.

Discussion: Rebecca Huss asked for a total of arrears for the property. Mr. Yates advised that there were 4-5 past due accounts for the property. Rebecca Huss asked how much had been written off for the property. Mr. Yates said that they could charge a renter's deposit rate.

Mrs. Marcy Bennett, Owner of Cedar Crest Home Park, advised that a higher portion of people that live there are owners and they only have a few renters. Mrs. Bennett stated that the composition of the park was changing to younger families with new homes, which is improving the appearance of the property. Mrs. Bennett said that Option No. 1 would continue life as it is and would be more manageable for them.

John Champagne asked about common dumpsters, and asked if the City had given them permission for dumpsters. Mrs. Bennett did not care for dumpsters. John Champagne advised

that he thought the dumpsters were an eyesore and messy and they would have trash strewn around the historic area.

The motion carried unanimously. (4-0)

EXECUTIVE SESSION:

The City Council reserves the right to discuss any of the items listed specifically under this heading or for any items listed above in executive closed session as permitted by law including if they meet the qualifications in Sections 551.071(consultation with attorney), 551.072 (deliberation regarding real property),551.073 (deliberation regarding gifts), 551.074 (personnel matters), 551.076 (deliberation regarding security devices), and 551.087 (deliberation regarding economic development negotiations) of Chapter 551 of the Government Code of the State of Texas. *(No items at this time)*

COUNCIL INQUIRY:

Pursuant to Texas Government Code Sect. 551.042 the Mayor and Council Members may inquire about a subject not specifically listed on this Agenda. Responses are limited to recitation of existing policy or a statement of specific factual information given in response to the inquiry. Any deliberation or decision shall be limited to a proposal to place on the agenda of a future meeting.

There were no comments or inquiries made.

ADJOURN

Rebecca Huss moved to adjourn the meeting at 8:30 p.m. Dave McCorquodale seconded the motion, the motion carried unanimously. (4-0)

Submitted by:  Date Approved: _____

Susan Hensley, City Secretary

Mayor Kirk Jones

Montgomery City Council
AGENDA REPORT

| | |
|---|---|
| Meeting Date: May 9, 2017 | Budgeted Amount: |
| Department: | |
| Prepared By: Jack Yates City Administrator | Exhibits: Information on HOME Program, Resolution |
| Date Prepared: May 3, 2017 | |

Subject

This is to consider a Resolution to apply for the HOME grant program.

Description

This a no local match HOME grant that can be given to the city for construction of probably four new/extensive remodeling home projects. This program helps low income persons who may be living in less than desirable housing situations and also removes blight in the city.

The timing of the process is approximately: Approve Resolution to apply on May 9th, an application is turned in mid-June, get awarded the grant by September, go through preparation paperwork, individual application for the home projects(first come-first awarded)d in October/November period, paper work to get state approval of projects November-December, individual communications with awardees regarding house planning details (# of bedrooms, style of house, floor layout) January-February 2018, bidding for building contractor March-April, building begins April- May, 2018.

With the complexity of the HOME grant it is virtually required to get an outside contractor of the application and administration of the grant. In fact , the State requires a Certification training program for HOME Administrators.

The MEDC has, in the interest of removal of blight, offered up to \$10,000 for auxiliary expenses that may get involved in clearing the property, or other unforeseen expenses.

Montgomery City Council
AGENDA REPORT

The MEDC can also put up the \$40,000 as a cash reserve to pay program cost before reimbursements are received from the State HOME Program - as required in Item Four of the Resolution.

Recommendation

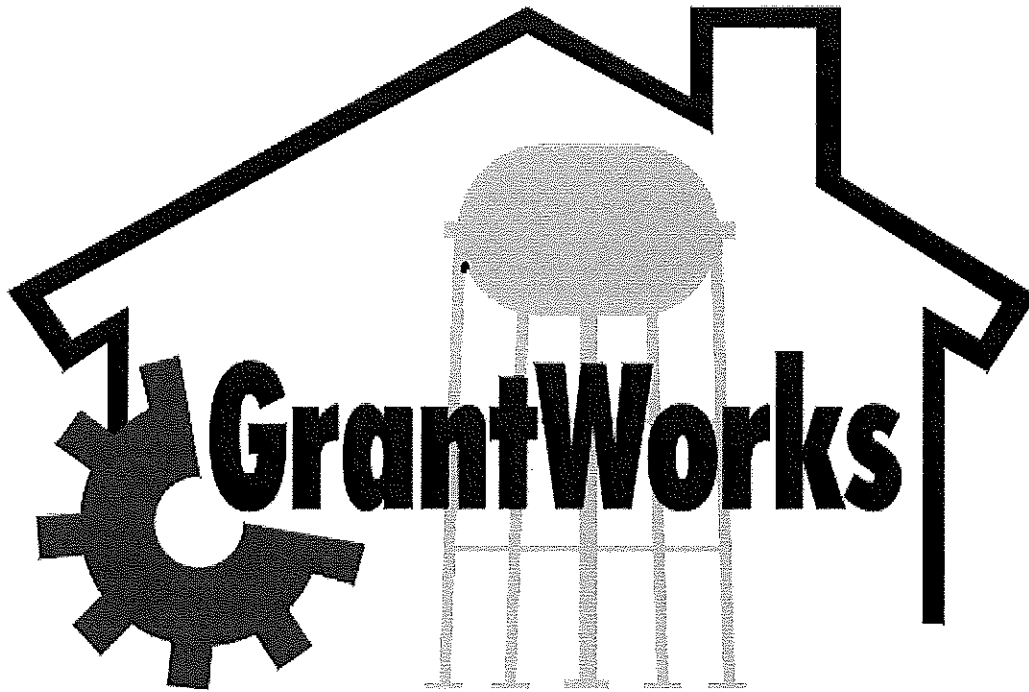
To approve the Resolution as proposed.

Approve By

City Administrator

Jack Yates

Date: May 3, 2017



HOME Investment Partnerships Program City of Montgomery

The enclosed information is based on current HOME Rules.
Some details may change for future funding.

GrantWorks' HOME Program Information Sheet Homeowner Rehabilitation Assistance

HOME Program Overview

Purpose: Improve the housing stock and reduce unsafe living conditions through replacement of substandard dwellings with new site-built homes.

Type of Assistance: Grants, with an agreement to live in the house for a certain period of time, to low-income residents who own and occupy their homes but cannot afford to make major repairs.

Target Population: Low income households, living in the worst conditions (often elderly and disabled) are targeted for assistance.

Your Role: Awards are made to “sponsor” cities, counties, and non-profit organizations for distribution as grants with affordability periods to residents in your jurisdiction.



How to Apply

To apply, you will need to pass a resolution and submit the application provided by the Texas Department of Housing and Community Affairs (TDACA)

Grant Amount: We anticipate contracts to be for a maximum \$400,000, enough to reconstruct four (4) homes.

Match: Match is determined by the size of your community. According to the latest data from the Census Bureau the 2015 population of Crockett, Texas is 6,554. This means the city currently has a 6% match requirement. Depending on bids, this translates to approximately \$5,100 per reconstructed home. For cities with a population under 3,000 there is no match. For cities with a population greater than 3,000 there is then a 1% match requirement for each 1,000 people.

Cash Reserves: TDHCA requires that every applicant commit adequate cash reserves of at least \$40,000 for use during the Department's disbursement process. These reserves are used at the sole discretion of the community for short term deficits that are reimbursed by program funds. Evidence of funds must be provided with application for funding.



GrantWorks' HOME Program Fact Sheet

Homeowner Rehabilitation Assistance

GrantWorks' Turn-Key Service

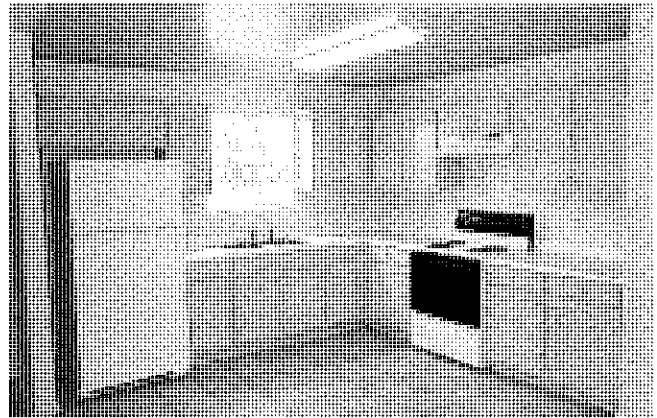
We take pride in our full service approach. We handle every aspect of management for you including:

- File maintenance
- Document & report creation
- Program publicity
- Application intake and verification
- Application scoring and ranking
- Environmental clearance
- Property inspection/work write-up
- Architectural plans
- Complete construction oversight
- Document submittal to TDHCA during all project phases
- Represent you at interim and final State monitoring visits



Your Responsibilities if Funded

- Help us identify potential applicants
- Adopt policy to be used to select applicants for funding
- Sign forms required by the State
- Approve Payment Requests and final closeout documents
- Forward HOME Program information you receive to GrantWorks for proper filing



Our Track Record & Qualifications

As the state's largest provider of HOME services, GrantWorks has completed more than 150 Owner Occupied projects (1000+ units) since 1994. Our experience and knowledge is unrivaled in Texas.

Funding Cycle: HOME funds are currently available in an open cycle.

If you are interested in applying please contact Tres Davis at (512) 420-0303 ext 333, or via email: tres@grantworks.net or Donna M Johnson at (361) 287-3341, or via email at donna@grantworks.net



Frequently Asked Questions: The HOME Program

Q: Is there a warranty on the homes?

A: Yes. There is a one year warranty required by the Texas Department of Housing and Community Affairs (TDHCA). In addition, the homes must be built to comply with the current International Residential Code.

Q: What are the homes made out of?

A: At a minimum they are made with HardiePlank. The homes are energy efficient and have all new appliances. All reconstructed homes are 3 bedrooms, 2 baths.

Q: How long does construction take?

A: Once demolition starts, construction takes up to 3 months, assuming there is not a weather event.

Q: Who is eligible for assistance?

A: An eligible applicant must own and occupy their home, the applicant must have a clear and marketable title (may have a mortgage but no contract for deed), the total income of everyone living in the home must be less than 80% of the Area Median Family Income, and property taxes must be paid and current (or they must have a payment plan in place).

Q: How are applicants chosen?

A: First complete and first eligible are first served

Q: Does the homeowner have to pay anything to participate in the HOME Program?

A: The homeowner has to find a place to live during construction, move, and store all possessions. In addition they are responsible for paying the increase in property taxes and obtaining homeowners insurance after the home is complete.

Q: Can the homeowner sell the house after being assisted?

A: The homeowner agrees to live in the home for 15-years after the house is complete. If they sell the house prior to the 15-year anniversary, a pro-rated amount is due back to the State.

Q: Can homes be rehabilitated, as opposed to reconstructed (torn down and replaced with new house)?

A: Yes, but only if the cost to rehab is less than \$40,000. Rehab must bring the entire home up to current code and Lead Paint testing must be performed. Lead paint must be abated if present. Unless a home is in relatively good shape, rehab usually is not an option.

Q: How many homes can be built?

A: Under a single contract, we anticipate reconstructing up to four (4) homes.

Q: What is the \$40,000 in the resolution for application to participate in the Reservation System about? Do we have to encumber the funds?

A: TDHCA requires that every Administrator commit cash reserves of at least \$40,000 for use during the Department's disbursement process. These reserves are used at the sole discretion of the community for short term deficits that are reimbursed by program funds. Evidence of the cash reserve must be provided with application for funding. If the community is opting into reservation or re-certifying their current reservation, they have already passed a resolution with this wording in it.

Q: Is there a matching funds requirement?

A: That depends on the size of your community. For cities with a population under 3,000 there is no match. For cities with a population greater than 3,000 there is then a 1% match requirement for each 1,000 people.

Q: Why does it take so long?

A: Since the funds are awarded to homeowners on a first complete, first served basis, GrantWorks reviews all homeowner applications for assistance then sends out letters to every applicant on the same day. These letters let the homeowners know if their application is complete (very rare) or if there is additional information needed to complete the application. This process generally takes a few rounds of letters before we have a full complement of homes to assist (typically this process lasts at least 6 months after application intake).

Once we have identified the first group of homeowners, their information is sent to a local title company. Typically, commitments for title insurance come back with exceptions that must be cleared prior to the issuance of title insurance, a HOME Program requirement. (9 months after application intake)

After we obtain clear title, the household is set-up and the documents are submitted to TDHCA for review. It is not unusual for TDHCA to come back and question the title reports, despite the fact that the title company is satisfied and willing to issue title insurance. (11 months after application intake)

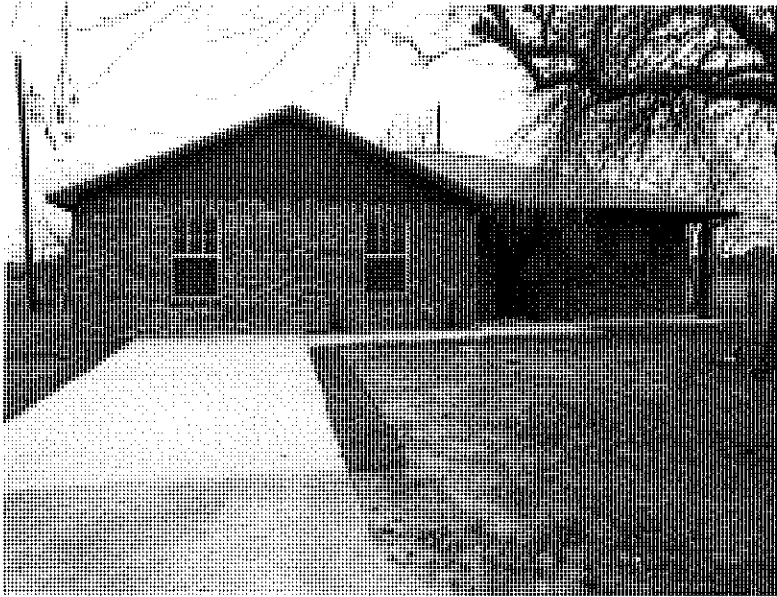
Once TDHCA is satisfied with all documents, we are issued grant documents, and we have a signing similar to a home purchase closing. At this point the homeowners are given the go-ahead to move out. (13 months after application intake)

Once they have moved out, the house can be demolished and construction can begin. (14 months after application intake)

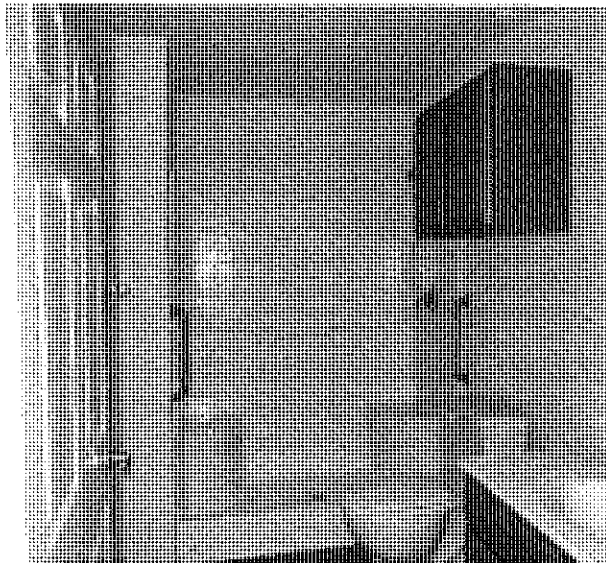
At the completion of construction there is a final walk-through with the homeowner, builder, and administrator. (17-months after application intake)

Q: Do you have any pictures of the houses?





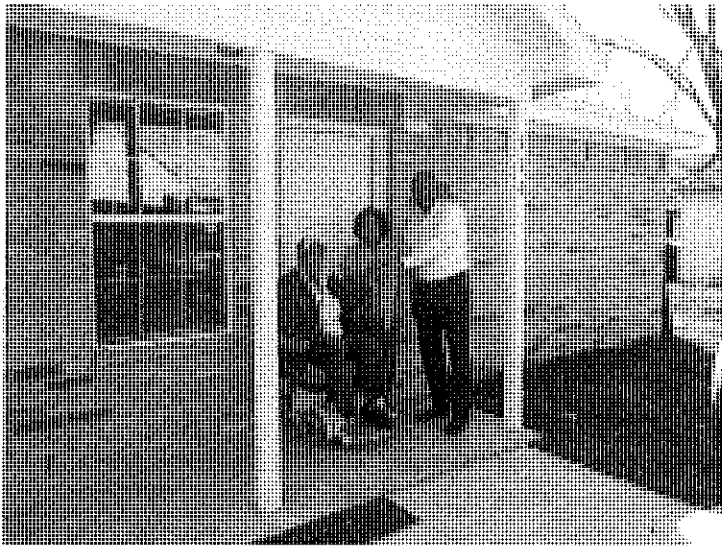
All homes are accessible. Homes can be brick, HardiePlank, or a combination of the two.



All homes built to the model energy code.
Master bath has a low-step shower.



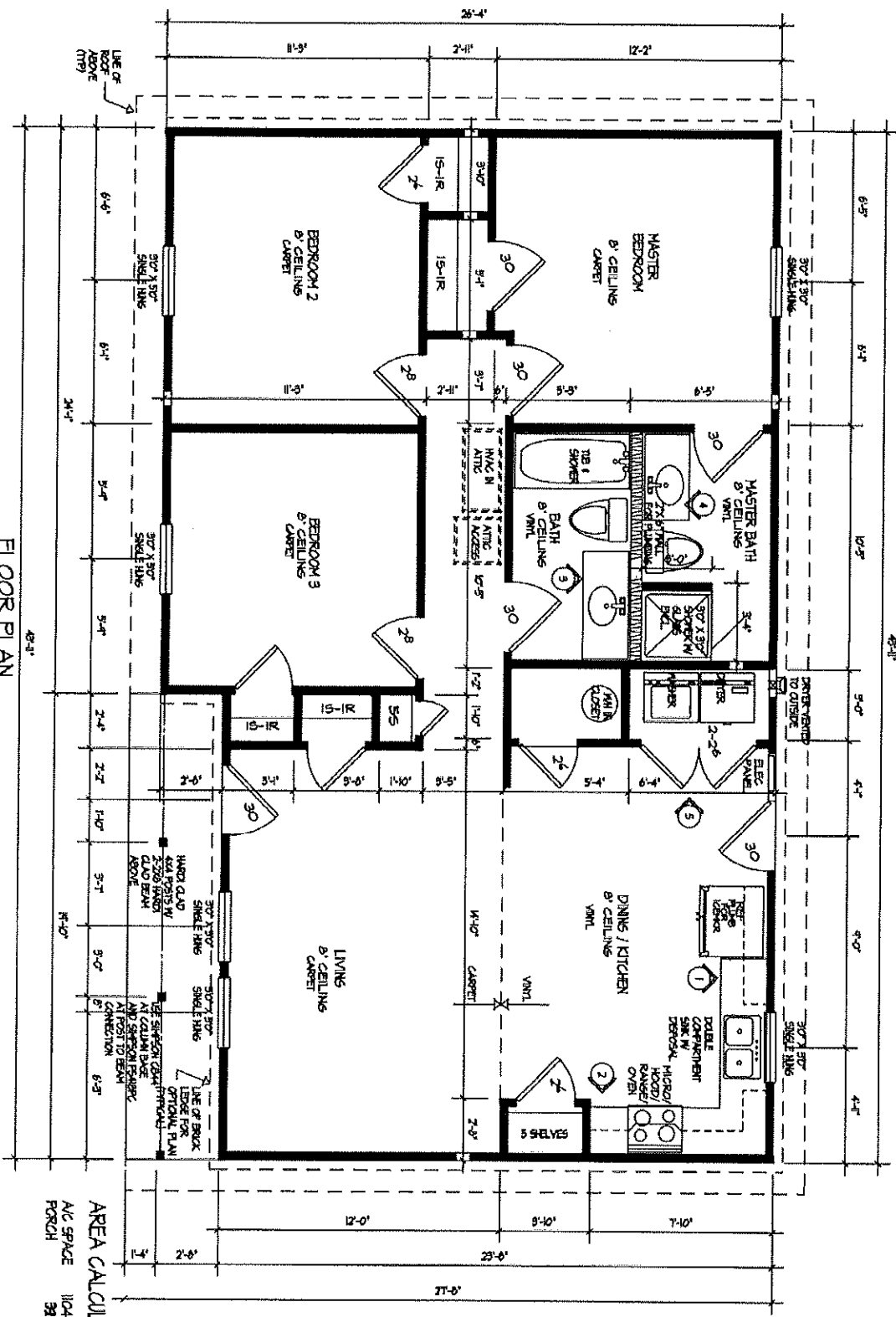
New refrigerator and range are included. When funds allow, a dishwasher, microwave and washer/dryer are also included in the new home.



Sample Floor Plan

**1100 Square Feet
3 Bedrooms, 2 Bathrooms**

FLOOR PLAN
SCALE 1/4" = 1'-0"



1" TYPICAL SECTION @ WALL WITH OPTIONAL BRICK 5/4" x 11'-0"

1" TYPICAL SECTION @ WALL WITH LAP SIDING 5/4" x 11'-0"

AREA CALCULATIONS
A/C SPACE 1104 SF.
PORCH 33 SF.



GrantWorks History And Experience

**Planning, Housing, and Community
Development Services for Texas since 1979**

GrantWorks History and Experience

GrantWorks has roots in Texas and the Gulf Coast extending back to the mid-1970s. The firm's founder and president, Bruce J. Spitzengel, worked for the Cities of Pasadena and Texas City as a planner and community development director before founding the consulting business in La Porte, Texas, in 1979.

For the first two decades, the firm primarily focused on administration of **Community Development Block Grants** under the Texas state and small cities program. This program provides grant assistance to local governments for infrastructure and comprehensive planning. Our track record in Community Development is unmatched in Texas.

GrantWorks began securing and managing **Texas HOME Program** awards for our local government clients in the early 1990s, quickly becoming the main provider of services throughout the state. We primarily work with the Owner Occupied Housing Rehabilitation and Reconstruction activity. During the past 20 years, GrantWorks has secured in excess of **\$140,000,000 in HOME funding under contracts** for 300 clients, which include local governments and several non-profit groups. The total number of housing units we have assisted is over 2,500.

Bruce opened a new office in Austin in 1995, which gradually grew to become the corporate headquarters location. The current main office building on Northland Drive was purchased in 2004, allowing us to consolidate our operations which were then in several buildings. As we continued to grow throughout the 1990s and 2000s we added additional offices around Texas to serve our 250 local government clients.

GrantWorks was the first consulting firm to work with the **General Land Office's** Coastal Management Program (1998) and has been active in the Coastal Infrastructure Assistance Program since its inception. We were among the first to secure and manage various **TxDOT** programs including ICE-TEA, TEA-21, Safe Routes to School, and SAFETEA-LU, **Texas Parks and Wildlife** Open Space Master Planning, Small Parks, Large Parks, and Indoor Recreation, and the **State Energy Conservation Office's** Energy Efficiency and Conservation Block Grants.

Currently the firm is active in the **Hurricanes Ike/Dolly Disaster Recovery** program managed by the Land Office and looks forward to continually improving the services we deliver to local governments.

Housing

Housing Assistance provides funds for the rehabilitation and reconstruction of single family homes. GrantWorks' Housing Division can provide all your housing assistance program management needs.

GrantWorks' wealth of housing program management experience is grounded in over 30 years of successful implementation. Our housing team has rehabilitated or constructed more than

2,500 homes for lower income and elderly Texans through the HOME and CDBG programs. Our unrivaled record makes GrantWorks the largest HOME Program management firm in the State of Texas.

Our Personal Approach

GrantWorks strives to understand your community's unique needs. By its nature, housing assistance affects residents' lives, so it requires caring and capable individuals committed to everyone's success. Our dedicated team personally gathers homeowner eligibility information, visits each home to identify needs, performs all inspections, and walks each homeowner through this challenging and rewarding process.

Housing Program Knowledge

GrantWorks has worked with the State of Texas since the State began administering the Texas Community Development Program in 1983 and the Texas HOME Program in 1993. Our history with these programs provides the know-how needed to handle considerable coordination efforts and complex administrative actions with State personnel. We use our insight to contribute to State program development at training and work-group sessions, board meetings and through public comments, striving to improve the program to work better for Texas communities.

Experience

With more than \$140 million in housing construction on the ground and 30 years' experience in housing program management, GrantWorks' performance history is unparalleled in the State of Texas.. This background provides exceptional insight into the challenges and responsibilities of managing your local housing program and navigating State program requirements

A Track Record of Success

Since the inception of the HOME Program, GrantWorks has led all other providers in the number of communities assisted, amount of funds expended, and number of contracts closed. We have the highest number of repeat HOME clients due to our record of success and excellent customer service. On June 13th of 2013 the Texas Department of Housing and Community Affairs (TDHCA) Governing Board awarded additional funding to HOME Program Grantees that continue to meet and exceed their contractually obligated performance benchmarks. GrantWorks' HOME clients represented over half of the Grantees selected by TDHCA for increases. Our clients received \$1,567,000 in additional assistance to build 16 new homes.

Housing Team Capacity

The GrantWorks Housing team is unmatched in qualification and capability, enabling us to provide the turn-key service you want for housing program management. Our Housing team members are:

Tres Davis, Vice President. Tres has been with GrantWorks since 2000, prior to that he worked for the Texas Department of Housing and Community Affairs (TDHCA) HOME Program for seven (7) years; gaining significant understanding of how a State agency operates. He also worked as a Construction Manager for Brighton Homes, was a Certified Lead Based Paint (LBP) Inspector, and earned a Master's degree in Construction Management from Texas A&M.

Donna M. Johnson, HOME Program Director. Donna has been working as a Housing Specialist with GrantWorks since 2003 and is responsible for oversight of construction for more than 300 homes rehabilitated and reconstructed (new home construction) utilizing her substantial construction management knowledge and experience. She formerly worked for Vann & Associates grant management firm.

Karen Sutton, Closing and Housing Specialist. Located in our South Texas office, Karen assists homeowners with questions, works with Title Companies, prepares construction documents, and HOME Program documentation. Additionally, she reviews and verifies the information submitted by the applicants for assistance in accordance with local program policies, State and Federal rules, guidelines and regulations.

Caley Carmichael, RMLO, License #641671, Environmental Specialists, Caley joined GrantWorks in 2011. She has a comprehensive knowledge of the environmental requirements that must be satisfied in order to achieve environmental clearance and obtain Federal Authority to use HOME Assistance Funds. Additionally, she has developed a close working relationship with the various Federal and State Agencies that must be consulted before obtaining environmental clearance on each assisted home.

Elena Sanders, RMLO, License #908493, Closing and Housing Specialist. After graduating from Texas State University, and several years with the State of Texas, Elena joined GrantWorks as an Application specialist. Located in the Austin, TX office, Elena helps answers homeowner questions related to their applications, prepares construction documents, and HOME program documents. She is also a licensed Residential Loan Originator (RMLO).

Jay Francis, Project Manager. Jay, who joined GrantWorks in 2013, is responsible for construction management and oversight. He has worked in the construction industry for over 20 years, holding general contractor, construction sales, project management, and project superintendent responsibilities. In addition, Jay has owned his own business in the Austin area. He attended the University of Texas- Austin.

**RESOLUTION BY THE
CITY OF MONTGOMERY, TEXAS**

WHEREAS, the Texas Department of Housing and Community Affairs (TDHCA) has notified the public of a funding availability to benefit lower income residents of Texas communities through the Texas HOME Investment Partnerships Program; and

WHEREAS, the Texas HOME Program has identified significant housing needs in the City, particularly for the rehabilitation and reconstruction of owner occupied housing; and

WHEREAS, the City wishes to assist our lower income homeowners while simultaneously enhancing the health, economic, and aesthetic quality of the community:

NOW, THEREFORE, BE IT RESOLVED

ONE, the City acknowledges and agrees to a request made by the City Administrator to apply for a HOME Program Contract and or Reservation Agreement;

TWO match, if applicable, will be provided in accordance to 10 TAC.

THREE, the City designates the City Administrator, Jack Yates, as the person authorized to sign all forms related to the preparation of, and to execute any and all HOME agreements including loan documents and grant agreements;

FOUR, the City will use general funds up to the amount of \$40,000 as a cash reserve to pay program costs before reimbursements are received from the State of Texas HOME Program;

Adopted this 9th day of May, 2017 by the City Council of Montgomery, Texas

Mayor Kirk Jones

ATTEST:

City Secretary Susan Hensley

Montgomery City Council
AGENDA REPORT

| | |
|---|--|
| Meeting Date: May 9, 2017 | Budgeted Amount: |
| Department: | |
| Prepared By: Jack Yates City Administrator | Exhibits: Proposal from Grant Works, Resolution |
| Date Prepared: May 3, 2017 | |

Subject

This involves the selection of the grant writer and Administrator of the HOME grant application.

Description

There was one RFP received despite advertising and sending the Request to about six companies that have managed HOME Projects in the past. The one RFP received was from the Grant Works company. This is the company you selected to accomplish the CDBG grant for Baja Street and the CDBG-DR grant for the non-federal portion of Buffalo Springs bridge repair.

The Review committee of Rebecca Huss, TJ Wilkerson, Susan Hensley and I recommend selecting Grant Works.

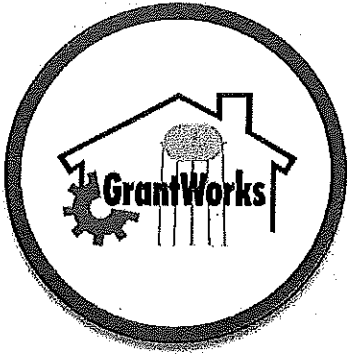
The fees for all of the Grant Works involvement is taken from the grant. No cost to the city.

Recommendation

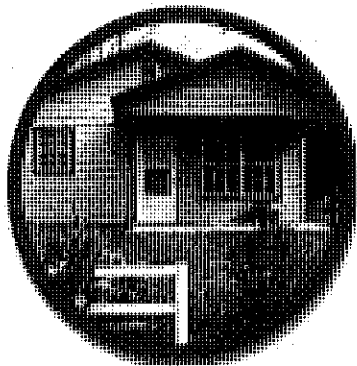
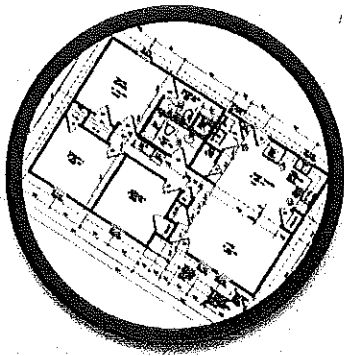
To approve the Resolution as proposed.

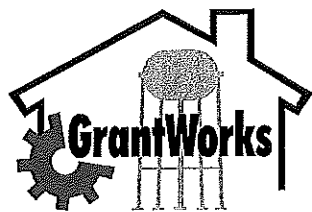
Approve By

| | | |
|--------------------|------------|-------------------|
| City Administrator | Jack Yates | Date: May 3, 2017 |
|--------------------|------------|-------------------|



PROPOSAL FOR ADMINISTRATION &
PROJECT MANAGEMENT
City of Montgomery
The NICHIE Program





*Planning, Housing, and
Community Development Services
for Rural Texas Since 1979*

Jack Yates, City Administrator
City of Montgomery
101 Old Plantersville Rd.
Montgomery, Tx 77356

Dear Mr. Yates,

Thank you for including GrantWorks in your Request for Proposals. We are Texas' foremost provider of grant management services, and we have the resources and expertise to successfully complete your projects. GrantWorks' staff has more than 750 years of experience working with governmental agencies, governmental consulting and non-profit companies. We handle every aspect of grant implementation and free you and your staff from paperwork while providing you with the decision-making information you need.

Enclosed please find our Proposal for Management and Professional Services for the HOME contract. We look forward to the opportunity to work with you on your HOME Program grant.

➤ **Scope of Services**

- Financial Management
GrantWorks will handle the administrative aspects of all items related to financial management. This includes but is not limited to input of all draws, draw tracking, invoicing, schedule of values, and TDHCA Audit Certification tracking.
- Recordkeeping Requirements
GrantWorks has a proven and established method of tracking all documents required by State and Federal programs. Our recordkeeping method is consistent with TDHCA guidelines, including assistance with necessary forms and procedural requirements for file maintenance, monitoring, and completion.
- Environmental Clearance Procedures
GrantWorks HOME Department staff includes an Environmental Specialist to ensure that all clearance procedures are properly followed and that all documentation is correct and properly filed with the State.
- Client Identification, Application Intake, and Eligibility Determination
GrantWorks has experienced, bilingual staff to conduct client intake, review documentation, and qualify applicants.
- Affirmative Marketing and Fair Housing Regulations
GrantWorks assists your community in complying with any pertinent Affirmative Marketing rules and regulations. In addition, we have a system in place to notify all registered Historically Underutilized Businesses in your Region regarding any of your programs that we manage.
- EEO/Section 504 Requirements
GrantWorks has a proven track record of ensuring full compliance with and proper documentation of all Equal Employment Opportunity, Fair Housing, and Section 504 Requirements.

Tres Davis
2201 Northland Dr.
Austin, Texas 78756
tres@grantworks.net

Vice President
Voice (512) 420-0303 x333
Fax (512) 420-0302

April 7, 2017

- Labor Standards Monitoring
GrantWorks employs a Labor Standards Specialist to ensure full compliance and proper recordkeeping.
- Housing Rehabilitation/Reconstruction Supervision
GrantWorks has a demonstrated track record of coordinating housing rehabilitation and affordable housing activities. These activities include all aspects of Construction Management and compliance with Federal Procurement Procedures. In fact, we are the largest consulting group for the HOME Program in the State of Texas.
- Completion of Contract Procedures
GrantWorks will assist with completion of all required documents for contract closeout. We will also work with your auditor, providing any information that they may need to complete your audit. Additionally, we will attend any progress and closeout monitoring.

➤ **Proposed Cost of Services**

- GrantWorks fees are earned as the work is completed, the homes are complete or nearly complete prior to any soft cost fees being invoiced and collected. Further, our fees are contingent upon receipt of HOME Program grant funds being deposited into your account.

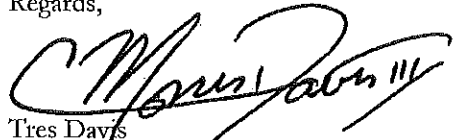
➤ **Evaluation Criteria**

- In as much as possible, GrantWorks, Inc. will handle the general administrative paperwork, regulatory research and other issues related to grant implementation.
- GrantWorks, Inc. will provide prompt guidance with respect to all regulatory matters to assist you when making policy decisions about the HOME Program.
- An appropriate financial management system will be in place to assist local officials in planning and the decision making process.
- GrantWorks staff has unparalleled experience with the successful implementation of the HOME Program. In addition we have multiple Residential Mortgage Loan Originators (RMLO) on staff. This is important because it is a requirement for the implementation of the HOME Program.
- GrantWorks will offer training to your staff to increase local capacity.
- Performance assessment reports, close-out documentation, and other State and Federal required forms will be prepared by GrantWorks staff and provided for review and approval.

Since 1979, GrantWorks has been devoted to making the grant process as straightforward as possible for our clients. Our consulting team is dedicated to assisting you in every way we possibly can.

If you have any questions, or need additional information, please do not hesitate to contact me at (512) 420-0303 extension 333 or tres@grantworks.net or Donna Johnson at (361) 287-3341.

Regards,



Tres Davis
Vice President, GrantWorks, Inc.

SUMMARY

GrantWorks is interested in providing HOME Program Contract Administration and Project Soft-Cost Services for your community. We believe GrantWorks is by far the best-qualified firm to provide these services.

A Housing Rehabilitation/Reconstruction Program is one of the most complicated activities to implement under the Texas HOME Program. Local governments should take special attention to obtain the most qualified administration and project rehabilitation/reconstruction specialist services to implement these programs.

GrantWorks will coordinate the implementation of the HOME Program with the appropriate local officials. This effort will assure a smooth implementation of the Program from the application outreach through compliance with individual local requirements dealing with building codes and permitting.

Verbal and written communications with community officials is important. A status report will be provided detailing activities undertaken and a schedule of activities to be completed.

This proposal includes several parts:

A statement of GrantWorks' **qualifications, experience, and familiarity with HOME** program regulations; including substantial experience in implementing housing projects, and the professional expertise of our staff. This will help you determine our capacity to perform and our experience.

References with the name of the local government, contact person and phone number to assist you in evaluating our experience and work performance.

A **Program Approach** section that provides insight into the way GrantWorks does business.

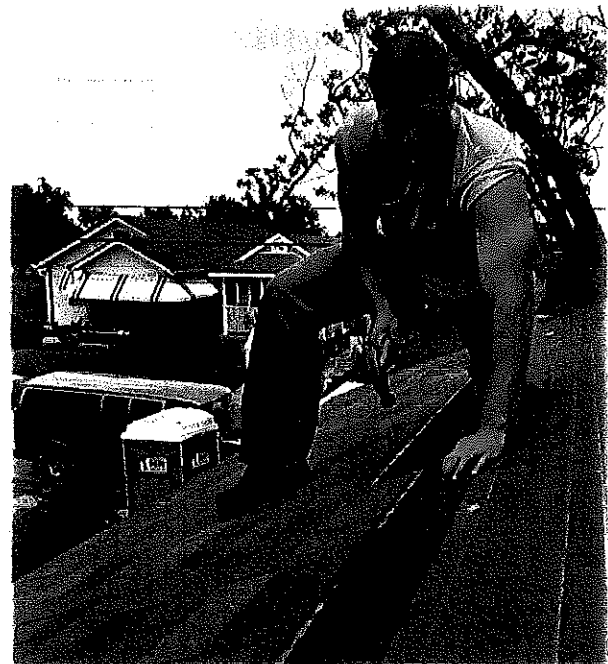
A two-part **Scope of Work** that defines the tasks we will undertake as (1) your Contract Administrator and (2) your Project Soft-Cost Service Provider.

The **Proposed Cost of Services** and Method of Payment for these services, based on performance criteria to assure your program's success before payment is made.

As a small Texas-based business (more than 60 full-time employees) dedicated to housing, community development, and planning services, GrantWorks has the ability to handle every issue that arises in implementing the HOME Program.



Our employees include former State HOME Program and Community Development Program staff members, residential construction managers, residential loan originators, lead-based paint inspectors, and a radiation safety officer certified by the Texas Department of Health. We also have an in-house dedicated XRF lead-based paint detection and measurement device, and locations across the State to better serve you.

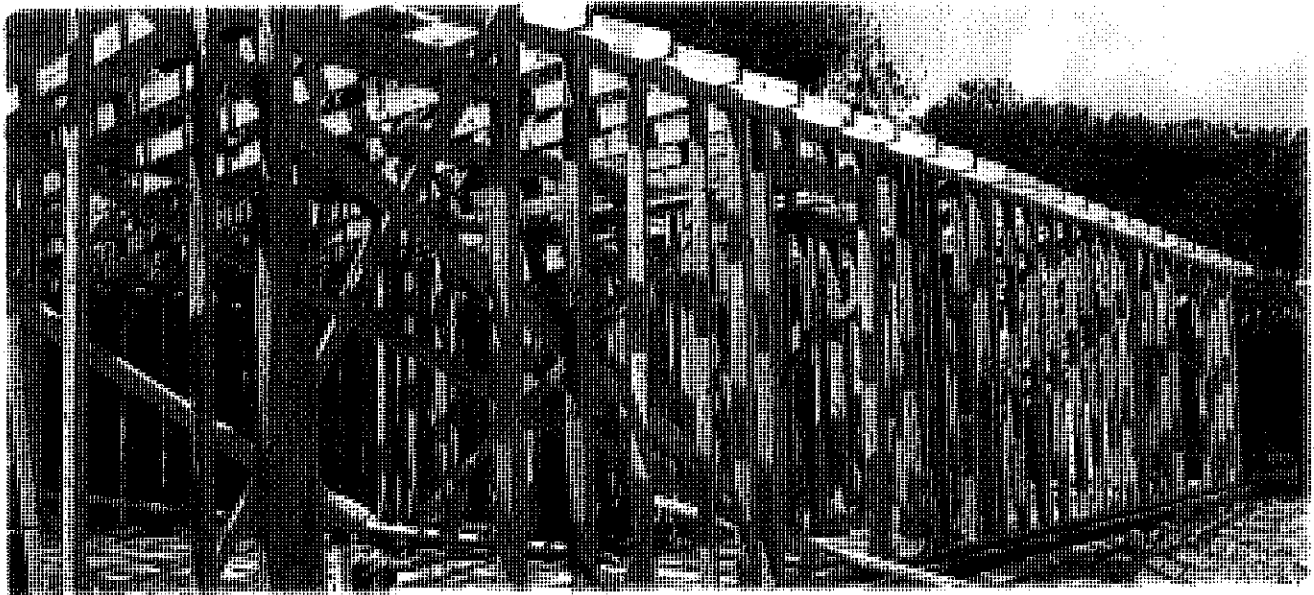


EXPERIENCE

GrantWorks has worked with the State of Texas since it began administering the Texas Community Development Program in 1983 and the Texas HOME Program in 1994. The proposed program requires considerable coordination with State personnel.

GrantWorks has extensive experience in the field of program administration and construction management. We bring our experience with similar work and efficient program management on more than 490 previous HOME Program Grants totaling more than 190 million dollars from the Texas Department of Housing and Community Affairs. The firm's strengths for this particular project include a knowledgeable and dedicated staff.

A good working relationship and a substantial local knowledge are important assets.



CAPACITY, QUALIFICATIONS, AND RESUMES

THE GRANTWORKS HOME TEAM

GrantWorks maintains a large, experienced, staff that is dedicated to the HOME Program and to the successful completion of your project.

Tres Davis

VICE PRESIDENT

Tres has been with GrantWorks since 2000, prior to that he worked for the Texas Department of Housing and Community Affairs (TDHCA) HOME Program for seven (7) years; gaining significant understanding of how a State agency operates. He also worked as a Construction Manager for Brighton Homes, was a Certified Lead Based Paint (LBP) Inspector, and earned a Master's degree in Construction Management from Texas A&M.

Donna M. Johnson

HOME PROGRAM DIRECTOR

Donna has been working as a Housing Specialist with GrantWorks since 2003 and is responsible for oversight of construction for more than 300 homes rehabilitated and reconstructed (new home construction) utilizing her substantial construction management knowledge and experience. In addition, Donna completed IRC 2012 Code training. She formerly worked for Vann & Associates grant management firm.

Dana Scanes

ENVIRONMENTAL SPECIALISTS

Dana has a comprehensive knowledge of the environmental requirements that must be satisfied in order to achieve environmental clearance and obtain Federal Authority to use HOME Assistance Funds. Additionally she previously worked for the City of San Marcos. Dana earned a M.S. in Geography from Texas State University and has a B.S. in Nursing from Baylor University.



Elena Sanders, RMLO

CLOSING AND HOUSING SPECIALIST

After graduating from Texas State University and working for several years with the State of Texas, Elena joined GrantWorks as an Application specialist. Located in the Austin, TX office, Elena helps answers homeowner questions related to their applications and prepares construction documents and HOME program documents. She is also a licensed Residential Loan Originator (RMLO).

Jay Francis

PROJECT MANAGER

Jay, who joined GrantWorks in 2013, is responsible for construction management and oversight and has completed

IRC 2012 Code training. He has worked in the construction industry for over 20 years, holding general contractor, construction sales, project management, and project superintendent responsibilities. In addition, Jay has owned his own business in the Austin area. He attended the University of Texas- Austin.

Karen Sutton

CLOSING AND HOUSING SPECIALIST

Located in our South Texas office, Karen assists homeowners with questions, works with Title Companies, and prepares construction documents and HOME Program documentation. Additionally, she reviews and verifies the information submitted by the applicants for assistance in accordance with local program policies, State and Federal rules, guidelines and regulations.

Robin Sisco

CLOSING AND HOUSING SPECIALIST

Robin, a GrantWorks' employee from 1998-2005, returned in 2013 to review HOME applicant information for compliance with program rules. She has twenty years of public service experience including seven in the HOME program. Robin holds a B.A. in Psychology from UT – Austin and a Masters of Public Administration from Texas Tech. She is also a licensed Residential Mortgage Loan Originator (RMLO).

Shirleen Bonacci

CLIENT SERVICES

Shirleen has worked in the construction industry for over 20 years. She has ten years of experience as a Senior Manager, including contract management, project management and project superintendent responsibilities. In addition, Shirleen has been a loan/escrow coordinator; worked with state and local building officials and handled projects from conceptual design through homeowner occupancy. She is responsible for construction management and oversight and completed IRC 2012 Code training.

REFERENCES

City of Agua Dulce
Ninfa Acuna
City Secretary
(361) 998-2532

Bee County
Judge Stephanie Silvas
(361) 621-1550

City of Bishop
Cynthia Contreras
City Manager
(361) 584-2567

City of Bowie
Mitzi Wallace
City Secretary
(940) 872-1114

City of Coahoma
Tammy Griffith
City Secretary
(432) 394-4287

City of Eagle Lake
Sylvia Rucka
City Manager
(979) 234-2640

City of Gregory
Veronica Cortez
City Secretary
(361) 643-6562



City of Orange Grove
Rick Lopez
City Manager
(361) 384-2322

City of Palacios
David Kocurek
City Manager
(361) 972-6555

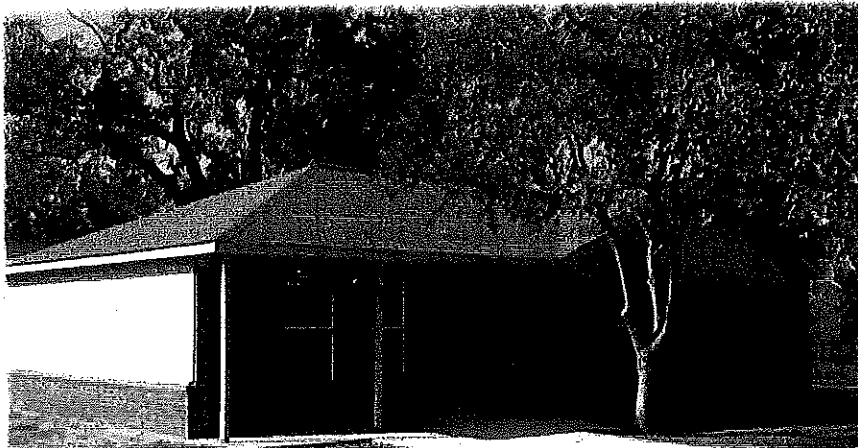
Refugio County
Judge Robert Blaschke
(361) 526-4434

Rural Economic Assistance League
Gloria Ramos,
Executive Director
(361) 668-3158

San Patricio County
Judge Terry A. Simpson
(361) 364-6120

City of Stanton
Michael Adams
City Manager
(432) 756-3301

Wolfe City
Sondra LaFavers
(903) 496-2251



GRANTWORKS PROGRAM APPROACH

Goal

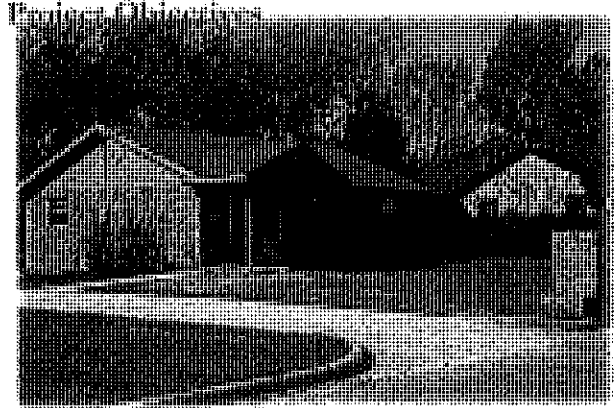
Provide high quality services that optimize program co-ordination, determination of requirements, implementation of solutions, and responsiveness.

The leadership of your community has recognized the need to provide its citizens with this Housing Assistance Program to address the housing needs of low-income homeowners.

A program of this type covers a broad range of services. We will carefully review and evaluate all program requirements to ensure that the completed program serves its intended purpose in a useful, efficient and cost-effective manner.

GrantWorks is in a unique position to assist you. The firm provides individuals who offer the specific background of experience best suited to the program requirements. We shall provide effective program management to:

- Support elected and appointed officials.
- Coordinate with Client personnel.
- Reduce required Client personnel involvement to a minimum.
- Maximize the use of local contractors, subcontractors and labor.
- Maintain a good relationship with residents obtaining program benefits.
- Ensure program compliance with Local, State and Federal requirements.



- Provide experienced and qualified personnel.
- Maintain regular and frequent coordination meetings.
- Identify program requirements and satisfy the requirements in an expeditious, thorough and satisfactory manner.
- Recognize the client's needs and maintain the flexibility necessary to meet any requirements which may be presented during the program.
- Provide low income homeowners in your community with a decent and safe home.
- Improve the housing stock in your community.



SCOPE OF WORK - ADMINISTRATIVE SERVICES

GrantWorks proposes to provide professional administration services for the project in response to your Request for Proposals. All work will be performed in a timely and efficient manner. The following required services will be provided for your project:

A. Establish a Recordkeeping System

1. Develop a recordkeeping system consistent with program guidelines, including the establishment of a filing system and assistance with necessary forms, financial management of the draw process, and procedural requirements for file maintenance.

B. Completion of Environmental and Special Conditions:

1. Assist and advise client in conducting all procedural steps necessary to obtain TDHCA/Federal environmental clearance for each project.

C. Completion, Approval, and Implementation of Policies and Procedures:

1. Assist and advise client in writing, and establishing, policies and procedures ensuring that the HOME contract is administered in a fair and nondiscriminatory process.
2. Establishing procedures for outreach and public notifications for assistance, program qualifications, and date, time and location to submit applications.
3. Assist in maintaining compliance with Fair Housing, Affirmative Marketing, and Equal Employment Opportunity regulations.
4. Assist in maintaining Section 504 requirements.

D. Completion of the Bid/Contract Award Process:

1. Assist and advise clients and homeowners with satisfying the Federal Procurement Procedures, bid solicitation, and the qualifying and selection of the lowest qualified bidder for contract award.

E. Completion of Construction:

1. Prepare Contractor Qualification Guidelines and screen applicants for program qualification.
2. Establish application process, application intake, and screen applicants and homes for feasibility and qualifications (initial scoring only, not work write-up).
3. Prepare a scoring and ranking list for administrator review and approval.
4. Manage dispute resolution process, as needed.
5. Serve as liaison for the client during any construction-monitoring visit by staff representatives from either TDHCA or HUD.

F. Filing of all Required Close-out Information:

1. Assist client with preparing, obtaining, and submitting all documents necessary to close-out the contract including, but not limited to:
 - a. Project Completion Reports
 - b. Contractor HUB Reports
 - c. Davis-Bacon (Labor Standards) Monitoring, where needed
 - d. Match Documentation
 - e. Certification of Contract Completion review.



SCOPE OF WORK -- SOFT COST PROJECT MANAGEMENT SERVICES

Plans/Work Write-Up

Provide plans and specifications for homes to be reconstructed.

Perform work write-up on each home approved for rehabilitation.

Provide justification of reconstruction for each home approved for reconstruction.

Specification Manual & Preparation

Prepare and provide specification manual for homes to be reconstructed

Prepare and provide specification manual for homes to be rehabilitated

Cost Estimate

Prepare cost estimates for homes approved for rehabilitation.

Prepare cost estimates for homes approved for reconstruction.



Initial Inspection

Perform initial inspection to determine feasibility or rehabilitation vs. reconstruction.

Prepare TDHCA initial inspection forms, as required by program.

Legal Filings and Recordation Fees

As needed.

Surveys, Title Search, and/or Insurance

Will facilitate as needed.

Schedule of Values

Prepare and submit a schedule of values to the Department as required for each draw.

Environmental Review & Site-Specific Clearance

Prepare and submit site-specific environmental reviews for clearance, as required by the Department.

Pre-Construction Conference

Conduct Pre-Construction Conference with Homeowner, Contractor, and Administrator in attendance.

Progress Inspections

Conduct progress inspections in sufficient quantity to insure compliance with Texas Minimum Construction Standards, Local codes, and Adopted Construction Specifications.

Final Inspection and Punch List

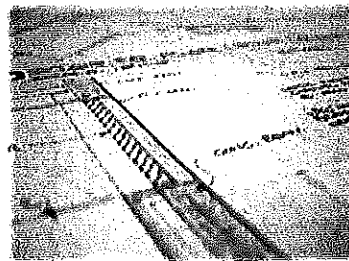
Conduct inspection to determine punch-list items
Inspect that all punch-list items have been addressed by contractor

Conduct final inspection

General

It is specifically understood that Consultant neither warrants nor guarantees that the work of any rehabilitation or reconstruction. Contractor will fully satisfy the housing assistance recipient

and said work will be free of defect in workmanship. Consultant will recommend replacement or withholding of payments



should construction contractor's work not comply with contract specifications.

It is specifically understood and agreed that Consultant will not provide either personally or by contract any professional or technical services requiring a license by the State of Texas and/or Client, other than progress inspections, in any phase or aspect of the foregoing; rather, Consultant will advise Client of the need of such services in furtherance of the planned objectives of Client's Program.

Our Fee Structure

GrantWorks will implement your HOME Program contract(s) in accordance with State and Federal requirements and with local satisfaction in mind.

GrantWorks requests a fee equal to the four percent (4%) HOME administrative allowance included in your HOME Program contract to provide Contract Administration Services.

GrantWorks requests a fee equal to \$9,000 of Project Costs for each unit assisted through your HOME Grant to provide Soft Cost Project Rehabilitation/Reconstruction Management Services, including specification adherence verification inspections, appraisals, title reports, and other required third party expenses.

The following table shows the costs-of-service offered here and detailed on the proceeding pages. This table is based upon a \$85,000 hard cost budget per home:

| Housing Rehab Management Costs Per Home Completed | |
|--|----------|
| Administration | \$3,400 |
| HR Management | \$9,000 |
| Total | \$12,400 |

The Project Rehabilitation/Reconstruction Management (Soft-Cost) Services fees allow GrantWorks to perform the necessary and demanding tasks associated with housing rehabilitation/reconstruction projects funded through the HOME Program. It assures you that your project will be successfully implemented and that your citizens will be provided the best assistance available.

There are no hidden costs to you or the beneficiaries for GrantWorks services. Our fees are earned as the work is completed. The bulk of our fees are paid out of program funds, with the balance being paid with your cash match/leverage.

Some other consultants request monthly billings that have to be reimbursed to you after receipt of grant funds from the HOME Program. This billing scheme can mean that you are out funds for an extended period of time and puts funds at risk if the program is not implemented properly. GrantWorks consulting contracts have a straight-forward fee structure, eliminating any up-front payments and the associated burden such a payment plan can place on local budgets.



GRANTWORKS IS A FULL SERVICE PROFESSIONAL SERVICES FIRM

Community Development

The GrantWorks Community Development Department prepares and implements grant funded projects that help Texas towns make needed improvements to their communities. Our services cover a range of project types including infrastructure improvements, disaster relief, coastal management, parks, and economic development.

We assist you throughout the grant process by providing personalized service -- from obtaining funding to construction completion.

We prepare and manage projects from agencies including the General Land Office, Texas Department of Agriculture, Texas Department of Transportation, State Energy Conservation Office and Texas Parks and Wildlife.



Community Development Fund This fund distributes the majority of TxCDBG grants. Funds are awarded once every two years through 24 regional competitions for assistance to eligible cities and counties to address public facilities and housing needs.

Disaster Recovery Fund This fund was created by a special grant to Texas from Congress following the major hurricanes in 2008.

Colonia Fund The Colonia fund is available for counties to assist identifiable unincorporated communities that are located within 150 miles of the Texas-Mexico border.

Other TxCDBG Funds Disaster Relief funds are also available on a first come, first served basis to provide assistance for restoration of public infrastructure damaged by natural disasters, such as flooding.

Texas Capital Fund GrantWorks has worked with Texas Capital Fund projects since 1990, including Main Street Improvements, Real Estate Development, Infrastructure Development, and the Downtown Revitalization Program.

Coast Impact Assistance Program CIAP funds may be used for conservation, restoration, mitigation, enhancement, education, and planning assistance with the goal of protecting coastal natural resources and promoting economic development.

Safe Routes to School Safe Routes to School programs are designed to help children travel safely to school by providing sidewalks, crosswalks, and bicycle facilities.

Energy Efficiency Community Development Block Grant (EECBG) EECBG is a stimulus funded program administered by the State Energy Conservation Office to help communities make their public facilities more energy efficient.

Planning

GrantWorks is committed to helping Texas communities preserve their heritage, improve their economic vitality and maintain their livability.

The Planning Services we provide are tailored to fit the capabilities of residents and officials in small towns while taking their specific challenges of location, size and staffing into account:

Comprehensive Planning GrantWorks has created more than 150 comprehensive plans for Texas communities.

Colonia Planning GrantWorks staff has offered colonia planning services since 1995, creating maps of the identified neighborhoods and assisting counties with addressing infrastructure and housing needs.

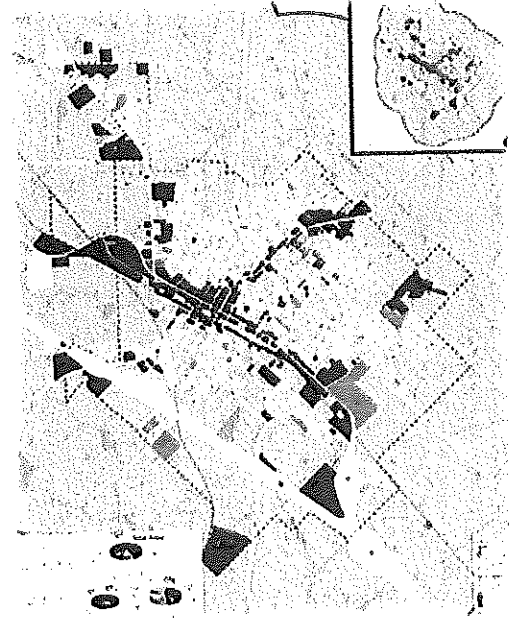
Planning Grants The Texas Department of Agriculture, through its Community Development Block Grant program, offers grant funding for Small Town Comprehensive Planning every two years through a statewide competition. GrantWorks staff assists communities with writing competitive applications for the available funds and administering the planning grants once awarded. In 2013, 13 of the 15 total Planning Grants awarded statewide went to GrantWorks' clients.

Hazard Mitigation Plans Applicants to the Hazard Mitigation Grant Program (HMGP) are required to have a FEMA-approved Hazard Mitigation Plan in place before submitting an application for a construction project. GrantWorks' planning and engineering staff can assist with writing a grant application for the creation or update of a Hazard Mitigation Plan.

Other Planning Services

- Capital Improvements Plans (5-year infrastructure plans looking at water, wastewater, drainage and street facilities)
- Economic Development Plans
- Downtown Revitalization Plans
- Ordinance Reviews (Zoning and Subdivision)
- Housing Plans

GIS Mapping GrantWorks creates maps of city limits, land uses, zoning, and infrastructure using Geographic Information Systems (GIS) software.



Hazard Mitigation

The Hazard Mitigation Grant Program (HMGP) provides federal funds after a major disaster declaration. HMGP is funded by the Federal Emergency Management Agency (FEMA) and administered by the State of Texas. While related to disasters, the HMGP is not a disaster relief program for individual disaster victims, or a recovery program that funds repairs to public property damaged during a disaster. Rather, it is a mitigation grant designed to: (1) Prevent or reduce future losses to lives and property through the identification and funding of mitigation measures and (2) Minimize the costs of future disaster response and recovery.

Some eligible project types are:

- Creation and Updates of Community Hazard Mitigation Plans
- Acquisition/Demolition
- Minor Localized Flood Reduction Projects
- Wind/Fire/Flood Retrofitting of Existing Structures
- Safe Room Construction
- Wildfire Mitigation
- Generators
- Warning Sirens
- Public Information Campaigns



SAM Search Results
List of records matching your search for :
Record Status: Active
DUNS Number: 963746466
Functional Area: Entity Management, Performance Information

| | | |
|--|------------------------|--------------------------|
| ENTITY | Grant Works Inc | Status:Active |
| DUNS: 963746466 | +4: | CAGE Code: 5JH22 DoDAAC: |
| Expiration Date: May 12, 2017 Has Active Exclusion?: No Delinquent Federal Debt?: No | | |
| Address: 2201 Northland Drive | | |
| City: Austin | State/Province: TEXAS | |
| ZIP Code: 78756-1117 | Country: UNITED STATES | |

CERTIFICATE OF INTERESTED PARTIES

FORM 1295

1 of 1

Complete Nos. 1 - 4 and 6 if there are interested parties.
Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.

OFFICE USE ONLY CERTIFICATION OF FILING

Certificate Number:
2017-189380

Date Filed:
04/07/2017

Date Acknowledged:

1 Name of business entity filing form, and the city, state and country of the business entity's place of business.

GrantWorks, Inc.
Austin, TX United States

2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.

City of Montgomery, TX

3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the services, goods, or other property to be provided under the contract.

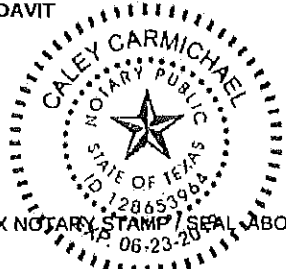
TDHCA HOME Program
Provide administrative and soft cost services to the City of Montgomery, TX for their HOME Program

| 4 | Name of Interested Party | City, State, Country (place of business) | Nature of interest (check applicable) | |
|---|--------------------------|--|---------------------------------------|--------------|
| | | | Controlling | Intermediary |
| | Spitzengel, Bruce | Sugar Land, TX United States | X | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

5 Check only if there is NO Interested Party.

6 AFFIDAVIT

I swear, or affirm, under penalty of perjury, that the above disclosure is true and correct.



C. Morris Davis III
Signature of authorized agent of contracting business entity

AFFIX NOTARY STAMP / SEAL ABOVE

Sworn to and subscribed before me, by the said C. Morris Davis III, this the 7th day of April, 20 17, to certify which, witness my hand and seal of office.

Caley Carmichael Caley Carmichael Notary Public
Signature of officer administering oath Printed name of officer administering oath Title of officer administering oath

6

CITY OF MONTGOMERY COUNCIL RESOLUTION

A RESOLUTION BY THE CITY OF MONTGOMERY, TEXAS, AUTHORIZING THE AWARD OF CONTRACT FOR ADMINISTRATION SERVICES AND SOFT COST PROJECT MANAGEMENT SERVICES FOR THE HOME OWNER REHABILITATION ASSISTANCE PROGRAM.

WHEREAS, it is necessary and prudent to initiate the implementation process at the earliest possible date;

WHEREAS, a significant amount of time can be saved by completing the procedures for hiring professional services for the HOME Investment Partnership Program at the earliest possible time; and

WHEREAS, the Request for Proposal procedures for administrative and soft cost management services are valid for the HOME Investment Partnership Program contract term;

NOW, THEREFORE, BE IT RESOLVED:

Section 1. That Grant Works be awarded a contract to provide HOME Investment Partnership Program related administration services and soft cost project management services for the HOME Reservation and Contract Program;

PASSED AND APPROVED on this _____ day of _____, 2017.

Mayor Kirk Jones

ATTEST:

City Secretary Susan Hensley

Montgomery City Council
AGENDA REPORT

| | |
|---|---|
| Meeting Date: May 9, 2017 | Budgeted Amount: |
| Department: | |
| Prepared By: Jack Yates City Administrator | Exhibits: Cover letter from LDC Statement of Intent, Resolution, Press Release from LDC |
| Date Prepared: May 3, 2017 | |

Subject

This is to consider a rate increase request of LDC to change rates in the environs of the city of Montgomery

Description

This is a proposed rate increase from LDC the natural gas supplier for approximately 90 customers in the city. The rate increase is:

| Classification of customer | Present Rate | | Proposed Rate | |
|----------------------------|-----------------|------------------|---------------|-----------|
| | Customer Charge | Commodity Charge | Customer | Commodity |
| Residential | \$15.00 /month | \$6.75 /MCF | \$21.00 | \$8.25 |
| Commercial | \$15.00/month | \$4.75/MCF | \$21.00 | \$6.25 |

The Resolution provided by LDC has the City council opposing the rate increase. I was told by the representative of LDC who delivered the rate increase documentation to the city was that the LDC management thought that the City Council "would not want to take the heat for raising rates and we will fight it out at the Railroad Commission".

Provided in your packet is the Summary Statement of Intent. I have the full 150 page Exhibits section of the filing in my office if you want to see/review it.

Montgomery City Council
AGENDA REPORT

Recommendation

To approve the Resolution as presented

Approve By

City Administrator

Jack Yates

Date: May 3, 2017

LDC, llc

A Local Distribution Company

*620 Longmire Road
Conroe, Texas 77304*

*936-539-3500
Fax 936-539-3501*

www.ldcgas.com

April 13, 2017

Mayor Kirk Jones
City of Montgomery
101 Old Plantersville Road
Montgomery, TX 77316

Re: *Statement of Intent filed by LDC, LLC to Change Rates in the Incorporated Areas of Montgomery, Texas*

Dear Mayor Jones:

Enclosed for filing is a copy of LDC, LLC's Statement of Intent to increase its system-wide natural gas rates.

LDC, LLC ("LDC") serves approximately 992 residential and commercial customers in Montgomery County, Texas. 819 of these customers are located in environs areas (outside municipal jurisdiction) and therefore subject to the jurisdiction of the Texas Railroad Commission ("Commission"), while 147 residential and 26 commercial customers are located within the city limits of Montgomery. LDC is filing a statement of intent to change rates for its environs customers with the Commission today as well.

LDC is making this filing with the City in accordance with § 103.001 of the Texas Utilities Code ("TUC"), which grants the City exclusive original jurisdiction over the rates, operations, and services of a gas utility within the municipality. The City may desire to suspend the effective date of the rates and, after review of the filing, set final rates for these customers. However, LDC requests that the City deny its proposed rate increase at the earliest possible opportunity. LDC then intends to appeal the City's decision to the Commission (under TUC § 103.051 and § 103.054) and ask that the rate change request at the City be consolidated with the LDC rate proceeding already underway at the Commission. This way, the rates will be reviewed by Commission staff and the approved rates can be the same within each customer class for all customers served by LDC. A model resolution denying the proposed rates is attached for your convenience.

LDC proposes to meet its customer notice requirements through bill inserts or other direct mailing as allowed under TUC § 104.103(b).

Thank you for your attention to this matter. If you have any questions, please feel free to contact Bobby Brown of LDC at (936) 539-3500.

Very truly yours,

A handwritten signature in black ink, appearing to read "Mike T. Swain". The signature is written in a cursive style with a large initial "M" and a long, sweeping tail.

Mike T. Swain
Member Manager
(281) 288-1122

RAILROAD COMMISSION OF TEXAS
GAS SERVICES DIVISION

GAS UTILITIES DOCKET NO. _____

| | | |
|------------------------------|---|---------------------|
| STATEMENT OF INTENT FILED BY | § | |
| LDC, LLC TO CHANGE RATES IN | § | BEFORE THE |
| THE ENVIRONS OF THE CITY OF | § | RAILROAD COMMISSION |
| MONTGOMERY, TEXAS | § | OF TEXAS |

TABLE OF CONTENTS

TAB

- 1 STATEMENT OF INTENT
- 2 GAS UTILITIES DOCKET NO. 9837 FINAL ORDER
- 3 TARIFFS AND RATE SCHEDULES
- 4 NOTICE
- 5 PREFILED DIRECT TESTIMONY OF KARL J. NALEPA
- 6 RATE FILING SCHEDULES
- 7 WORKPAPERS
- 8 PROTECTIVE ORDER

Received 4-13-2017
Jan Yates
City Administrator

STATEMENT OF INTENT TO INCREASE RATES
IN THE CITY OF MONTGOMERY, TEXAS

COMES NOW LDC, LLC (“LDC” or “Company”), a gas utility under Texas Utilities Code § 101.003(7), and files this Statement of Intent to Increase Rates in the City of Montgomery, Texas and in support thereof would respectfully show the Commission as follows:

I.

PROPOSED EFFECTIVE DATE

LDC proposes to make all rate changes pursuant to this Statement of Intent effective May 18, 2017.

II.

CURRENT RATES

LDC’s current rate schedules for all customers within the City of Montgomery, Texas are shown in the Railroad Commission of Texas Final Order in Gas Utilities Docket No. 9837, attached hereto as **Exhibit A**.

III.

SUMMARY OF RELIEF REQUESTED

LDC requests that the City adopt the rate schedules attached to this petition as **Exhibit B** in order to: (1) afford the Company the opportunity to recover its reasonable and necessary costs to provide gas utility services in its service area; and (2) provide the Company with a fair and reasonable return upon its invested capital used and useful in providing natural gas service. The rates set forth in the **Exhibit B** rate schedules are supported by the cost of service information and direct testimony that the Company is providing as part of the Rate Filing Package accompanying the Petition. The accompanying Rate Filing Package is incorporated herein by reference.

IV.

MUNICIPAL JURISDICTION

LDC is a gas utility under § 101.003(7) of the Texas Utilities Code, and the City has exclusive original jurisdiction over the rates, operations, and services of a gas utility within the municipality under § 103.001 of the Texas Utilities Code, unless the municipality surrenders jurisdiction to the Railroad Commission under § 103.003. Consistent with such jurisdiction, the proposed rates are applicable to the Company's natural gas sales and service within the municipal service territory.

V.

DETAILS OF PROPOSED CHANGES

A. Test Year

The Company's proposed cost of service is based on the twelve-month period ending December 31, 2016, updated for known changes and conditions that are measurable with reasonable accuracy.

B. Class and Number of Customers Affected

The following classes and numbers of customers will be affected by the proposed changes in base rates:

Table I

| <u>Customer Class</u> | <u>Number of Customers</u> | <u>Revenue Change</u> |
|-----------------------|----------------------------|-----------------------|
| Residential | 962 | \$129,351 |
| Commercial | 30 | <u>\$38,317</u> |
| | | \$167,668 |

C. Proposed Rates for General Sales Customers:

The new base rates will consist of a customer charge and a volumetric charge designed to recover LDC's cost of service and provide a reasonable return on its investment. The proposed rate changes are set forth on the following table.

Table II

| <u>Customer Class</u> | <u>Present Rates</u> | | <u>Proposed Rates</u> | |
|-----------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
| | <u>Customer Charge \$/Month</u> | <u>Commodity Charge \$/MCF</u> | <u>Customer Charge \$/Month</u> | <u>Commodity Charge \$/MCF</u> |
| Residential | \$15.00 | \$6.75 | \$21.00 | \$8.25 |
| Commercial | \$15.00 | \$4.75 | \$21.00 | \$6.25 |

LDC also proposes to increase its miscellaneous service charges as outlined in its filing.

VI.

EFFECT OF PROPOSED CHANGE ON COMPANY REVENUES

The proposed changes to LDC's rate schedules and tariffs will affect all general service customers. For the twelve (12) month period ending December 31, 2016, adjusted for known and measurable changes, the total operating revenues were approximately \$1,559,587. The proposed change in rates is expected to increase such annual revenues by approximately \$198,408. If approved by the Commission, the proposed rates would increase LDC's aggregate revenues by 12.72 percent. Therefore, the increase constitutes a "major change" as defined in Texas Utilities Code §104.101. LDC notes that its current rates were approved on July 14, 2009 or approximately 8 years before the proposed rates will be in effect.

VII.

RATE CASE EXPENSE SURCHARGE

Pursuant to Railroad Commission Rule 16 TAC §7.5530, LDC requests recovery of its reasonable rate case expenses through a rate case expense surcharge.

VIII.

PUBLIC NOTICE

Notice of this proceeding will be made pursuant to provisions of Texas Utilities Code § 104.103, including the notice, in a conspicuous form, in the bill of each directly affected customer.

See Tex. Util. Code § 104.103 (b). A copy of the proposed form of notice for this proceeding is attached to this Statement of Intent as **Exhibit C**.

IX.

SUPPORTING WITNESS TESTIMONY

Attached to the Statement of Intent as **Exhibit D** is the pre-filed direct testimony of Karl J. Nalepa, President of ReSolved Energy Consulting, LLC. The purpose of Mr. Nalepa's testimony is to present and support the gas sales weather adjustment, class cost of service study, and proposed rate design for LDC.

X.

REQUESTED PROTECTIVE ORDER

LDC requests that the City issue a protective order in the form provided as Exhibit D to this Petition to govern review and use of confidential, proprietary, and market-sensitive information. The proposed protective order is substantially the same as the protective order used in Commission Gas Utilities Docket No. 10617. Pending approval of the protective order, the Company will offer access to confidential and highly sensitive information to eligible requesting parties who execute the protective order certification provided in **Exhibit E**.

XI.

AUTHORIZED REPRESENTATIVES

LDC's business address and telephone numbers are:

LDC, LLC
620 Longmire Road
Conroe, TX 77304
936-539-3500 (phone)
936-539-3501 (fax)

LDC's authorized representatives are:

Mr. Larry D. Corley
President
LDC, LLC
620 Longmire Road
Conroe, TX 77304
936-539-3500 (phone)
936-539-3501 (fax)

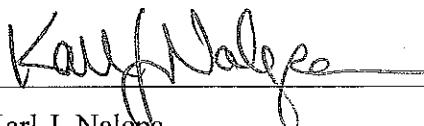
Mr. Karl J. Nalepa
President
ReSolved Energy Consulting, LLC
11044 Research Blvd., Suite A-420
Austin, TX 78759
512-331-4949 (phone)
512-331-5743 (fax)

Please serve all pleadings, motions, orders and other documents filed in this proceeding upon LDC's authorized representatives at the above-stated addresses.

XII.
CONCLUSION

WHEREFORE, PREMISES CONSIDERED, LDC, LLC requests that the City adopt the schedule of rates for Residential and Commercial customers consistent with the rate schedules set forth in **Exhibit B**; and for such further legal, equitable and necessary relief to which the Company may be entitled.

Respectfully Submitted

By: 

Mr. Karl J. Nalepa
President
ReSolved Energy Consulting, LLC
11044 Research Blvd., Suite A-420
Austin, TX 78759
512-331-4949 (phone)
512-331-5743 (fax)

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MONTGOMERY, TEXAS, DENYING THE PROPOSED RATES OF LDC, LLC FOR NATURAL GAS; DIRECTING THE CITY SECRETARY TO SEND A COPY OF THE RESOLUTION TO LDC; DETERMINING THAT THE MEETING AT WHICH THIS RESOLUTION WAS PASSED COMPLIED WITH THE TEXAS OPEN MEETINGS ACT; AND ESTABLISHING AN EFFECTIVE DATE.

WHEREAS, on or about April 13, 2017, LDC, LLC (hereafter "LDC") filed a Statement of Intent with the City Secretary in order to change rates and increase revenues;

WHEREAS, the governing body of a municipality has exclusive original jurisdiction over the rates, operations and services of a gas utility within the municipality according to Texas Utilities Code section 103.001;

WHEREAS, LDC has 147 residential and 26 commercial customers located within the city limits of Montgomery;

WHEREAS, LDC, on or about April 13, 2017, filed with the Texas Railroad Commission a statement of intent to change rates for its environs (i.e., outside municipal jurisdiction) customers in Montgomery County, affecting approximately 819 residential and commercial customers;

WHEREAS, LDC requests the City deny its rate change request so that it may appeal the decision to the Texas Railroad Commission as allowed by the Utilities Code and consolidate the change request for City customers with the rate proceeding already underway at the Commission; and

WHEREAS, notice to affected customers within the city limits of Montgomery of LDC's requested rate change can be adequately provided through bill inserts or other direct mailing as allowed under Texas Utilities Code section 104.103(b), NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MONTGOMERY, TEXAS:

Section 1. The findings set out in the preamble to this resolution are hereby in all things approved and adopted.

Section 2. Customer notice requirements of LDC's requested change in rates may be provided by LDC in a manner allowed by Texas Utilities Code section 104.103(b).

Section 3. The rate increase requested by LDC in its Statement of Intent filed with the City is denied.

Section 4. Any relief requested by LDC of the City of Montgomery in its April 13, 2017 filing which is not granted herein is denied.

Section 5. Upon adoption, the City Secretary is directed to send a copy of this resolution to LDC's authorized representative: Mr. Karl J. Nalepa, President, ReSolved Energy Consulting, LLC, 11044 Research Blvd., Suite A-420, Austin, TX 78759, fax 512-331-5743, email knalepa@resolvedenergy.com.

Section 6. The meeting at which this resolution was approved was conducted in strict compliance with the Texas Open Meetings Act, Texas Government Code chapter 551.

Section 7. This resolution shall be effective on and after its date of passage.

PASSED AND APPROVED THIS ____ OF _____ 2017.

THE CITY OF MONTGOMERY

, Mayor

ATTEST:

, City Secretary

LDC, llc

A Local Distribution Company

*620 Longmire Road
Conroe, Texas 77304*

*936-539-3500
Fax 936-539-3501*

www.ldcgas.com

April 13, 2017

PRESS RELEASE

FOR IMMEDIATE RELEASE

For information contact

Larry D. Corley
President
LDC, llc
620 Longmire Road
Conroe, Texas 77304
(936) 539-9500

LDC llc, a natural gas distribution company serving approximately 1000 customers in Montgomery County, Texas, today filed an application for rate increase with the Texas Railroad Commission and the City of Montgomery, Texas. If the application is approved, the average residential customer would see an increase of approximately \$11.00 per month in their overall natural gas costs.

"Our analysts told us our operating costs justify a far higher rate increase than we are requesting," Larry Corley, LDC's president said, "but we are mindful of the impact of increased gas costs upon our customers, so we are not seeking the full amount of the increase our costs would justify."

"LDC serves a largely rural community that in past years would have been dependent on propane or all electric homes." Corley continued. "Even at our proposed new rates, natural gas provides a substantial savings over these alternatives. We are dedicated to continuing to provide safe and reliable natural gas service to these historically underserved communities."

Corley added, "The rates we are proposing are in line with those charged by similarly sized utilities serving a similar customer profile. Through efficient cost management, we have managed to hold our rates steady for the past eight years."

LDC is also seeking to increase certain miscellaneous service charges.

LDC last requested a rate increase in 2008. Current rates have been in effect since August 2009.

LDC's rates and services are regulated by the Texas Railroad Commission and the municipalities it serves. The Commission is expected to act on the request by October 2017.

Montgomery City Council
AGENDA REPORT

| | |
|---|---|
| Meeting Date: May 9, 2017 | Budgeted Amount: |
| Department: | |
| Prepared By: Jack Yates City Administrator | Exhibits: Stakeholder letter from Conroe-The Woodlands Urbanized Area Transit Advisory Committee, Information Sheet from City of Conroe, Public Transportation in Montgomery Information Sheet |
| Date Prepared: May 3, 2017 | |

Subject

This is to consider participation and financial involvement in a to-be-created County-wide Urban and Rural Transportation Implementation Strategy for Seniors, Persons with Disabilities, Veterans, Persons with Low Incomes and the General Public

Description

This a proposed new group of interested governments, social agencies and public transit providers of public transportation services to create a formal organization to study the needs of the groups referred to in the Subject heading above. The outcome may/probably will be grants for furthering the inclusion of more areas/greater participation in public transportation.

Montgomery is now served by Brazos Transit District and Senior Rides- at no cost to the city, and little cost to the rider. I have contacted each of the Service Providers to obtain, if possible, how many Montgomery residents have used their service in the past year. However, participation in this new group is more about not getting left out of future planning/participation possibilities if the City were not to be included in this group. This group, I believe will advise County and City leaders in the future about what routes should be and who participates and how much it may cost each entity. Having a seat at the table is important, in my opinion.

Montgomery City Council
AGENDA REPORT

As to the contribution, I would recommend \$2,000, because Montgomery has little participation in the ridership now and I do think that \$2,000 gets the City participation rights.

As to who the representative should be on the group, that does not need to be determined until there actually is a group – but it seems worthwhile to go ahead and appoint someone to represent the city on this subject in the organizational time. I can be involved, but would not think that I should be the long-term delegate to the group. My thought is to appoint a citizen who is interested in the subject and would represent the City well. The delegate and I could work together during the organizational phase of the Strategy group, then the delegate could take over – reporting back to the Council as needed.

As to how to select the delegate you could either appoint someone that you know is interested and would represent the city well (such as Nelson Cox, chairman of the Planning Commission who is retired and has community-wide perspective) or you could ask the community for volunteers by letting the public know they can apply for appointment – much as happens now for MEDC membership. The City could pay vehicle mileage to attend the meetings.

Recommendation

To approve participation in the Strategy Implementation Group by contributing \$2,000 and by selection of a delegate to the proposed group

Approve By

City Administrator

Jack Yates

Date: May 3, 2017



April 26, 2017

Dear Committee Stakeholders:

The members of the Conroe-The Woodlands Urbanized Area Transit Advisory Committee (Committee), working with stakeholders throughout Montgomery County, have adopted a resolution in support of the need to create of a County-wide Urban and Rural Transportation Implementation Strategy for Seniors, Persons with Disabilities, Veterans, Persons with Low Incomes, and the General Public (attached). Several larger stakeholders, such as the City of Conroe, The Woodlands Township, Montgomery County, and Brazos Transit District, have indicated a willingness to participate on a stakeholder subcommittee and may consider financially supporting the estimated \$120,000 implementation strategy. The success of the implementation strategy would be bolstered by broad support of additional political subdivisions, non-profit organizations and other stakeholders within Montgomery County who are concerned about the growing demand to connect people with medical, social service, employment, and other essential activities.

I invite your organization to participate on the stakeholder subcommittee and request your organization's consideration of a \$2,000 to \$5,000 commitment toward development of the implementation strategy to achieve greater connectivity for people with limited mobility options to essential services. Please contact me directly with your staff and/or monetary commitment to this effort. I can be reached at (281) 210-3800 and GBunch@thewoodlandstowship-tx.gov.

You may also contact Mr. David Bartels, Vice President with The Goodman Corporation, for additional information regarding this request. He can be contacted at (512) 236-8002 extension 307 and dbartels@thegoodmancorp.com.

Sincerely,

Gordy Bunch
Chair, The Woodlands Township Board of Directors
Chair, Conroe-The Woodlands Urbanized Area Transit Advisory Committee

Attachment

Search...

65° 

Stay Connected:    



CITY OF CONROE

Est. 1904



Citizen Request
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NEWS

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Conroe – The Woodlands Urbanized Area Mobility Committee Seek Partners to Develop County-Wide Transportation Implementation Strategy

Post Date: 04/10/2017

FOR IMMEDIATE RELEASE:

Conroe – The Woodlands Urbanized Area Mobility Committee Seek Partners to Develop County-Wide Transportation Implementation Strategy

MONTGOMERY COUNTY, TEXAS, MARCH 28, 2017

The Conroe – The Woodlands Urbanized Area Mobility Committee (Committee) was formed in October 2012 after the U.S. census designated the Conroe and Woodlands as a new “large” urbanized area (UZA) in 2010. The Committee is composed of representatives from the City of Conroe, The Woodlands Township, Montgomery County, and the unincorporated cities of Oak Ridge North, Willis, Shenandoah, Panorama Village, Cut and Shoot, and the Town of Woodloch. The Committee, along with UZA and Montgomery County stakeholders and the public have participated in numerous discussions regarding the need for a better transportation implementation strategy to serve those most in need.

Oak Ridge North Mayor Jim Kuykendall said, “. . . individuals have provided public comment to the effect that without a public transportation trip provided by the City of Conroe, Senior Rides, or Interfaith of the Woodlands that they would have no way to get to an important medical appointment, like dialysis. You are literally talking about life and death situations that hinge on shoe-string budgets to provide these transportation services.”

In August 2016, Committee members and stakeholders met to discuss the unmet transportation needs of seniors, veterans, and persons with disabilities and/or low incomes. Committee member and Montgomery County Commissioner Jim Clark emphasized that “the east part of the County is in great need for better connections to medical, social service, education and employment destinations.”

Committee Chairman Gordy Bunch said, “This is an issue that impacts everybody. I imagine that hospitals, special districts, municipalities, social service organizations, everybody really, has a vested interest in seeing this problem addressed effectively.”

Committee member and Conroe City Councilmember Guy Martin echoed this sentiment. “We’ve been talking about this for several months now. It’s time to create a better implementation strategy so that more agencies, service providers, and cities can get moving on solving the problem.”

Broad-based buy-in is critical to addressing entrenched transportation problems effectively. Soon, Committee Chairman Bunch and Committee members will be reaching out to interested parties and stakeholders to ask that they consider a financial commitment towards building this transportation implementation strategy, tentatively dubbed “Moving Montgomery County.” The Committee will send a letter requesting buy-in for between \$2,000 and \$5,000 and noting that the success of Moving Montgomery County “would be bolstered by broad support of political subdivisions, non-profit organizations, and other stakeholders within Montgomery County, who are concerned about the growing demand to connect people with medical, social service, education, employment and other essential destinations.”

For additional information regarding the Urbanized Area Mobility Committee or to participate in Moving Montgomery County, please contact mcmobilitystrategy@gmail.com

PUBLIC TRANSPORTATION IN MONTGOMERY

| SERVICE PROVIDER | TYPES OF SERVICE | CONTACT NUMBER | ELIGIBILITY | SERVICE AVAILABILITY |
|-------------------------------|-----------------------------|----------------|--|---|
| Senior Rides | Any Location | 936-756-5828 | Montgomery Residents | 65+ and Persons w/ Disability, No Charge |
| Brazos Transit District | Any Location | 800-272-0039 | Montgomery Residents | Rural Area of Montgomery Cty., Mon.-Fri., Cost Minimal |
| Veterans, Am. Legion Post 618 | Am. Legion Post 618 | | | |
| | to Houston VA | 936-856-5224 | All Veterans | Meet at Post 618, Every Wed. 6:00am, By Appt., No Charge, |
| Non-Emer. Medical Trans. | Any Medical Facility | 877-633-8747 | Medicaid, Children w/Special Health Care Needs | Mass Transit Tickets, ADA Car/Van based on need. |
| Veterans of Foreign Wars | | | | |
| Post 4709 | VFW Post 4709 to Houston VA | 936-756-7614 | All Veterans | Meet at Post 4709, Every Tuesday, 6:00am, No Charge |

Montgomery City Council
AGENDA REPORT

| | |
|---|---|
| Meeting Date: May 9, 2017 | Budgeted Amount: |
| Department: Utility | |
| | Exhibits: Memo from City Engineer, E-mail from Michael Williams regarding quotes and reason for recommending \$21,575.20 quote |
| Prepared By: Jack Yates City Administrator | |
| Date Prepared: May 4, 2017 | |

Subject

This is to consider repair of Emergency Generator at Water Plant No. 3. At a cost of \$21,575.20

Description

A memo from the City Engineer is attached.

The cost of the repair can come from the \$162,000. Utility Fund budget for Repairs and Maintenance that has \$110,584. spent so far this year –

or from Utility Fund Capital Outlay that has \$200,000 budgeted with \$1,233. spent to date (but has all \$200,000. spoken for with the following projects: \$27,500. for Houston Street/105 water lines from the previous Council meeting and \$132,000. for GST Well #2 and \$30,000. for part of the Buffalo Springs bridge water line expense – if Mr. Bowen does not pay for the line)

Montgomery City Council
AGENDA REPORT

Recommendation

To approve repair of Emergency Generator at Water Plant No. 3 for \$21,575.20 to World Wide Power with funds to come from Repairs and Maintenance Line Item in the Utility Fund Budget.

Approve By

City Administrator

Jack Yates

Date: May 4, 2017



8701 New Trails Drive, Suite 200
The Woodlands, Texas 77381-4241
Tel: 281.363.4039
Fax: 281.363.3459
www.jonescarter.com

May 4, 2017

The Honorable Mayor and City Council
City of Montgomery
101 Old Plantersville Road
Montgomery, Texas 77316

Re: Water Plant No. 3 Generator Repair

Dear Mayor and Council:

In March 2017, the City's operator, Gulf Utility Service ("Gulf"), identified a leak on the radiator of the diesel generator at Water Plant No. 3. Gulf has been working since to obtain quotes for the repair or replacement of the radiator.

Gulf obtained proposals to repair the radiator from Worldwide Power Products ("Worldwide") and Loftin Equipment Co. Worldwide submitted the low proposal in the amount of \$21,575.20. The work is expected to take approximately 10 days to complete.

Additionally, Gulf obtained a proposal to replace the generator in lieu of repair. Worldwide provided a proposal in the amount of \$17,993.20 to remove the existing radiator and install a new radiator. However, the replacement will take approximately 120 days to complete.

The City needs to have the generator fully functionally during hurricane season to be able to provide reliable water service in the event of a power outage. Due to the time constraints, we recommend the City authorize Gulf to proceed with having the generator repaired by Worldwide. Gulf has worked with Worldwide in the past and find them to be an acceptable contractor.

As always, should you have any questions or need any additional information, please do not hesitate to contact Chris Roznovsky or myself.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ed Shackelford', written over a white background.

Ed Shackelford, PE
Engineer for the City

EHS/cvr

P:\PROJECTS\W5841 - City of Montgomery\W5841-0900-00 General Consultation\2017\Letters\MEMO to Council RE Water Plant No. 3 Generator Repair.doc

Enc: Proposals

cc: Mr. Jack Yates – City of Montgomery, City Administrator
Ms. Susan Hensley – City of Montgomery, City Secretary
Mr. Larry Foerster – Darden, Fowler & Creighton, LLP, City Attorney

WORLDWIDE POWER PRODUCTS

Service Estimate

5711 Brittmoore Road
Houston, TX 77041

Main: 713.434.2300
Fax: 713.434.2394

| | | | | |
|---|-----------------------|---|----------------------------------|---|
| CUSTOMER: Gulf Utility Services | | DATE: March 7, 2017 | QUOTE NUMBER: Q-024945 | SERVICE ADDRESS: 26246 FM 1097 Montgomery, TX 77356 PHONE: (281) 831-7628 FAX: |
| CONTACT: Michael Williams | | EMAIL: michaelw@gulfutility.net | | |
| MAKE/MODEL: | SERIAL NUMBER: | | | BILLING ADDRESS: PO Box 691008 Houston, Texas 77269 United States |

SCOPE OF WORK TO BE PERFORMED

| QUANTITY | DESCRIPTION | PRICE | TOTAL |
|----------|---|------------|-------------|
| 1 | Parts & Materials Charge - Radiator Repair | \$1,582.00 | \$1,582.00 |
| 1 | Labor Charge - Radiator Core Assembly Labor | \$1,030.00 | \$1,030.00 |
| 196 | Mileage Charge - Mileage Charge | \$2.20 | \$431.20 |
| 1 | Parts & Materials Charge - Radiator Waste Disposal | \$100.00 | \$100.00 |
| 2 | Parts & Materials Charge - Crane remove/install enclosure | \$2,280.00 | \$4,560.00 |
| 32 | Labor Charge - Labor Charge | \$110.00 | \$3,520.00 |
| 1 | Parts & Materials Charge - Hoses/Clamps | \$490.00 | \$490.00 |
| 1 | Parts & Materials Charge - Gasket Material | \$144.00 | \$144.00 |
| 1 | Parts & Materials Charge - Clean & Test Charge Air Cooler | \$443.00 | \$443.00 |
| 1 | Parts & Materials Charge - Removal/Install of Radiator | \$8,560.00 | \$8,560.00 |
| 40 | Parts & Materials Charge - Coolant | \$13.00 | \$520.00 |
| | Sub-Total | | \$21,380.20 |
| | Environmental Fee (3%) | | \$117.00 |
| | Supply Charge (2%) | | \$78.00 |
| | Tax Charge (8.25%) | | |

| | | |
|--|--------------|--------------------|
| DESCRIPTION: Remove and repair radiator. Supply & install hoses, clamps, & gasket material. Clean/test air cooler. Remove & reinstall the enclosure, lock out/tag out generator, disconnect hoses, drain coolant, remove fan/shroud & refill coolant. | Total | \$21,575.20 |
|--|--------------|--------------------|

NOTES: The above charges are for completing operations listed on the following pages. All work to be performed between 7:00AM and 4:00PM Monday-Friday. Units must be available for servicing upon arrival of technician. If the technician must wait more than 30 minutes an additional hourly charge will be made. If the unit is not released for servicing a one-time charge of \$100.00 will be made. This agreement will automatically renew after one year unless cancelled by either party with thirty days written notice.

| | | |
|--|---|--------------------------------------|
| IF ADDITIONAL REPAIRS ARE NEEDED: -----> | STOP WORK UNTIL CUSTOMER GIVES APPROVAL | NOTIFY CUSTOMER BUT CONTINUE REPAIRS |
|--|---|--------------------------------------|

In consideration of the sale of Goods and/or Services by Worldwide Power Products (WPP), I (or we) hereby agree to pay you for same at your office in Houston, Harris County, Texas. It is further agreed that each past due account shall bear interest at the rate of 18% per annum, and that if any account is placed in the hands of an attorney for collection, WPP shall also be entitled to a reasonable attorney's fee. "WPP" means and includes Worldwide Power Products, corporate subsidiaries, its corporate successors, and in the event it assigns all or any part of Debtor's indebtedness, than so far as the assigned portion thereof, its assigns. All obligations of the undersigned under this Agreement are to be performed at the office(s) of WPP in Houston, Harris County, Texas. PAST DUE POLICY: No work shall be performed for any customer with a past due amount; this includes emergency and warranty work. WARRANTY POLICY: WPP WARRANTS THE PARTS CONVEYED HEREUNDER ONLY TO THE EXTENT THAT same are warranted by the Standard Manufacture Parts Warranty or by other manufacturer thereof. Prior to any work being performed payment arrangements must be made. Some parts and services are not covered under the warranty policy, for example; (batteries, oil, coolant, filters, fuses, adjustments recalibrations etc....) Customer's sole and exclusive remedy shall be limited to repair or replacement at WPP's premises of those parts found to be defective within the applicable warranty period. NO OTHER REMEDY, INCLUDING BUT NOT LIMITED TO CLAIMS FOR INCIDENTAL CONSEQUENTIAL OR SPECIAL DAMAGES, INCLUDING LOSS OF TIME OR INJURY TO PERSON OR PROPERTY OR ANY OTHER ECONOMIC LOSS SHALL BE AVAILABLE TO CUSTOMER. THIS WARRANTY IS EXPRESSLY IN LIEU OF ALL WARRANTIES, EXPRESSED OR IMPLIED, INCLUDING ANY WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

| | | |
|--------------|---------------|-----|
| SUBMITTED BY | AUTHORIZED BY | PO# |
|--------------|---------------|-----|



LOFTIN EQUIPMENT CO.

6113 BRITTMORE
HOUSTON, TEXAS, 77041

Phone 281-310-6858

Fax 281-754-4112

www.loftinequip.com

Michael Williams

Gulf Utility Service

391 N. Liberty Street, Montgomery, Texas 77356 (WWTP)

April 24, 2017

DQAD-5699853

L040728301 Onan

Fax#/Email: michaellw@gulfutility.net

Phone #: 713.494.1793

Ref: Quote No.

60 AA

Loftin Equipment is proud to present you with an estimate to recore radiator. Contractor will be used for removal and replacement of radiator. Loftin will take unit offline and bring back online after reinstallation. Generator will be down overnight. A quote for rental can be provided @ an additional cost.

| | |
|--------------------|-------------|
| Parts: | \$0.00 |
| Mileage: | \$305.50 |
| Freight: | \$0.00 |
| Sublet: | \$20,094.62 |
| Labor: | \$1,040.00 |
| Supp. / Env. Fees: | \$159.80 |
| Total: | \$21,599.92 |

Any additional repairs, parts, services, or labor that is required but NOT specifically listed in this quotation would be quoted separately for customer approval. Labor associated with quotation reflects normal working hours on Monday through Friday; 8:00 AM to 4:00 PM. Any loss of time or mileage costs due to unavailability of equipment for scheduled services will be charged at Loftin's prevailing rates OR 50% of the quoted price, which ever is greatest. Non-standard hours are quoted upon customer request. Please allow 10-14 days for parts receiving and scheduling. State and Federal Taxes Additional -A 1.5% (18%APR) finance charge will be applied to all past due accounts. Quote valid for 90 days.

Respectfully Submitted,

Alma Amaya

Alma Amaya
Service Writer
(281) 310-6858 x315

Customer Approval
Please return via fax.

Purchase Order Number



Service Estimate

5711 Brittmoore Road
Houston, TX 77041

Main: 713.434.2300
Fax: 713.434.2394

| | | | | | |
|---|--|-----------------------|--|---|--|
| CUSTOMER: Gulf Utility Services | | | DATE: May 2, 2017 | QUOTE NUMBER: Q-025111 | SERVICE ADDRESS: 26246 FM 1097 Montgomery, TX 77356 |
| CONTACT: Michael Williams | | | EMAIL: michaelw@gulfutility.net | | PHONE: MOBILE: +1 7134096864 |
| MAKE/MODEL: | | SERIAL NUMBER: | | BILLING ADDRESS: PO Box 691008 Houston, Texas 77269 United States | |

| SCOPE OF WORK TO BE PERFORMED | | | |
|--|---|------------|--------------------------|
| QUANTITY | DESCRIPTION | PRICE | TOTAL |
| 1 | Parts & Materials Charge - Gasket Material | \$144.00 | \$144.00 |
| 2 | Parts & Materials Charge - Crane remove/install enclosure | \$2,280.00 | \$4,560.00 |
| 24 | Labor Charge - Labor Charge | \$110.00 | \$2,640.00 |
| 1 | Parts & Materials Charge - Hoses/Clamps | \$490.00 | \$490.00 |
| 1 | Parts & Materials Charge - Radiator | \$9,013.00 | \$9,013.00 |
| 40 | Parts & Materials Charge - Coolant | \$13.00 | \$520.00 |
| 196 | Mileage Charge - Mileage Charge | \$2.20 | \$431.20 |
| Sub-Total | | | \$17,798.20 |
| Environmental Fee (3%) | | | \$117.00 |
| Supply Charge (2%) | | | \$78.00 |
| Tax Charge (8.25%) | | | |
| DESCRIPTION: Supply & install new radiator, hoses, clamps, & gasket material. Remove & reinstall the enclosure, lock out/tag out generator, disconnect hoses, drain coolant, remove fan/shroud & refill coolant. | | | Total \$17,993.20 |

NOTES: The above charges are for completing operations listed on the following pages. All work to be performed between 7:00AM and 4:00PM Monday-Friday. Units must be available for servicing upon arrival of technician. If the technician must wait more than 30 minutes an additional hourly charge will be made. If the unit is not released for

servicing a one-time charge of \$100.00 will be made. This agreement will automatically renew after one year unless cancelled by either party with thirty days written notice.

| | |
|--|--|
| <p>IF ADDITIONAL REPAIRS ARE NEEDED:</p> <p>-----></p> | <p>STOP WORK UNTIL NOTIFY CUSTOMER BUT CUSTOMER GIVES APPROVAL CONTINUE REPAIRS</p> |
|--|--|

In consideration of the sale of Goods and/or Services by Worldwide Power Products (WPP), I (or we) hereby agree to pay you for same at your office in Houston, Harris County, Texas. It is further agreed that each past due account shall bear interest at the rate of 18% per annum, and that if any account is placed in the hands of an attorney for collection, WPP shall also be entitled to a reasonable attorney's fee. "WPP" means and includes Worldwide Power Products, corporate subsidiaries, its corporate successors, and in the event it assigns all or any part of Debtor's indebtedness, then so far as the assigned portion thereof, it assigns. All obligations of the undersigned under this Agreement are to be performed at the office(s) of WPP in Houston, Harris County, Texas. PAST DUE POLICY: No work shall be performed for any customer with a past due amount; this includes emergency and warranty work. WARRANTY POLICY: WPP WARRANTS THE PARTS CONVEYED HEREUNDER ONLY TO THE EXTENT THAT same are warranted by the Standard Manufacture Parts Warranty or by other manufacturer thereof. Prior to any work being performed payment arrangements must be made. Some parts and services are not covered under the warranty policy, for example; (batteries, oil, coolant, filters, fuses, adjustments recalibrations etc....) Customer's sole and exclusive remedy shall be limited to repair or replacement at WPP's premises of those parts found to be defective within the applicable warranty period. NO OTHER REMEDY, INCLUDING BUT NOT LIMITED TO CLAIMS FOR INCIDENTAL CONSEQUENTIAL OR SPECIAL DAMAGES, INCLUDING LOSS OF TIME OR INJURY TO PERSON OR PROPERTY OR ANY OTHER ECONOMIC LOSS SHALL BE AVAILABLE TO CUSTOMER. THIS WARRANTY IS EXPRESSLY IN LIEU OF ALL WARRANTIES, EXPRESSED OR IMPLIED, INCLUDING ANY WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

| | | |
|--------------|---------------|-----|
| SUBMITTED BY | AUTHORIZED BY | PO# |
|--------------|---------------|-----|



Yates, Jack <jyates@ci.montgomery.tx.us>

Water Plant 3 Generator Quotes

1 message

michaelw@gulfutility.net <michaelw@gulfutility.net>

Tue, May 2, 2017 at 2:57 PM

To: Yates Jack <jyates@ci.montgomery.tx.us>

Cc: Muckleroy Mike <mmuckleroy@ci.montgomery.tx.us>, Christopher Roznovsky <CRoznovsky@jonescarter.com>, n5f1x5y4h4c0h2f7@gulfutility.slack.com

Jack,

Attached are the three quotes we received to fix the generator at water plant 3. We would recommend to go with World Wide Powers quote to repair the radiator on the generator in the amount of \$21,575.20 .

World Wide Power was the low bidder and we have worked with this company multiple times in the past and they have a good track record with Gulf Utility.

World Wide Power has also submitted another quote to replace the generator in the amount of \$17,993.20 which would save the city \$3,582.00 but the new radiator would take 120 days to get in which would put us in the middle of hurricane season before the repair can be made.

Let me know if you have any questions.

Michael Williams
Senior Area Manager
Gulf Utility Service



Notice: This e-mail message is for the sole use of the intended recipient(s) and may contain confidential and privileged information. Any unauthorized review, use, disclosure or distribution is prohibited. If you are not the intended recipient, please contact the sender by reply e-mail and destroy all copies of the original message. Please virus check all attachments to prevent widespread contamination and corruption of files and operating systems. The unauthorized access, use, disclosure, or distribution of this email may constitute a violation of the Federal Electronic Communications Privacy Act of 1986 and similar state laws. This communication does not reflect an intention by the sender or the sender's client or principal to conduct a transaction or make any agreement by electronic means. Nothing contained in this message or in any attachment shall satisfy the requirements for a writing, and nothing contained herein shall constitute a contract or electronic signature under the Electronic Signatures in Global and National Commerce Act, any version of the Uniform Electronic Transactions Act or any other statute governing electronic transactions.

3 attachments

World Wide Power (Radiator Repair) Water Plant 3.pdf
74K

World Wide Power (Radiator Replacement) Water Plant 3.pdf
74K

Loftin Generator Radiator Repair Water Plant 3.pdf
81K



Service Estimate

5711 Brittmoore Road
Houston, TX 77041

Main: 713.434.2300
Fax: 713.434.2394

| | | | | |
|---|--|---|----------------------------------|---|
| CUSTOMER: Gulf Utility Services | | DATE: March 7, 2017 | QUOTE NUMBER: Q-024945 | SERVICE ADDRESS: 26246 FM 1097 Montgomery, TX 77356 |
| CONTACT: Michael Williams | | EMAIL: michaelw@gulfutility.net | | PHONE: (281) 831-7628 |
| MAKE/MODEL: | | SERIAL NUMBER: | | FAX: |
| | | | | BILLING ADDRESS: PO Box 691008 Houston, Texas 77269 United States |

SCOPE OF WORK TO BE PERFORMED

| QUANTITY | DESCRIPTION | PRICE | TOTAL |
|------------------------|---|------------|-------------|
| 1 | Parts & Materials Charge - Radiator Repair | \$1,582.00 | \$1,582.00 |
| 1 | Labor Charge - Radiator Core Assembly Labor | \$1,030.00 | \$1,030.00 |
| 196 | Mileage Charge - Mileage Charge | \$2.20 | \$431.20 |
| 1 | Parts & Materials Charge - Radiator Waste Disposal | \$100.00 | \$100.00 |
| 2 | Parts & Materials Charge - Crane remove/install enclosure | \$2,280.00 | \$4,560.00 |
| 32 | Labor Charge - Labor Charge | \$110.00 | \$3,520.00 |
| 1 | Parts & Materials Charge - Hoses/Clamps | \$490.00 | \$490.00 |
| 1 | Parts & Materials Charge - Gasket Material | \$144.00 | \$144.00 |
| 1 | Parts & Materials Charge - Clean & Test Charge Air Cooler | \$443.00 | \$443.00 |
| 1 | Parts & Materials Charge - Removal/Install of Radiator | \$8,560.00 | \$8,560.00 |
| 40 | Parts & Materials Charge - Coolant | \$13.00 | \$520.00 |
| Sub-Total | | | \$21,380.20 |
| Environmental Fee (3%) | | | \$117.00 |
| Supply Charge (2%) | | | \$78.00 |
| Tax Charge (8.25%) | | | |

| | | |
|--|--------------|-------------|
| DESCRIPTION: Remove and repair radiator. Supply & install hoses, clamps, & gasket material. Clean/test air cooler. Remove & reinstall the enclosure, lock out/tag out generator, disconnect hoses, drain coolant, remove fan/shroud & refill coolant. | Total | \$21,575.20 |
|--|--------------|-------------|

NOTES: The above charges are for completing operations listed on the following pages. All work to be performed between 7:00AM and 4:00PM Monday-Friday. Units must be available for servicing upon arrival of technician. If the technician must wait more than 30 minutes an additional hourly charge will be made. If the unit is not released for servicing a one-time charge of \$100.00 will be made. This agreement will automatically renew after one year unless cancelled by either party with thirty days written notice.

| | | |
|--|---|--------------------------------------|
| IF ADDITIONAL REPAIRS ARE NEEDED: -----> | STOP WORK UNTIL CUSTOMER GIVES APPROVAL | NOTIFY CUSTOMER BUT CONTINUE REPAIRS |
|--|---|--------------------------------------|



LOFTIN EQUIPMENT CO.

6113 BRITTMORE
HOUSTON, TEXAS, 77041
Phone 281-310-6858
Fax 281-754-4112
www.loftinequip.com

Michael Williams
Gulf Utility Service

391 N. Liberty Street, Montgomery, Texas 77356 (WWTP)
April 24, 2017
DQAD-5699853 L040728301 Onan

Fax#/Email: michaelw@gulfutility.net

Phone #: 713.494.1793

Ref: Quote No.

60 AA

Loftin Equipment is proud to present you with an estimate to recore radiator. Contractor will be used for removal and replacement of radiator. Loftin will take unit offline and bring back online after reinstallation. Generator will be down overnight. A quote for rental can be provided @ an additional cost.

| | |
|--------------------|-----------------|
| Parts: | \$0.00 |
| Mileage: | \$305.50 |
| Freight: | \$0.00 |
| Sublet: | \$20,094.62 |
| Labor: | \$1,040.00 |
| Supp. / Env. Fees: | <u>\$159.80</u> |
| Total: | \$21,599.92 |

Any additional repairs, parts, services, or labor that is required but NOT specifically listed in this quotation would be quoted separately for customer approval. Labor associated with quotation reflects normal working hours on Monday through Friday; 8:00 AM to 4:00 PM. Any loss of time or mileage costs due to unavailability of equipment for scheduled services will be charged at Loftin's prevailing rates OR 50% of the quoted price, which ever is greatest. Non-standard hours are quoted upon customer request. Please allow 10-14 days for parts receiving and scheduling. State and Federal Taxes Additional -A 1.5% (18%APR) finance charge will be applied to all past due accounts. Quote valid for 90 days.

Respectfully Submitted,

Alma Amaya

Alma Amaya
Service Writer
(281) 310-6858 x315

Customer Approval
Please return via fax.

Purchase Order Number

WORLDWIDE POWER PRODUCTS

Service Estimate

5711 Brittmoore Road
Houston, TX 77041

Main: 713.434.2300
Fax: 713.434.2394

| CUSTOMER: | | | DATE: | | QUOTE NUMBER: | | SERVICE ADDRESS: | | |
|---|---|--|--|--|----------------------|---|---------------------------------------|--------------------|--|
| Gulf Utility Services | | | May 2, 2017 | | Q-025111 | | 26246 FM 1097 Montgomery, TX 77356 | | |
| CONTACT: Michael Williams | | | EMAIL: michaelw@gulfutility.net | | | | | PHONE: | |
| MAKE/MODEL: | | | SERIAL NUMBER: | | | MOBILE: +1 7134096864 | | | |
| | | | | | | BILLING ADDRESS: PO Box 691008 Houston, Texas 77269 United States | | | |
| SCOPE OF WORK TO BE PERFORMED | | | | | | | | | |
| QUANTITY | DESCRIPTION | | | | | PRICE | TOTAL | | |
| 1 | Parts & Materials Charge - Gasket Material | | | | | \$144.00 | \$144.00 | | |
| 2 | Parts & Materials Charge - Crane remove/install enclosure | | | | | \$2,280.00 | \$4,560.00 | | |
| 24 | Labor Charge - Labor Charge | | | | | \$110.00 | \$2,640.00 | | |
| 1 | Parts & Materials Charge - Hoses/Clamps | | | | | \$490.00 | \$490.00 | | |
| 1 | Parts & Materials Charge - Radiator | | | | | \$9,013.00 | \$9,013.00 | | |
| 40 | Parts & Materials Charge - Coolant | | | | | \$13.00 | \$520.00 | | |
| 196 | Mileage Charge - Mileage Charge | | | | | \$2.20 | \$431.20 | | |
| | | | | | | Sub-Total | \$17,798.20 | | |
| | | | | | | Environmental Fee (3%) | \$117.00 | | |
| | | | | | | Supply Charge (2%) | \$78.00 | | |
| | | | | | | Tax Charge (8.25%) | | | |
| DESCRIPTION: | | | | | | | Total | \$17,993.20 | |
| Supply & install new radiator, hoses, clamps, & gasket material. Remove & reinstall the enclosure, lock out/tag out generator, disconnect hoses, drain coolant, remove fan/shroud & refill coolant. | | | | | | | | | |
| NOTES: The above charges are for completing operations listed on the following pages. All work to be performed between 7:00AM and 4:00PM Monday-Friday. Units must be available for servicing upon arrival of technician. If the technician must wait more than 30 minutes an additional hourly charge will be made. If the unit is not released for | | | | | | | | | |

Montgomery City Council
AGENDA REPORT

| | |
|---|--|
| Meeting Date: May 9, 2017 | Budgeted Amount: |
| Department: | |
| Prepared By: Jack Yates City Administrator | Exhibits: Memo from City Engineer |
| Date Prepared: May 4, 2017 | |

Subject

This is to approve change Order No. 1 to the Water and Sewer project for Pizza Shack project.

Description

A memo from the City Engineer is attached.

Recommendation

To approve Change Order No. 1 on the Pizza Shack Project
as presented.

Approve By

| | | |
|--------------------|------------|-------------------|
| City Administrator | Jack Yates | Date: May 4, 2017 |
|--------------------|------------|-------------------|



8701 New Trails Drive, Suite 200
The Woodlands, Texas 77381-4241
Tel: 281.363.4039
Fax: 281.363.3459
www.jonescarter.com

May 4, 2017

The Honorable Mayor and City Council
City of Montgomery
101 Old Plantersville Road
Montgomery, Texas 77316

Re: Change Order No. 1
Water and Sanitary Sewer to Serve Pizza Shack

Dear Mayor and Council:

We received and recommend approval of Change Order No. 1 to the Water and Sanitary Sewer to Serve Pizza Shack contract. Due to unforeseen site conditions, wet trench bedding techniques are required to complete the utility installation. Groundwater was encountered above the proposed utility elevations therefore requiring a portion of the sanitary sewer line to be installed with wet trench bedding techniques. The property adjacent to the project had not encounter groundwater when they completed the installation of their utilities at similar depths a few months ago, therefore wet trench bedding was not included in the base bid. The contractor, Big State Excavation, Inc., has provided a price of \$10.00 per linear foot for wet trench bedding. We've compared the unit price to prices received from other contractors on varying projects throughout the greater Houston area including a project within the City of Montgomery and find the price to be reasonable. The project requires 960 linear feet of special bedding therefore resulting in a \$9,600.00 addition to the contract amount.

Change Order No. 1 also includes the removal Bid Item No. A-1 from the construction contract as trenchless construction was not required. The removal of Bid Item No. A-1 results in a \$50,000.00 reduction to the contractor amount.

The net change order amount for Change Order No. 1 is a \$40,400.00 reduction to the contract amount.

As always, should you have any questions or need any additional information, please do not hesitate to contact Chris Roznovsky or myself.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ed Shackelford', written in a cursive style.

Ed Shackelford, PE
Engineer for the City

ITEM #9
Montgomery City Council
AGENDA REPORT

| | |
|---|--|
| Meeting Date: May 9, 2017 | Budgeted Amount: |
| Department: | |
| Prepared By: Jack Yates City Administrator | Exhibits: Management Letter, Audit document |
| Date Prepared: May 3, 2017 | |

Subject

This is to consider acceptance of the Audit.

Description

This is presentation of the Annual Audit from the Audit firm of BrooksCardiel. The Audit is late this year as the City is required to submit the Annual Audit to the State on or before March 31st, six months after the close of the fiscal year. I received the draft Audit at 4:31 p.m. on April 21st and did not speak with the Auditor until the following week. We will file the Audit on May 10th and no specific action will happen to the City, as a practical matter.

The Audit gives a good report on the accounting and state of financial status of the City.

The Management Letter's only comment is about "the lack of formal review of utility billing adjustments to someone outside of the day-to-day operations." This procedure was implemented after the last year's audit.

Recommendation

To accept the Audit as presented.

Approve By

| | | |
|--------------------|------------|-------------------|
| City Administrator | Jack Yates | Date: May 3, 2017 |
|--------------------|------------|-------------------|



April 21, 2017

To the City Council and Management
City of Montgomery, Texas

In planning and performing our audit of the financial statements of the City of Montgomery, Texas (the "City"), as of and for the year ended September 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. The below item was not considered to be a material weakness or significant deficiency, however it is considered to be a deficiency that should be considered and addressed if feasible.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Other matters are any additional noteworthy items that are unrelated to internal control such as compliance with laws and regulations. In addition, we noted other matters involving the internal control and its operation:

1. UTILITY BILLING ADJUSTMENTS

Finding

There is not a formal review of utility billing adjustments by someone outside of the day to day operations.

Recommendation

We suggest the City implement review and oversight procedures at least on a monthly basis by the City Administrator to ensure adjustments are properly supported and warranted.

Recent and Upcoming Accounting Pronouncements

GASB 77 Tax Abatements

Effective for periods beginning after December 15, 2015 (Fiscal year September 30, 2017) the City will be required to disclose information related to tax abatements. This can be in the form of property tax or sales tax.

Specific disclosures include:

- Governments may choose to disclose information about individual tax abatement agreements or present them in the aggregate. If a government chooses to present individual tax abatement agreements, it should be only those agreements that meet or exceed a quantitative threshold selected by the government. For example, a government may choose to present individual tax abatement agreements that exceed \$100,000. This threshold should be disclosed as part of the notes.
- Brief description of the names and purpose of program, type of tax being abated, authority under the agreement is entered into, eligibility, mechanism by which taxes are reduced (assessed value, \$ amount, % of total) provision for recapturing abated taxes, types of commitments required for abatement by the recipients.
- Gross \$ amount of the reduced tax revenues, on the accrual basis.
- If there are commitments made by the government other than to reduce taxes, a description of the types of commitments made and the most significant individual commitments made (this particular disclosure will be made until the government has fulfilled its commitment);

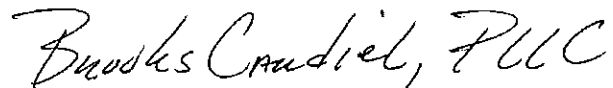
- As discussed above, the quantitative threshold set by the government used to determine which agreements to disclose individually; and if information is legally prohibited from being disclosed, the government would disclose the general nature of the tax abatement information omitted and the specific source of the legal prohibition.

Recommendation

If the City currently has any tax abatement agreements or if any will be entered into during the 2017 fiscal year, the information required for disclosure should be tracked. By tracking this information during the year, the City will be prepared for the upcoming audit and will reduce the possibility of delays.

This communication is intended solely for the information and use of the City Council and management, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Brooks Cardiel, PLLC". The signature is written in a cursive, flowing style.

BrooksCardiel, PLLC

April 21, 2017

ANNUAL FINANCIAL REPORT

of the

City of Montgomery, Texas

**For the Year Ended
September 30, 2016**

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City of Montgomery, Texas

TABLE OF CONTENTS

September 30, 2016

FINANCIAL SECTION

| | |
|--------------------------------------|---|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 7 |

Basic Financial Statements

Government-Wide Financial Statements

| | |
|---------------------------|----|
| Statement of Net Position | 18 |
| Statement of Activities | 20 |

Fund Financial Statements

Governmental Funds:

| | |
|--|----|
| Balance Sheet | 22 |
| Reconciliation of the Balance Sheet to the Statement of Net Position- Governmental funds | 25 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds | 26 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 29 |

Proprietary Funds:

| | |
|---|----|
| Statement of Net Position | 30 |
| Statement of Revenues, Expenses, and Changes in Fund Net Position | 31 |
| Statement of Cash Flows | 32 |

| | |
|-------------------------------|----|
| Notes to Financial Statements | 34 |
|-------------------------------|----|

REQUIRED SUPPLEMENTARY INFORMATION

| | |
|---|----|
| Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual - General Fund | 69 |
| Schedule of Changes in Net Pension Liability (Asset) and Related Ratios | 70 |
| Schedule of Employer Contributions to Pension Plan | 71 |

OTHER SUPPLEMENTARY INFORMATION

| | |
|--|----|
| Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual - Debt Service Fund | 74 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual - Capital Projects Fund | 75 |

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Montgomery, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montgomery, Texas (the "City"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2016 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

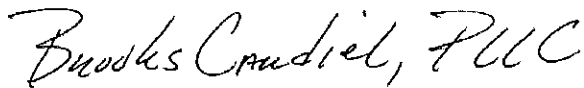
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the schedule of changes in net pension liability and related ratios, and the schedule of employer contributions to pension plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedules of revenues, expenditures, and changes in fund balances – budget and actual for the debt service fund, and capital projects fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information noted above is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
April 21, 2017

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*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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City of Montgomery, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2016

The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the City of Montgomery's (the "City") financial activities for the year ending September 30, 2016. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current-year results with those of the prior year, and discusses the positive and negative aspects of that comparison. GASB Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. This financial reporting model requires governments to present certain basic financial statements as well as an MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Financial Highlights

- The City's total combined net position was \$4,936,517 at September 30, 2016. As of September 30, 2016, the City maintained a negative unrestricted net position of \$2,919,066.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,387,516, a decrease of \$153,883.
- As of the end of the year, the unassigned fund balance of the general fund was \$1,182,911 or 50% of total general fund expenditures.
- The City had an overall decrease in net position of \$153,692, which is primarily due to water, sewer, and sanitation expenses increasing at a greater rate than revenues compared to prior year.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City of Montgomery. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

City of Montgomery, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2016

The Statement of Net Position presents information on all of the City's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City into three classes of activities:

1. Governmental Activities - Most of the City's basic services are reported here, including general government, public safety (police, municipal court), and culture and recreation. Sales tax, property tax, franchise taxes, municipal court fees and fines and permit fees finance most of these activities.
2. Business-Type Activities - Services involving a fee for those services. These services, the City's water distribution, wastewater collection/treatment and sanitation services are reported here.
3. Component Unit Activities – Services provided to promote economic development within the City are funded by a one-half of one percent sales tax.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City of Montgomery. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar

City of Montgomery, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains three individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and debt service funds which are considered to be major funds.

The City adopts an annual appropriated budget for its general, debt service, and capital projects funds. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets.

Proprietary Funds

The City maintains one type of proprietary fund. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses proprietary funds to account for its water distribution, wastewater collection/treatment, water construction operations and sanitation services. The proprietary fund financial statements provide separate information for the water distribution, wastewater collection/treatment fund, and sanitation funds. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Component Unit

The City has a component unit, the Montgomery Economic Development Corporation ("MEDC"), whose purpose is to promote economic development within the City. The city uses the funds for the MEDC to provide improvements to the City's culture, recreation, conservation, and development. Component unit financial statements accompany the governmental funds financial statements.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires

City of Montgomery, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

includes a budgetary comparison schedule for the general fund and schedule of funding progress for Texas Municipal Retirement System. RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$4,936,517 as of September 30, 2016, in the primary government.

The largest portion of the City's net position, \$3,261,181, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

City of Montgomery, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

| | 2016 | | | 2015 | | |
|----------------------------------|----------------------------|-----------------------------|---------------------|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total | Governmental Activities | Business-Type Activities | Total |
| Current and other assets | \$ 1,740,043 | \$ 348,402 | \$ 2,088,445 | \$ 2,157,616 | \$ 345,046 | \$ 2,502,662 |
| Capital assets, net | 2,563,372 | 7,596,238 | 10,159,610 | 2,668,325 | 7,883,722 | 10,552,047 |
| Total Assets | 4,303,415 | 7,944,640 | 12,248,055 | 4,825,941 | 8,228,768 | 13,054,709 |
| Total Deferred Outflows | 90,646 | 8,424 | 99,070 | 37,152 | 3,511 | 40,663 |
| Other liabilities | 647,355 | 116,361 | 763,716 | 851,003 | 141,830 | 992,833 |
| Long-term liabilities | 6,633,016 | 441 | 6,633,457 | 6,971,068 | - | 6,971,068 |
| Total Liabilities | 7,280,371 | 116,802 | 7,397,173 | 7,822,071 | 141,830 | 7,963,901 |
| Total Deferred Inflows | 11,625 | 1,810 | 13,435 | 37,136 | 4,126 | 41,262 |
| Net Position: | | | | | | |
| Net investment in capital assets | - | 7,596,238 | 7,596,238 | - | 7,883,722 | 7,883,722 |
| Restricted | 323,364 | 16,684 | 340,048 | 310,561 | 17,451 | 328,012 |
| Unrestricted | (3,221,299) | 221,530 | (2,999,769) | (3,306,675) | 185,150 | (3,121,525) |
| Total Net Position | \$ (2,897,935) | \$ 7,834,452 | \$ 4,936,517 | \$ (2,996,114) | \$ 8,086,323 | \$ 5,090,209 |

Current and other assets for governmental activities decreased by \$417,573, which is primarily related to the decline in cash on hand and the net pension asset. Other liabilities for governmental activities decreased by \$203,648 as a result of the decline in yearend accounts payable. Long-term liabilities for governmental activities decreased \$338,052, which primarily relates to the principal payments made in the current year. There were no new debt issuances in the current year.

City of Montgomery, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

Statement of Activities:

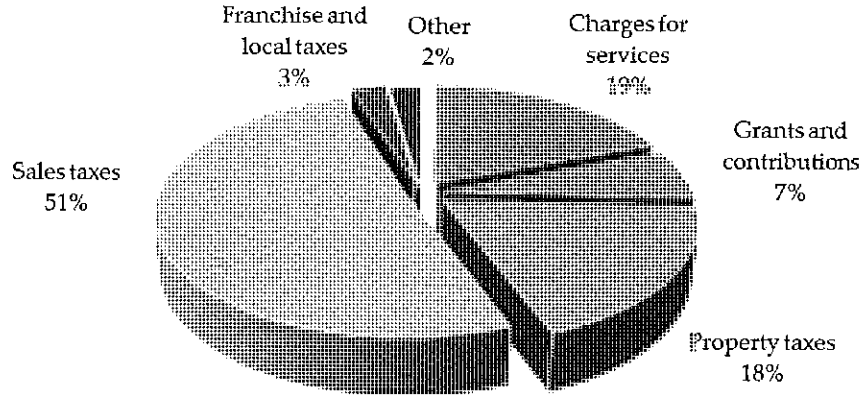
The following table provides a summary of the City's changes in net position:

| | For the Year Ended September 30, 2016 | | | For the Year Ended September 30, 2015 | | |
|-------------------------------|---------------------------------------|-----------------------------|--------------------------------|---------------------------------------|-----------------------------|--------------------------------|
| | Governmental Activities | Business-Type Activities | Total Primary Government | Governmental Activities | Business-Type Activities | Total Primary Government |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 547,294 | \$ 974,922 | \$ 1,522,216 | \$ 570,719 | \$ 750,641 | \$ 1,321,360 |
| Grants and contributions | 155,000 | - | 155,000 | 155,000 | 89,794 | 244,794 |
| Capital contributions | 35,900 | 34,826 | 70,726 | - | - | - |
| General revenues: | | | | | | |
| Property | 527,372 | - | 527,372 | 409,172 | - | 409,172 |
| Sales | 1,456,952 | - | 1,456,952 | 1,348,055 | - | 1,348,055 |
| Franchise and local | 75,048 | - | 75,048 | 75,148 | - | 75,148 |
| Interest | 2,337 | 1,516 | 3,853 | 2,572 | 280 | 2,852 |
| Other | 66,537 | - | 66,537 | 36,494 | - | 36,494 |
| Total Revenues | 2,866,440 | 1,011,264 | 3,877,704 | 2,597,160 | 840,715 | 3,437,875 |
| | | 34,826.00 | | | | |
| Expenses | | | | | | |
| General government | 708,016 | - | 708,016 | 539,697 | - | 539,697 |
| Police department | 919,762 | - | 919,762 | 852,976 | - | 852,976 |
| Municipal court | 218,138 | - | 218,138 | 242,285 | - | 242,285 |
| Public works | 836,944 | - | 836,944 | 551,790 | - | 551,790 |
| Interest and fiscal charges | 210,700 | - | 210,700 | 268,228 | - | 268,228 |
| Water, sewer, & sanitation | - | 1,137,835 | 1,137,835 | - | 1,082,853 | 1,082,853 |
| Total Expenses | 2,893,561 | 1,137,835 | 4,031,396 | 2,454,976 | 1,082,853 | 3,537,829 |
| Change in Net Position | | | | | | |
| before Transfers | (27,121) | (126,571) | (153,692) | 142,184 | (242,138) | (99,954) |
| Transfers | 125,300 | (125,300) | - | 86,403 | (86,403) | - |
| Total | 125,300 | (125,300) | - | 86,403 | (86,403) | - |
| Change in Net Position | 98,179 | (251,871) | (153,692) | 228,587 | (328,541) | (99,954) |
| Beginning Net Position | (2,996,114) | 8,086,323 | 5,090,209 | (3,224,701) | 8,414,864 | 5,190,163 |
| Ending Net Position | \$ (2,897,935) | \$ 7,834,452 | \$ 4,936,517 | \$ (2,996,114) | \$ 8,086,323 | \$ 5,090,209 |

City of Montgomery, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

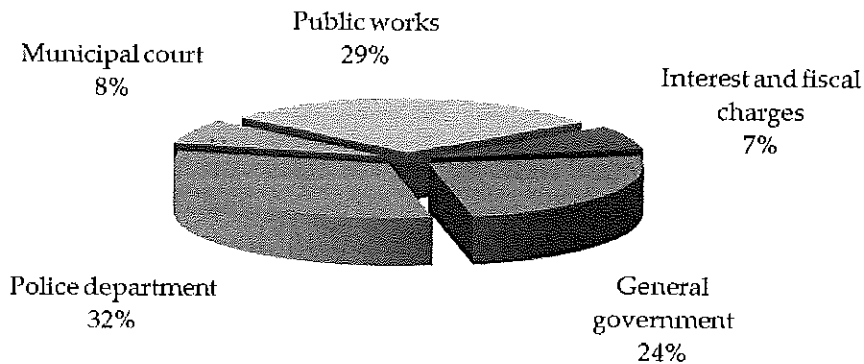
Governmental Activities - Revenues



For the year ended September 30, 2016, revenues from governmental activities totaled \$2,866,440. Sales taxes, property taxes, and fees & forfeitures are the City's largest revenue sources. Sales tax increased \$108,897 or 8% due to economic growth within the City limits. Property taxes increased \$118,200 or 29% as a result of the increase in property values as compared to the prior year. Grant and contribution revenues increased \$35,900 or 23% due to a Texas CDBG grant that was received in the current year. Administrative transfers from the component unit to the primary government were classified as intergovernmental revenue in the prior year. In the current year, these administrative transfers are classified within Other Financing Sources as transfers in and out. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses

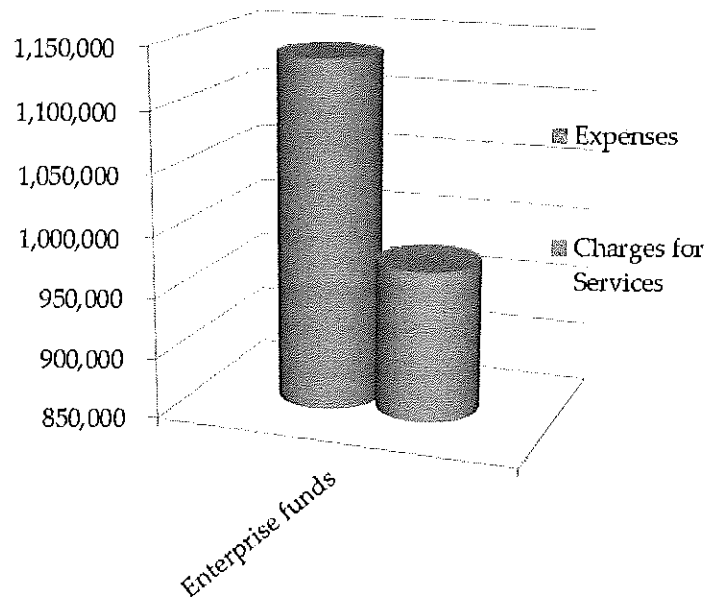


City of Montgomery, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

For the year ended September 30, 2016, expenses for governmental activities totaled \$2,893,561. This represents an increase of \$438,585 or 18% from the prior year. The City's largest functional expense is the police department of \$919,762 which is primarily salaries of police officers and equipment, remained relatively consistent with the prior year. General government expenses increased by \$168,319 or 31% as a result of the increase in administrative salary and wages expenses. Public works expenditures increased by \$285,154 or 52%, which is primarily due to increased engineering and street maintenance expenses, and the purchase of new meter equipment through the capital projects fund. Interest and fiscal charges decreased \$57,528 or 21% as result of outstanding debt getting closer to maturity dates and the lack of new debt issuances in the current year.

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2016, charges for services by business-type activities totaled \$974,922. This is an increase of \$224,281, or 30%, from the previous year. This increase directly relates to an increase in utility service usage.

Total expenses increased \$54,982 or 5% compared to prior year. These increases are mostly related to the increase in sewer and sanitation expenses as the City manages the increase customer usage.

City of Montgomery, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

As of the end of the year the general fund reflected a total fund balance of \$1,212,911, all of which is unassigned.

There was a decrease in total governmental fund balance of \$153,883 over the prior year. The decrease was due to planned decreases in the capital projects fund.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of \$21,173 in the general fund. This is due to a negative revenue variance of \$10,314 and a positive expenditures variance of \$31,487.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$2,563,372 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$7,596,238 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- Two police vehicles for a total of \$62,859.
- Community center improvements totaling \$15,281.
- Lift station upgrade amounting to \$22,880.
- Capital contributions received for water and sewer improvements totaling \$34,826.

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

City of Montgomery, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of \$6,780,000. During the year, the City made debt payments of \$295,000. More detailed information about the City's long-term liabilities is presented in note IV. E. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Montgomery and improving services provided to their public citizens. The City is budgeting for growth in the upcoming year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Montgomery's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Administrator, City of Montgomery, P.O. Box 708, Montgomery, Texas 77356.

FINANCIAL STATEMENTS

City of Montgomery, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2016

| | Primary Government | | | Component Unit |
|---------------------------------------|----------------------------|-----------------------------|-------------------|----------------|
| | Governmental Activities | Business-Type Activities | Total | MEDC |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 1,040,368 | \$ 198,135 | \$ 1,238,503 | \$ 664,307 |
| Investments | 300,000 | - | 300,000 | 100,000 |
| Receivables, net | 309,972 | 144,104 | 454,076 | 75,601 |
| Due from component unit | 565 | - | 565 | - |
| Due from primary government | - | - | - | 3,550 |
| Prepays | 9,473 | - | 9,473 | 13,000 |
| Internal balances | 3,907 | (3,907) | - | - |
| Total Current Assets | 1,664,285 | 338,332 | 2,002,617 | 856,458 |
| Net pension asset | 75,758 | 10,070 | 85,828 | - |
| Capital assets: | | | | |
| Non-depreciable | 768,985 | 104,376 | 873,361 | - |
| Net depreciable capital assets | 1,794,387 | 7,491,862 | 9,286,249 | - |
| Total Non-Current Assets | 2,639,130 | 7,606,308 | 10,245,438 | - |
| Total Assets | 4,303,415 | 7,944,640 | 12,248,055 | 856,458 |
| Deferred Outflows of Resources | | | | |
| Pension contributions | 30,091 | 3,210 | 33,301 | - |
| Pension investment earnings | 55,623 | 5,214 | 60,837 | - |
| Deferred charge on refunding | 4,932 | - | 4,932 | - |
| Total Deferred | 90,646 | 8,424 | 99,070 | - |
| Outflows of Resources | 90,646 | 8,424 | 99,070 | - |

City of Montgomery, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2016

| | Primary Government | | Component Unit | |
|---|----------------------------|-----------------------------|---------------------|-------------------|
| | Governmental Activities | Business-Type Activities | Total | MEDC |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | 253,457 | 52,504 | 305,961 | 2,711 |
| Customer deposits | - | 59,885 | 59,885 | - |
| Compensated absences | 40,756 | 3,972 | 44,728 | - |
| Due to component unit | 3,550 | - | 3,550 | - |
| Due to primary government | - | - | - | 565 |
| Accrued interest payable | 17,041 | - | 17,041 | - |
| Due within one year | 332,551 | - | 332,551 | 9,184 |
| Total Current Liabilities | 647,355 | 116,361 | 763,716 | 12,460 |
| Noncurrent liabilities: | | | | |
| Due in more than one year | 6,633,016 | 441 | 6,633,457 | 9,183 |
| Total Liabilities | 7,280,371 | 116,802 | 7,397,173 | 21,643 |
| Deferred Inflows of Resources | | | | |
| Actual pension experience vs. assumption | 11,625 | 1,810 | 13,435 | - |
| Net Position | | | | |
| Net investment in capital assets | - | 7,596,238 | 7,596,238 | - |
| Restricted for: | | | | |
| Pensions | 149,847 | 16,684 | 166,531 | - |
| Economic development | - | - | - | 834,815 |
| Enabling legislation | 41,778 | - | 41,778 | - |
| Debt service | 122,339 | - | 122,339 | - |
| Tourism | 9,400 | - | 9,400 | - |
| Unrestricted | (3,221,299) | 221,530 | (2,999,769) | - |
| Total Net Position | \$ (2,897,935) | \$ 7,834,452 | \$ 4,936,517 | \$ 834,815 |

See Notes to Financial Statements.

City of Montgomery, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------------|---------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental Activities | | | | |
| General government | \$ 708,016 | \$ 129,382 | \$ 155,000 | \$ 35,900 |
| Police department | 919,762 | 417,912 | - | - |
| Municipal court | 218,138 | - | - | - |
| Public works | 836,944 | - | - | - |
| Interest and fiscal charges | 210,700 | - | - | - |
| Total Governmental Activities | 2,893,561 | 547,294 | 155,000 | 35,900 |
| Business-Type Activities | | | | |
| Water, Sewer, & Sanitation | 1,137,835 | 974,922 | - | 34,826 |
| Total Business-Type Activities | 1,137,835 | 974,922 | - | 34,826 |
| Total Primary Government | \$ 4,031,396 | \$ 1,522,216 | \$ 155,000 | \$ 70,726 |
| Primary Government | | | | |
| Montgomery Economic | | | | |
| Development Corporation (MEDC) | \$ 288,682 | \$ - | \$ - | \$ - |

General Revenues:

Taxes
 Property
 Sales
 Franchise and local
 Interest
 Other
 Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

| Primary Government | | | Component Unit |
|----------------------------|-----------------------------|---------------------|---------------------|
| Governmental Activities | Business-Type Activities | Total | MEDC |
| \$ (387,734) | \$ - | \$ (387,734) | \$ - |
| (501,850) | - | (501,850) | - |
| (218,138) | - | (218,138) | - |
| (836,944) | - | (836,944) | - |
| (210,700) | - | (210,700) | - |
| <u>(2,155,367)</u> | <u>-</u> | <u>(2,155,367)</u> | <u>-</u> |
| - | (128,087) | (128,087) | - |
| - | (128,087) | (128,087) | - |
| <u>(2,155,367)</u> | <u>(128,087)</u> | <u>(2,283,454)</u> | <u>-</u> |
| | | | |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (288,682)</u> |
| | | | |
| 527,372 | - | 527,372 | - |
| 1,456,952 | - | 1,456,952 | 485,651 |
| 75,048 | - | 75,048 | - |
| 2,337 | 1,516 | 3,853 | 960 |
| 66,537 | - | 66,537 | - |
| 125,300 | (125,300) | - | - |
| <u>2,253,546</u> | <u>(123,784)</u> | <u>2,129,762</u> | <u>486,611</u> |
| 98,179 | (251,871) | (153,692) | 197,929 |
| (2,996,114) | 8,086,323 | 5,090,209 | 636,886 |
| <u>\$ (2,897,935)</u> | <u>\$ 7,834,452</u> | <u>\$ 4,936,517</u> | <u>\$ 834,815</u> |

City of Montgomery, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2016

| | General | Debt Service | Capital Projects | Nonmajor Hotel Tax |
|--|---------------------|-------------------|---------------------|--------------------------|
| <u>Assets</u> | | | | |
| Cash and cash equivalents | \$ 866,189 | \$ 122,002 | \$ 2,577 | \$ 9,400 |
| Investments | 300,000 | - | - | - |
| Receivables, net | 298,106 | 11,866 | - | - |
| Due from component unit | 565 | - | - | - |
| Prepaid insurance | 9,473 | - | - | - |
| Due from other funds | 3,907 | 87 | - | - |
| Total Assets | \$ 1,478,240 | \$ 133,955 | \$ 2,577 | \$ 9,400 |
| <u>Liabilities</u> | | | | |
| Accounts payable and accrued liabilities | \$ 251,968 | \$ - | \$ 1,489 | \$ - |
| Due to component unit | 3,550 | - | - | - |
| Due to other funds | 1,665 | - | - | - |
| Total Liabilities | 257,183 | - | 1,489 | - |
| <u>Deferred Inflows of Resources</u> | | | | |
| Unavailable revenue - Property taxes | 8,146 | 11,616 | - | - |
| Total Deferred Inflows | 8,146 | 11,616 | - | - |
| <u>Fund Balances</u> | | | | |
| Restricted for: | | | | |
| Enabling legislation | - | - | - | - |
| Debt service | - | 122,339 | - | - |
| Tourism | - | - | - | 9,400 |
| Committed for: | | | | |
| Public safety | 30,000 | - | - | - |
| Capital improvements | - | - | 1,088 | - |
| Unassigned reported in: | | | | |
| General fund | 1,182,911 | - | - | - |
| Total Fund Balances | 1,212,911 | 122,339 | 1,088 | 9,400 |
| Total Liabilities and Fund Balances | \$ 1,478,240 | \$ 133,955 | \$ 2,577 | \$ 9,400 |

See Notes to Financial Statements.

| <u>Nonmajor Police & Court</u> | <u>Total Governmental Funds</u> |
|--|---|
| \$ 40,200 | \$ 1,040,368 |
| - | 300,000 |
| - | 309,972 |
| - | 565 |
| - | 9,473 |
| 1,578 | 5,572 |
| <u>\$ 41,778</u> | <u>\$ 1,665,950</u> |
| | |
| \$ - | \$ 253,457 |
| - | 3,550 |
| - | 1,665 |
| <u>-</u> | <u>258,672</u> |
| | |
| - | 19,762 |
| <u>-</u> | <u>19,762</u> |
| | |
| 41,778 | 41,778 |
| - | 122,339 |
| - | 9,400 |
| - | 30,000 |
| - | 1,088 |
| - | 1,182,911 |
| <u>41,778</u> | <u>1,387,516</u> |
| | |
| <u>\$ 41,778</u> | <u>\$ 1,665,950</u> |

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City of Montgomery, Texas
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2016

| | |
|--|-----------------------|
| Fund Balances - Total Governmental Funds | \$ 1,387,516 |
| Adjustments for the Statement of Net Position: | |
| Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds. | |
| Capital assets - non-depreciable | 768,985 |
| Capital assets - net depreciable | 1,794,387 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds. | |
| Property tax receivable | 19,762 |
| Net pension asset | 75,758 |
| Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/expenditure) until then. | |
| Pension contributions | 30,091 |
| Pension investment earnings | 55,623 |
| Deferred charge on refunding | 4,932 |
| Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. | |
| Pension losses | (11,625) |
| Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds. | |
| Accrued interest | (17,041) |
| Bond premium | (125,938) |
| Compensated absences | (45,284) |
| Non-current liabilities due in one year | (332,551) |
| Non-current liabilities due in more than one year | (6,502,550) |
| Net Position of Governmental Activities | \$ (2,897,935) |

See Notes to Financial Statements.

City of Montgomery, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2016

| | General | Debt Service | Capital Projects | Nonmajor Hotel Tax |
|---|---------------------|-------------------|---------------------|--------------------------|
| Revenues | | | | |
| Property tax | \$ 257,474 | \$ 267,968 | \$ - | \$ - |
| Sales tax | 1,456,952 | - | - | - |
| Franchise and local taxes | 75,048 | - | - | - |
| License and permits | 129,382 | - | - | - |
| Fines and forfeitures | 392,865 | - | - | - |
| Interest | 1,985 | 110 | 238 | - |
| Intergovernmental | 37,500 | 117,500 | - | - |
| Contribution and donations | 35,900 | - | - | - |
| Other | 66,537 | - | - | - |
| Total Revenues | 2,453,643 | 385,578 | 238 | - |
| Expenditures | | | | |
| Current: | | | | |
| General government | 653,493 | - | - | - |
| Police department | 850,836 | - | - | - |
| Municipal court | 215,857 | - | - | - |
| Public works | 488,163 | - | - | - |
| Capital outlay | 146,682 | - | 216,212 | - |
| Debt Service: | | | | |
| Principal | - | 295,000 | - | - |
| Sales tax withheld by state | 59,420 | - | - | - |
| Interest and fiscal charges | - | 216,310 | - | - |
| Total Expenditures | 2,414,451 | 511,310 | 216,212 | - |
| Excess of Revenues Over (Under) Expenditures | 39,192 | (125,732) | (215,974) | - |
| Other Financing Sources (Uses) | | | | |
| Transfers in (out) | 2,880 | 125,300 | - | - |
| Total Other Financing (Uses) | 2,880 | 125,300 | - | - |
| Net Change in Fund Balances | 42,072 | (432) | (215,974) | - |
| Beginning fund balances | 1,170,839 | 122,771 | 217,062 | 9,400 |
| Ending Fund Balances | \$ 1,212,911 | \$ 122,339 | \$ 1,088 | \$ 9,400 |

See Notes to Financial Statements.

| <u>Nonmajor Police & Court</u> | <u>Total Governmental Funds</u> |
|--|---|
| \$ - | \$ 525,442 |
| - | 1,456,952 |
| - | 75,048 |
| - | 129,382 |
| 25,047 | 417,912 |
| 4 | 2,337 |
| - | 155,000 |
| - | 35,900 |
| - | 66,537 |
| 25,051 | 2,864,510 |
| - | 653,493 |
| - | 850,836 |
| 1,720 | 217,577 |
| - | 488,163 |
| - | 362,894 |
| - | 295,000 |
| - | 59,420 |
| - | 216,310 |
| 1,720 | 3,143,693 |
| 23,331 | (279,183) |
| (2,880) | 125,300 |
| (2,880) | 125,300 |
| 20,451 | (153,883) |
| 21,327 | 1,541,399 |
| \$ 41,778 | \$ 1,387,516 |

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City of Montgomery, Texas
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|--|------------------|
| Net changes in fund balances - total governmental funds | \$ (153,883) |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p> | |
| Capital outlay | 78,140 |
| Depreciation expense | (183,093) |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | |
| | 1,930 |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p> | |
| Compensated absences | (3,261) |
| Accrued interest | 399 |
| Pension expense | (1,684) |
| <p>The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p> | |
| Net change in deferred charges on refunding | (616) |
| Amortization of premium | 5,827 |
| Principal payments | 354,420 |
| | 354,420 |
| Change in Net Position of Governmental Activities | \$ 98,179 |

See Notes to Financial Statements.

City of Montgomery, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2016

| | Water Sewer & Sanitation |
|--|--------------------------------|
| <u>Assets</u> | |
| <u>Current Assets</u> | |
| Cash and cash equivalents | \$ 198,135 |
| Receivables, net | 144,104 |
| Total Current Assets | 342,239 |
| <u>Noncurrent Assets</u> | |
| Net pension asset | 10,070 |
| Capital assets: | |
| Non-depreciable | 104,376 |
| Net depreciable capital assets | 7,491,862 |
| Total Noncurrent Assets | 7,606,308 |
| Total Assets | 7,948,547 |
| <u>Deferred Outflows of Resources</u> | |
| Pension contributions | 3,210 |
| Pension investment earnings | 5,214 |
| Total Deferred Outflows | 8,424 |
| <u>Liabilities</u> | |
| <u>Current Liabilities</u> | |
| Accounts payable and accrued liabilities | 52,504 |
| Customer deposits | 59,885 |
| Compensated absences | 4,413 |
| Due to other funds | 3,907 |
| Total Current Liabilities | 120,709 |
| <u>Deferred Inflows of Resources</u> | |
| Actual pension experience vs. assumption | 1,810 |
| <u>Net Position</u> | |
| Net investment in capital assets | 7,596,238 |
| Restricted for pensions | 16,684 |
| Unrestricted | 221,530 |
| Total Net Position | \$ 7,834,452 |

See Notes to Financial Statements.

City of Montgomery, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUND

For the Year Ended September 30, 2016

| | <u>Water Sewer & Sanitation</u> |
|--|---|
| <u>Operating Revenues</u> | |
| Water sales | \$ 479,336 |
| Sewer revenue | 213,914 |
| Garbage collection | 91,337 |
| Meter installations | 172,766 |
| Late charges | 17,569 |
| Total Operating Revenues | <u>974,922</u> |
| <u>Operating Expenses</u> | |
| Cost of water | 523,190 |
| Cost of sewer | 71,715 |
| Cost of garbage | 95,172 |
| Salary and wages | 102,568 |
| Depreciation | 345,190 |
| Total Operating Expenses | <u>1,137,835</u> |
| Operating Loss | <u>(162,913)</u> |
| <u>Nonoperating Revenues (Expenses)</u> | |
| Investment income | 1,516 |
| Total Nonoperating Revenues (Expenses) | <u>1,516</u> |
| Loss Before Capital Contributions and Transfers | (161,397) |
| Contributed capital | 34,826 |
| Transfers (out) | (125,300) |
| Change in Net Position | <u>(251,871)</u> |
| Beginning net position | 8,086,323 |
| Ending Net Position | <u><u>\$ 7,834,452</u></u> |

See Notes to Financial Statements.

City of Montgomery, Texas

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2016

| | <u>Water, Sewer & Sanitation</u> |
|--|--|
| <u>Cash Flows from Operating Activities</u> | |
| Receipts from customers | \$ 951,600 |
| Payments to employees | (103,815) |
| Payments to suppliers | (726,595) |
| Net Cash Provided by Operating Activities | <u>121,190</u> |
| <u>Cash Flows from Noncapital Financing Activities</u> | |
| Transfers (out) | (125,300) |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>(125,300)</u> |
| <u>Cash Flows from Capital and Related Financing Activities</u> | |
| Capital purchases | (22,880) |
| Net Cash (Used) by Capital and Related Financing Activities | <u>(22,880)</u> |
| <u>Cash Flows from Investing Activities</u> | |
| Interest | 1,516 |
| Net Cash Provided by Investing Activities | <u>1,516</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (25,474) |
| Beginning cash and cash equivalents | <u>223,609</u> |
| Ending Cash and Cash Equivalents | <u>\$ 198,135</u> |

See Notes to Financial Statements.

City of Montgomery, Texas

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2016

| | <u>Water, Sewer & Sanitation</u> |
|--|--|
| <u>Reconciliation of Operating Income</u> | |
| <u>to Net Cash Provided by Operating Activities</u> | |
| Operating Income | \$ (162,913) |
| Adjustments to reconcile operating income to net cash provided: | |
| Depreciation | 345,190 |
| Changes in Operating Assets and Liabilities: | |
| (Increase) Decrease in: | |
| Accounts receivable | (31,709) |
| Increase (Decrease) in: | |
| Accounts payable and accrued liabilities | (30,899) |
| Customer deposits | 8,387 |
| Compensated absences | (1,399) |
| Deferred outflows - pension contributions | (600) |
| Deferred outflows - investment earnings | (4,313) |
| Deferred inflows - pension (gains) losses | (2,316) |
| Due to other funds | (4,502) |
| Due to other governments | (1,117) |
| Net pension asset | 7,381 |
| Net Cash Provided by Operating Activities | \$ 121,190 |
| <u>Schedule of Non-Cash Capital and Related Financing Activities:</u> | |
| Contributed capital - capital assets | \$ 34,826 |

See Notes to Financial Statements.

City of Montgomery, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Montgomery, Texas (the "City") was incorporated under the laws of the State of Texas in 1935.

The City operates under a "General Law" City which provides for a "Mayor-Council" form of government. The City Council is the principal legislative body of the City. The City Administrator is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all affairs of the City. The City Administrator is responsible for the appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget. The City provides the following services: general administration, public safety, public works, water services, and sewer services.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. Its activities are not considered a part of any other governmental or other type of reporting entity. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The component units, although legally separate, are considered part of the reporting entity. No other entities have been included in the City's reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on this, and based upon their significant financial and operational relationships to the City, the City has a discrete component unit, as follows:

Discrete Component Unit

Montgomery Economic Development Corporation (4B fund)

On December 14, 1995, the City incorporated the "Montgomery Industrial Development Corporation"

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

("MIDC"). In July 2013, the name was changed to Montgomery Economic Development Corporation ("MEDC"). The purpose of this non-profit corporation is to promote economic development within the City and the State of Texas in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City, and for improving the assessed valuations through the promotion of: (a) existing business enterprise expansion and retention and (b) new business enterprise development and attraction by developing, implementing, providing and financing projects. A one-half of one percent City sales tax is designated for this purpose.

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Requirements of the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations;
- Financial statements prepared using full accrual accounting for all of the City’s activities;
- A change in the fund financial statements to focus on the major funds.

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets**—This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted**—This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted**—This component of net position consists of net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The government reports the following governmental funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed and focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between its governmental fund assets and its liabilities and deferred inflows of resources as fund balance.

General Fund

The General Fund is the main operating fund of the City. The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety (police and municipal court), and public works. The general service fund is considered a major fund for reporting purposes.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of governmental funds. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Fund

The capital projects fund is used to account for the expenditures of resources accumulated from the sale of bonds and related interest earnings, contributed capital or transfers from other funds, other than those recorded in the enterprise funds for acquisition of capital facilities. The capital projects fund is considered a nonmajor fund for reporting purposes.

Special Revenue Funds

Special Revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted or designated for specified activities. The City's Special Revenue funds include the Hotel Tax Fund, and the Police and Court Fund. These funds are financed through taxes (Hotel Tax Fund) or forfeitures and fees (Police and Court fund). These funds are considered nonmajor funds for reporting purposes.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The proprietary fund types used by the City include enterprise funds.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

The government reports the following major enterprise fund:

Water, Sewer, and Sanitation Fund

This fund is used to account for the provision of water, sewer & garbage services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system, water collection and treatment systems, and contract garbage services. The fund also accounts for the accumulation of resources for and the payment of long-term debt, principal and interest. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Measurement focus refers to what is being measured and basis of accounting refers to when transactions are recorded in the financial records and reported on the financial statements and relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable. Proprietary fund equity consists of net position. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

All governmental funds and component units are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available).

Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

E. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

F. Assets, liabilities, deferred inflows/outflows, and net position/fund balance

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexSTAR, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code.

In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Fair Value

As of September 30, 2016, the City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

| <u>Asset Description</u> | <u>Estimated Useful Life</u> |
|----------------------------|------------------------------|
| Vehicles | 5 to 7 years |
| Furniture and equipment | 5 to 20 years |
| Infrastructure | 10 to 40 years |
| Water and sewer system | 20 to 40 years |
| Buildings and improvements | 20 years |

6. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

7. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

8. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance.

Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

10. Compensated Absences

The City maintains formal programs for vacation and sick leave. The City's full-time, permanent employees are granted vacation pay benefits in varying amounts to specified maximums depending on tenure with the City. The City's personnel policy permits its full-time, permanent employees to accumulate earned but unused vacation pay benefits. Upon separation with the City, employees will be paid for their accrued and unused vacation pay benefits.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Sick leave accrues to full-time, permanent employees to specified maximums, but upon separation with the City, employees will not be paid for accumulated sick leave.

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

11. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Proprietary funds operating and nonoperating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the utility fund are charges to customers for sales and services. The utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, special revenue, and utility funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the function level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Several supplemental budget appropriations were made during the year.

A. Deficit Net Position

As of the end of the year, governmental activities reported deficit net position of \$2,897,935. This deficit is due to business-type assets financed with debt paid by governmental activities. The deficit will be resolved as the debt balance is paid and overall net position improves.

B. Expenditures Over Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control as follows:

General Fund:

| | |
|-----------------------------|-----------|
| General government | \$134,933 |
| Police department | \$84,644 |
| Sales tax withheld by state | \$59,420 |

Debt Service Fund

| | |
|-----------------------------|-------|
| Interest and fiscal charges | \$500 |
|-----------------------------|-------|

The City has implemented procedures to ensure budgetary compliance. No expenditure can be made unless there is a budget available or an approved budget amendment has been submitted. Department head and management will review the budget variances on a regular basis and the budget will be amended if necessary.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2016, the primary government had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> |
|-------------------------------------|-------------------|--|
| Certificates of deposit | \$ 300,000 | 0.13 |
| External investment pools | 246,935 | 0.49 |
| Total fair value | <u>\$ 546,935</u> | |
| Portfolio weighted average maturity | | 0.13 |

As of September 30, 2016, the Montgomery EDC had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> |
|-------------------------------------|-------------------|--|
| Certificates of deposit | \$ 100,000 | 0.15 |
| External investment pools | 233,538 | 0.12 |
| Total fair value | <u>\$ 333,538</u> | |
| Portfolio weighted average maturity | | 0.13 |

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2016, the City's investment in TexPool was rated AAAM by Standard & Poor's.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

value of not less than the principal amount of the deposits. As of September 30, 2016, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

The Texas Local Government Investment Pool ("TexPool") has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. The Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Lehman Brothers Inc. and Federated Investors, Inc. under an agreement with the Comptroller, acting on behalf of the Trust Company.

The City reports all investments at fair value, except for "money market investments" and "2a-7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the Security and Exchange Commissions (SEC) Rule 2a-7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price. Such investments do not have interest rate risk disclosure requirements. The overall TexPool investment pool has a weighted average maturity of .44 years. The City is allowed to withdraw its funds from TexPool at anytime. Therefore, the City's deposits in TexPool have been included with cash. As of September 30, 2016, the primary government had \$246,935 in deposits with TexPool. As of September 30, 2016, the Montgomery EDC had \$233,538 in deposits with TexPool.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

B. Receivables

The following comprise receivable balances of the primary government at year end:

| | <u>General</u> | <u>Debt Service</u> | <u>Water, Sewer & Sanitation</u> | <u>Total</u> |
|--------------------|-------------------|---------------------|--|-------------------|
| Property taxes | \$ 8,146 | \$ 11,866 | \$ - | \$ 20,012 |
| Sales tax | 226,698 | - | - | 226,698 |
| Mixed beverage tax | 1,247 | - | - | 1,247 |
| Accounts | 61,879 | - | 171,320 | 233,199 |
| Other | 136 | - | - | 136 |
| Allowance | - | - | (27,216) | (27,216) |
| | <u>\$ 298,106</u> | <u>\$ 11,866</u> | <u>\$ 144,104</u> | <u>\$ 454,076</u> |

The following comprise receivable balances of the component unit at year end:

| | <u>MEDC</u> | <u>Total</u> |
|-----------|------------------|------------------|
| Sales tax | \$ 75,566 | \$ 75,566 |
| Other | 35 | 35 |
| | <u>\$ 75,601</u> | <u>\$ 75,601</u> |

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases/ Reclassifications</u> | <u>Ending Balances</u> |
|--|-------------------------------|---------------------|---|----------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 768,985 | \$ - | \$ - | \$ 768,985 |
| Total capital assets not being depreciated | <u>768,985</u> | <u>-</u> | <u>-</u> | <u>768,985</u> |
| Capital assets, being depreciated: | | | | |
| Infrastructure | 1,268,119 | - | - | 1,268,119 |
| Buildings and improvements | 946,440 | 15,281 | - | 961,721 |
| Vehicles | 645,777 | 62,859 | - | 708,636 |
| Furniture and fixtures | 385,665 | - | - | 385,665 |
| Total capital assets being depreciated | <u>3,246,001</u> | <u>78,140</u> | <u>-</u> | <u>3,324,141</u> |
| Less accumulated depreciation | | | | |
| Infrastructure | (262,793) | (42,271) | - | (305,064) |
| Buildings and improvements | (351,297) | (48,086) | - | (399,383) |
| Vehicles | (445,416) | (82,388) | - | (527,804) |
| Furniture and fixtures | (287,155) | (10,348) | - | (297,503) |
| Total accumulated depreciation | <u>(1,346,661)</u> | <u>(183,093)</u> | <u>-</u> | <u>(1,529,754)</u> |
| Net capital assets being depreciated | 1,899,340 | (104,953) | - | 1,794,387 |
| Total Capital Assets | <u>\$ 2,668,325</u> | <u>\$ (104,953)</u> | <u>\$ -</u> | <u>\$ 2,563,372</u> |

Depreciation was charged to governmental functions as follows:

| | |
|---|-------------------|
| General government | \$ 51,262 |
| Public safety | 68,365 |
| Public works | 63,466 |
| Total Governmental Activities Depreciation Expense | <u>\$ 183,093</u> |

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

A summary of changes in business-type activities capital assets for the year end was as follows:

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases/ Reclassifications</u> | <u>Ending Balances</u> |
|--|-------------------------------|---------------------|---|----------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 66,581 | \$ - | \$ - | \$ 66,581 |
| Construction in progress | 7,801 | 29,994 | - | 37,795 |
| Total capital assets not being depreciated | <u>74,382</u> | <u>29,994</u> | <u>-</u> | <u>104,376</u> |
| Capital assets, being depreciated: | | | | |
| Infrastructure | 10,992,324 | 27,712 | - | 11,020,036 |
| Furniture and equipment | 173,642 | - | - | 173,642 |
| Vehicles | 102,404 | - | - | 102,404 |
| Total capital assets being depreciated | <u>11,268,370</u> | <u>27,712</u> | <u>-</u> | <u>11,296,082</u> |
| Less accumulated depreciation | | | | |
| Infrastructure | (3,248,773) | (326,184) | - | (3,574,957) |
| Furniture and equipment | (138,805) | (3,531) | - | (142,336) |
| Vehicles | (71,452) | (15,475) | - | (86,927) |
| Total accumulated depreciation | <u>(3,459,030)</u> | <u>(345,190)</u> | <u>-</u> | <u>(3,804,220)</u> |
| Net capital assets being depreciated | <u>7,809,340</u> | <u>(317,478)</u> | <u>-</u> | <u>7,491,862</u> |
| Total Capital Assets | <u>\$ 7,883,722</u> | <u>\$ (287,484)</u> | <u>\$ -</u> | <u>\$ 7,596,238</u> |

Depreciation was charged to business-type activities as follows:

| | |
|--|-------------------|
| Water | \$ 249,928 |
| Sewer | 95,262 |
| Total Business-Type Activities Depreciation Expense | <u>\$ 345,190</u> |

D. Customer Deposits

The City had customer deposits of \$59,885 in the proprietary fund as of year-end. The City requires a \$250 refundable deposit for all new utility customers. This amount will be refunded when the customer terminates utility service with the City.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

E. Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. In general, the City uses the debt service fund to liquidate governmental long-term liabilities.

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Amounts Due within One Year</u> |
|--|------------------------------|------------------|---------------------|---------------------------|--|
| Governmental Activities: | | | | | |
| General Obligation Refunding Bond | \$ 3,425,000 | \$ - | \$ (180,000) | \$ 3,245,000 | \$ 185,000 |
| Tax & Revenue Certificates of Obligations | 3,650,000 | - | (115,000) | 3,535,000 | 120,000 |
| Issuance Premiums | 131,765 | - | (5,827) | 125,938 | - |
| Other liabilities: | | | | | |
| Sales Tax Due to State Comptroller | 114,521 | - | (59,420) | 55,101 | 27,551 |
| Compensated absences | 42,023 | 32,502 | (29,241) | 45,284 | 40,756 |
| Total Governmental Activities | <u>\$ 7,363,309</u> | <u>\$ 32,502</u> | <u>\$ (389,488)</u> | <u>\$ 7,006,323</u> | <u>\$ 373,307</u> |
| | | | | | |
| Long-term liabilities due in more than one year | | | | <u>\$ 6,633,016</u> | |
| | | | | | |
| Business-Type Activities: | | | | | |
| Other liabilities: | | | | | |
| Compensated absences | 5,812 | 3,292 | (4,691) | 4,413 | 3,972 |
| Total Business-Type Activities | <u>\$ 5,812</u> | <u>\$ 3,292</u> | <u>\$ (4,691)</u> | <u>\$ 4,413</u> | <u>\$ 3,972</u> |

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Amounts Due within One Year</u> |
|--|------------------------------|------------------|-------------------|---------------------------|--|
| Montgomery EDC | | | | | |
| Other liabilities: | | | | | |
| Sales Tax Due to State Comptroller | \$ 38,173 | \$ - | \$ (19,806) | \$ 18,367 | \$ 9,184 |
| | | | | | |
| Long-term liabilities due in more than one year | | | | <u>\$ 9,183</u> | |

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Long-term debt at year end was comprised of the following debt issues:

| Description | Interest Rates | Original Balance | Current Balance |
|---|----------------|---------------------|---------------------|
| Governmental Activities: | | | |
| 2012 General obligation refunding bonds | 2.00 - 4.00% | \$ 2,830,000 | \$ 2,475,000 |
| 2012 Tax & Revenue certificates of obligation | 3.00 - 3.50% | 3,760,000 | 3,535,000 |
| 2015 General obligation refunding bonds | 0.85-2.80% | 845,000 | 770,000 |
| Total Governmental Activities | | \$ 7,435,000 | \$ 6,780,000 |

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

The annual requirements to amortize governmental activities debt issues outstanding at year ending were as follows:

| Year ending September 30, | 2012 G.O. Bonds | | 2012 Tax & Revenue COs | | 2015 G.O. Refunding Bonds | |
|------------------------------|---------------------|-------------------|------------------------|---------------------|---------------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | \$ 105,000 | \$ 77,368 | \$ 120,000 | \$ 115,976 | \$ 80,000 | \$ 16,023 |
| 2018 | 105,000 | 75,268 | 120,000 | 112,376 | 80,000 | 14,903 |
| 2019 | 105,000 | 73,103 | 125,000 | 108,701 | 85,000 | 13,518 |
| 2020 | 110,000 | 70,750 | 130,000 | 104,876 | 85,000 | 11,903 |
| 2021 | 115,000 | 68,075 | 130,000 | 100,976 | 80,000 | 11,173 |
| 2022 | 115,000 | 65,200 | 135,000 | 97,001 | 85,000 | 8,294 |
| 2023 | 120,000 | 62,112 | 140,000 | 92,876 | 90,000 | 6,170 |
| 2024 | 125,000 | 58,744 | 145,000 | 88,601 | 90,000 | 3,853 |
| 2025 | 130,000 | 55,076 | 145,000 | 84,251 | 95,000 | 1,330 |
| 2026 | 130,000 | 51,176 | 150,000 | 79,451 | - | - |
| 2027 | 135,000 | 47,032 | 155,000 | 74,113 | - | - |
| 2028 | 140,000 | 42,563 | 160,000 | 68,600 | - | - |
| 2029 | 145,000 | 37,569 | 165,000 | 62,913 | - | - |
| 2030 | 155,000 | 31,944 | 170,000 | 57,051 | - | - |
| 2031 | 110,000 | 26,975 | 175,000 | 51,013 | - | - |
| 2032 | 115,000 | 22,756 | 180,000 | 44,800 | - | - |
| 2033 | 125,000 | 18,100 | 190,000 | 38,325 | - | - |
| 2034 | 125,000 | 13,100 | 190,000 | 31,675 | - | - |
| 2035 | 130,000 | 8,000 | 195,000 | 24,938 | - | - |
| 2036 | 135,000 | 2,700 | 200,000 | 18,026 | - | - |
| 2037 | - | - | 205,000 | 10,938 | - | - |
| 2038 | - | - | 210,000 | 3,675 | - | - |
| | <u>\$ 2,475,000</u> | <u>\$ 907,611</u> | <u>\$ 3,535,000</u> | <u>\$ 1,471,152</u> | <u>\$ 770,000</u> | <u>\$ 87,167</u> |

Series 2012 – General Obligation Refunding Bond - the bond is secured by water and sewer revenue and is repayable with property tax revenue. The proceeds were used to refund the City's Series 2005A and Series 2005B Certificates of Obligation.

Series 2012 Tax and Revenue Certificate of Obligation - the bond is secured by water and sewer revenues and is repayable with property tax revenue. The proceeds were used for construction of and improvements to the facilities and equipment of the City's water and sewer system.

Series 2015 General Obligation Refunding Bond - the bond is secured by water and sewer revenues and is repayable with property tax revenue. The proceeds were used to refund an existing bond that was used for improvements to the City's water and sewer system.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
 September 30, 2016

Sales Tax Overpayments

During the year ended September 30, 2012, the City received a notice from the Texas State Comptroller informing them that two businesses had erroneously reported their location to be within City limits. As a result, the City received more sales tax revenue than it should have. The City's sales tax will be reduced \$4,500 per month until this is corrected. The City received an additional notification from the State Comptroller that further overpayments were made totaling \$146,938. The City opted to have the State Comptroller withhold an additional amount of \$3,061 monthly for 48 months until the balance is paid. This overpayment was split between the City and the Montgomery EDC which also receives the sales tax revenue from the state.

The total balance of sales tax overpayments due to the State Comptroller for the year ended September 30, 2016 was \$55,101 for the City and \$18,366 for the Montgomery EDC.

G. Interfund Transactions

Transfers between the primary government funds and component unit during the 2016 year were as follows:

| Transfer out | Transfer In | Amount |
|-------------------------|--------------|------------|
| Water & Sewer | Debt Service | 125,300 |
| Nonmajor Police & Court | General | 2,880 |
| | | \$ 128,180 |

Amounts transferred between funds relate to amounts collected to pay debt and to fund various capital projects.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

The compositions of interfund balances as of year-end were as follows:

| Funds | Due to | Due from |
|----------------------------|----------|----------|
| General: | | |
| Water & Sewer | \$ - | \$ 3,907 |
| Debt Service | 87 | - |
| MEDC | 3,550 | 565 |
| Nonmajor Police & Court | 1,578 | - |
| | | |
| Debt Service: | | |
| General | - | 87 |
| | | |
| Special Revenue: | | |
| General | - | 1,578 |
| | | |
| Water, Sewer & Sanitation: | | |
| General | 3,907 | - |
| | \$ 9,122 | \$ 6,137 |

Amounts recorded as "due to/from" are considered to be temporary loans and will be repaid during the following year.

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

The City uses a number of approaches to decrease risks and protect against losses to the City, including internal practices, employee training, and a code of ethics, which all employees are required to acknowledge

The City owns and operates motor vehicles and may provide such vehicle to employees for business use during the course and scope of their employment. The City is insured as to its own property losses, and the liability of loss to others.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City had not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired.

In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

C. Commitments

In 2011, the City entered into an Interlocal Agreement (Agreement #1) with the City of Conroe for the City of Conroe's provision of fleet maintenance services for vehicles owned and operated by the City. This Agreement #1 is automatically renewed, unless explicitly terminated by the contract participants. Payments are made to the City of Conroe in amounts determined by the maintenance and related services as provided by the City of Conroe according to the agreement.

In 2011, the City entered into an Interlocal Agreement (Agreement #2) with Montgomery County, Texas for the purpose of providing fire code enforcement to the City by the Montgomery County, Texas Fire Marshal. This Agreement #2 is automatically renewed, unless explicitly terminated by the contract participants. There is no charge to the City for this service.

In 2013, the City entered into an Interlocal Agreement (Agreement #3) with Montgomery County, Texas for the purpose of the County providing construction, repair, and maintenance of public roads, right of ways, drainage ditches, parking lots, and other like facilities owned or administered by the City. This Agreement #3 is automatically renewed, unless explicitly terminated by the contract participants. Payments are made to the City of Conroe in amounts determined by the maintenance and related services as provided by Montgomery County, Texas according to the agreement.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

D. Agreements

Following is a summary of Development (Escrow) Agreements:

#1 Development: Lone Star Parkway Utilities - Developers: Philip LeFevre, Holly LeFevre, LC Acquisitions, Ltd., Virgin Development III, LP, Grandview Development, Inc., and MC Acquisitions, Ltd.

On January 23, 2007, the City entered into a 15-year term development agreement (the "Agreement") with Philip LeFevre, Holly LeFevre, LC Acquisitions, Ltd., Virgin Development III, LP, Grandview Development, Inc., and MC Acquisitions, Ltd., (the "Developers"). The Developers intend and propose to develop property (the "Property") in the City's extraterritorial jurisdiction for residential, commercial and retail use. As part of the Agreement, the Developers have agreed to convey to the City the Utility Extension Project and submit a petition to the City to annex the Property.

Subject to annexation of the Property and upon final completion of the Utility Extension Project, the City has agreed to make a grant consistent with Article III, Section 52-a of the Texas Constitution, Chapter 380, for reimbursement of the design and construction of public infrastructure (the Utility Extension Project) to the Developer limited to 70 percent of the construction costs. The amount of reimbursement to the Developer is limited to \$395,500 and will be paid from 1% sales and use taxes charged on the taxable sales collected by the City as generated by businesses on the property ("City Sales Tax Revenues"). The term City Sales Tax Revenues does not include sales and use taxes collected but dedicated for property tax reduction or industrial development.

#2 Development: Waterstone Section 1 - Developer: Waterstone on Lake Conroe, Inc.

On August 12, 2008, the City entered into a 10-year term development agreement (the "Agreement") with the Waterstone on Lake Conroe, Inc. (the "Developer"). The Developer intends and proposed to develop property (the "Property") in that is partially in the City and partially in the extraterritorial jurisdiction of the City (the "ETJ Property") for residential, commercial and retail use. As part of the Agreement, the Developer has agreed to accelerate construction of the Utility Extension Project and convey the Project to the City and to submit a petition to the City to annex the ETJ Property into the City.

Subject to annexation of the ETJ Property and upon final completion of the Utility Extension Project, the City has agreed to make a grant consistent with Article III, Section 52-a of the Texas Constitution, Chapter 380, for reimbursement of the design and construction of public infrastructure (the Utility Extension Project) to the Developer limited to 70 percent of the construction costs incurred as well as up to \$12,000 for escrowed funds for the City's engineering expenses.

The amount of reimbursement to the Developer is limited to \$512,000 and will be paid from ad valorem taxes generated from the Property annexed, and collected by the City, above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2008).

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

#3 Development: Buffalo Crossing - Developer: LeFevre Development Inc.

On February 22, 2011, the City entered into a 10-year term development agreement (the "Agreement") with the LeFevre Development Inc. (the "Developer"). The Developer intends and proposed to develop property (the "Property") in the City for residential, commercial and retail use. As part of the Agreement, the Developer has agreed to accelerate construction of the Utility Extension Project and convey the Project to the City.

Subject to annexation of the Property and upon final completion of the Utility Extension Project, the City has agreed to make a grant consistent with Article III, Section 52-a of the Texas Constitution, Chapter 380, for reimbursement of the design and construction of public infrastructure (the Utility Extension Project) to the Developer a sum of \$148,802.65 paid from ad valorem taxes generated from the Property annexed, and collected by the City, above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2011).

#4 Development: Villas of Mia Lago, Section 1 - Developer: Estates of Mia Lago

On September 13, 2011, the City entered into a development agreement (the "Agreement") with the Estates of Mia Lago, Ltd. (the "Developer"). The Developer intends and proposed to develop property (the "Property") in the City's extraterritorial jurisdiction for primarily high-end single family residential use and a residential assisted living facility. As part of the Agreement, the Developer has agreed to convey to the City the Utility Extension Project and to submit a petition to the City to annex the Property.

Subject to annexation of the Property and upon final completion of the Utility Extension Project, the City has agreed to make a grant consistent with Article III, Section 52-a of the Texas Constitution, Chapter 380, for reimbursement of the design and construction of public infrastructure (the Utility Extension Project) to the Developer limited to 70 percent of the construction costs incurred as well as up to \$5,000 for escrowed funds for the City's engineering expenses. The amount of reimbursement to the Developer is limited to \$132,198 and will be paid from ad valorem taxes generated from the Property annexed, and collected by the City, above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2011).

#5 Development: Hills of Town Creek, Section 1 - Developer: Christian C. Cheatham

On September 27, 2011, the City entered into a development agreement (the "Agreement") with the Christian C. Cheatham (the "Developer") and Montgomery Independent School District (the "School District"). The Developer intends and proposed to develop property (the "Property") in that was recently annexed into the City for primarily high-density, multi-family residential use, with a limited amount of commercial and retail uses. As part of the Agreement, the Developer has agreed to accelerate the construction of the Utility Extension Project and to convey the completed project to the City and petition the City to annex 13.773 acres of land currently located in the extraterritorial jurisdiction of the City (the "ETJ Land"). Other considerations include transfers of property and

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

facilities from the School District and the Developer to the City and transfer of property from the Developer to the School District.

Subject to the final completion of the Utility Extension Project, dedication of the facilities and easements to the City, other considerations, and annexation of the ETJ Land, the City has agreed to make a grant consistent with Article III, Section 52-a of the Texas Constitution, Chapter 380, for reimbursement of the design and construction of public infrastructure (the Utility Extension Project) to the Developer limited to 100 % of the cost to oversize utility lines and 70 percent of the remaining construction costs incurred as well as up to \$16,000 for escrowed funds for the City's engineering expenses. The amount of reimbursement to the Developer is limited to \$400,000 and will be paid from ad valorem taxes generated from the Property annexed, and collected by the City, above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2012).

E. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs annual calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

F. Pension Plans

1. Texas Municipal Retirement Systems

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
 September 30, 2016

78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

All eligible employees of the city are required to participate in TMRS.

2. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

| | <u>Plan Year 2016</u> | <u>Plan Year 2015</u> |
|--|-----------------------|-----------------------|
| Employee deposit rate | 7.0% | 7.0% |
| Matching ratio (city to employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 | 5 |
| Service retirement eligibility (expressed as age / years of service) | 60/5, 0/20 | 60/5, 0/20 |
| Updated service credit | 0% | 0% |
| Annuity increase (to retirees) | 0% of CPI | 0% of CPI |

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|----|
| Inactive employees or beneficiaries currently receiving benefits | 9 |
| Inactive employees entitled to but not yet receiving benefits | 24 |
| Active employees | 19 |
| Total | 52 |

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Montgomery were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Montgomery were 4.13% in calendar years 2016 and 2015. The City's contributions to TMRS for the year ended September 30, 2016, were \$44,811, and were equal to the required contributions.

4. Net Pension Liability (Asset)

The city's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Inflation | 2.5% per year |
| Overall payroll growth | 3.0% per year |
| Investment Rate of Return | 6.75%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method.

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|-----------------------|-------------------|---|
| Domestic Equity | 17.5% | 4.55% |
| International Equity | 17.5% | 6.10% |
| Core Fixed Income | 10.0% | 1.00% |
| Non-Core Fixed Income | 20.0% | 3.65% |
| Real Return | 10.0% | 4.03% |
| Real Estate | 10.0% | 5.00% |
| Absolute Return | 10.0% | 4.00% |
| Private Equity | 5.0% | 8.00% |
| Total | 100.0% | |

Discount Rate:

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Asset:

| | <u>Total Pension Liability (a)</u> | <u>Plan Fiduciary Net Position (b)</u> | <u>Net Pension Asset (a) – (b)</u> |
|--|--|--|--|
| Balance at 12/31/14 | \$ 811,951 | \$ 986,465 | \$ (174,514) |
| Changes for the year: | | | |
| Service Cost | 110,914 | - | 110,914 |
| Interest | 57,948 | - | 57,948 |
| Difference between expected and actual experience | (12,311) | - | (12,311) |
| Changes of assumptions | 34,004 | - | 34,004 |
| Contributions – employer | - | 37,600 | (37,600) |
| Contributions – employee | - | 63,744 | (63,744) |
| Net investment income | - | 1,456 | (1,456) |
| Benefit payments, including refunds of emp. contributions | (79,160) | (79,160) | - |
| Administrative expense | - | (887) | 887 |
| Other changes | - | (44) | 44 |
| Net changes | 111,395 | 22,709 | 88,686 |
| Balance at 12/31/15 | <u>\$ 923,346</u> | <u>\$ 1,009,174</u> | <u>\$ (85,828)</u> |

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

| 1% Decrease 5.75% | Current Single Rate Assumption 6.75% | 1% Increase 7.75% |
|----------------------|---|----------------------|
| \$ 66,553 | \$ (85,828) | \$ (205,990) |

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

5. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual economic experience | \$ - | \$ 13,435 |
| Difference between projected and investment earnings | 60,837 | - |
| Contributions subsequent to the measurement date | 33,301 | - |
| Total | \$ 94,138 | \$ 13,435 |

The City reported \$33,301 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended | |
|---------------------|------------------|
| December 31: | |
| 2016 | \$ 9,637 |
| 2017 | 9,637 |
| 2018 | 14,608 |
| 2019 | 13,521 |
| Thereafter | - |
| Total | \$ 47,403 |

City of Montgomery, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

G. Subsequent Events

The City has evaluated events and transactions that may impact the financial statements for the year ended September 30, 2016 through April 21, 2017, the date the financial statements were available to be issued and noted there are no subsequent events or transactions that require recognition or disclosure in the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Montgomery, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2016

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|--------------------------------------|---------------------|---|
| <u>Revenues</u> | | | |
| Property tax | \$ 258,077 | \$ 257,474 | \$ (603) |
| Sales tax | 1,340,000 | 1,456,952 | 116,952 |
| Franchise and local taxes | 76,000 | 75,048 | (952) |
| License and permits | 87,230 | 129,382 | 42,152 |
| Fines and forfeitures | 663,650 | 392,865 | (270,785) |
| Intergovernmental | 37,500 | 37,500 | - |
| Interest | 1,500 | 1,985 | 485 |
| Contributions and donations | - | 35,900 | 35,900 |
| Other | - | 66,537 | 66,537 |
| Total Revenues | <u>2,463,957</u> | <u>2,453,643</u> | <u>(10,314)</u> |
| <u>Expenditures</u> | | | |
| Current: | | | |
| General government | 518,560 | 653,493 | (134,933) * |
| Police department | 766,192 | 850,836 | (84,644) * |
| Municipal court | 413,449 | 215,857 | 197,592 |
| Public works | 499,537 | 488,163 | 11,374 |
| Capital outlay | 248,200 | 146,682 | 101,518 |
| Debt Service | | | |
| Sales tax withheld by state | - | 59,420 | (59,420) * |
| Total Expenditures | <u>2,445,938</u> | <u>2,414,451</u> | <u>31,487</u> |
| Revenues Over (Under) Expenditures | <u>18,019</u> | <u>39,192</u> | <u>21,173</u> |
| <u>Other Financing Sources (Uses)</u> | | | |
| Transfers in | 2,880 | 2,880 | - |
| Total Other Financing Sources | <u>2,880</u> | <u>2,880</u> | <u>-</u> |
| Net Change in Fund Balance | <u>\$ 20,899</u> | <u>42,072</u> | <u>\$ 21,173</u> |
| Beginning fund balance | | 1,170,839 | |
| Ending Fund Balance | | <u>\$ 1,212,911</u> | |

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles.
- *2. Expenditures exceeded appropriations at the legal level of control.

City of Montgomery, Texas
SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS
September 30, 2016

| | <u>12/31/15</u> | <u>12/31/14</u> |
|---|---------------------|---------------------|
| Total pension liability | | |
| Service cost | \$ 110,914 | \$ 81,979 |
| Interest | 57,948 | 55,068 |
| Changes in benefit terms | - | - |
| Differences between expected and actual experience | (12,311) | (54,092) |
| Changes of assumptions | 34,004 | - |
| Benefit payments, including refunds of participant contributions | (79,160) | (33,403) |
| Net change in total pension liability | <u>111,395</u> | <u>49,552</u> |
| Total pension liability - beginning | <u>\$ 811,951</u> | <u>\$ 762,399</u> |
| Total pension liability - ending (a) | <u>\$ 923,346</u> | <u>\$ 811,951</u> |
| Plan fiduciary net position | | |
| Contributions - employer | \$ 37,600 | \$ 26,597 |
| Contributions - members | 63,744 | 61,367 |
| Net investment income | 1,456 | 50,475 |
| Benefit payments, including refunds of participant contributions | (79,160) | (33,403) |
| Administrative expenses | (887) | (527) |
| Other | (44) | (43) |
| Net change in plan fiduciary net position | <u>22,709</u> | <u>104,466</u> |
| Plan fiduciary net position - beginning | <u>986,465</u> | <u>881,999</u> |
| Plan fiduciary net position - ending (b) | <u>\$ 1,009,174</u> | <u>\$ 986,465</u> |
| Fund's net pension liability (asset) - ending (a) - (b) | <u>\$ (85,828)</u> | <u>\$ (174,514)</u> |
| | | |
| Plan fiduciary net position as a percentage of the total pension | 109% | 121% |
| Covered employee payroll | \$ 910,624 | \$ 876,672 |
| Fund's net position as a percentage of covered employee payroll | -9.43% | -19.91% |

Notes to schedule:

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

City of Montgomery, Texas
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2016

| | 9/30/2016 | 9/30/2015 ¹ |
|--|--------------|------------------------|
| Actuarially determined employer contributions | \$ 33,301 | \$ 26,103 |
| Contributions in relation to the actuarially determined contribution | \$ 33,301 | \$ 26,103 |
| Contribution deficiency (excess) | \$ - | \$ - |
| Annual covered employee payroll | \$ 1,085,017 | \$ 918,710 |
| Employer contributions as a percentage of covered employee payroll | 3.07% | 2.84% |

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Remaining Amortization Period | 29 years |
| Asset Valuation Method | 10 Year smoothed market; 15% soft corridor |
| Inflation | 3.0% |
| Salary Increases | 3.50% to 12.00% including inflation |
| Investment Rate of Return | 6.75% |
| Retirement Age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2013 valuation pursuant to an experience study of the period 2009-2011 |
| Mortality | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB |

Other Information:

Notes

There were no benefit changes during the year.

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OTHER SUPPLEMENTARY INFORMATION

City of Montgomery, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2016

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|--------------------------------------|-------------------|---|
| <u>Revenues</u> | | | |
| Property tax | \$ 264,985 | \$ 267,968 | \$ 2,983 |
| Interest | 1,500 | 110 | (1,390) |
| Total Revenues | <u>266,485</u> | <u>268,078</u> | <u>1,593</u> |
| <u>Expenditures</u> | | | |
| Contract services | 2,500 | - | 2,500 |
| Debt Service: | | | |
| Principal | 295,000 | 295,000 | - |
| Interest and fiscal charges | 215,810 | 216,310 | (500) * |
| Total Expenditures | <u>513,310</u> | <u>511,310</u> | <u>2,000</u> |
| Revenues Over (Under) Expenditures | <u>(246,825)</u> | <u>(243,232)</u> | <u>3,593</u> |
| <u>Other Financing Sources (Uses)</u> | | | |
| Transfers in | 242,800 | 242,800 | - |
| Total Other Financing Sources | <u>242,800</u> | <u>242,800</u> | <u>-</u> |
| Net Change in Fund Balance | <u>\$ (4,025)</u> | <u>(432)</u> | <u>\$ 3,593</u> |
| Beginning fund balance | | 122,771 | |
| Ending Fund Balance | | <u>\$ 122,339</u> | |

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP)
- *2. Expenditures exceeded appropriations at the legal level of control.

City of Montgomery, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
For the Year Ended September 30, 2016

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|-----------------------------------|--------------------------------------|------------------|---|
| <u>Revenues</u> | | | |
| Intergovernmental | \$ - | \$ - | \$ - |
| Interest | 150 | 238 | 88 |
| Total Revenues | <u>150</u> | <u>238</u> | <u>88</u> |
| <u>Expenditures</u> | | | |
| Capital outlay | 220,000 | 216,212 | 3,788 |
| Total Expenditures | <u>220,000</u> | <u>216,212</u> | <u>3,788</u> |
| Net Change in Fund Balance | <u>\$ (219,850)</u> | <u>(215,974)</u> | <u>\$ 3,876</u> |
| Beginning fund balance | | <u>217,062</u> | |
| Ending Fund Balance | | <u>\$ 1,088</u> | |

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles

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Montgomery City Council
AGENDA REPORT

| | |
|---|--|
| Meeting Date: May 9, 2017 | Budgeted Amount: |
| Department: | |
| Prepared By: Jack Yates City Administrator | Exhibits: Information sheet from Government Financial Officer's of America (GFOA) |
| Date Prepared: May 3, 2017 | |

Subject

This is to consider selection of the Auditor for the next several years.

Description

This is the third year of BrooksCardiel performing the audit for the city and the end of their contract with the City. Although certainly not a requirement, it is recommended that cities have a different auditor review their accounts, and often three years is the recommended period of having the same auditor. Additionally, the staff is not recommending staying with BrooksCardiel, primarily because of the delays in receiving the Audit and issues regarding document preparation that worked out this year but after "discussions" with the auditor.

Attached is an Audit Procurement information sheet from the GFOA that I have highlighted the most relevant parts.

If you were to direct me to do so: getting a new Auditor will involve the preparation of a Solicitation of Audit Proposal document that we would advertise, receive Proposals then consider who submitted and the Council decide.

All this needs to happen between now and the end of September, the end of the fiscal year.

Montgomery City Council
AGENDA REPORT

| |
|--|
| |
|--|

Recommendation

To direct the City Administrator to solicit proposals for an Auditor of the City's financial administration with the entire selection process to be accomplished on or before September 30, 2017.

Approve By

| | | |
|--------------------|------------|-------------------|
| City Administrator | Jack Yates | Date: May 3, 2017 |
|--------------------|------------|-------------------|

Type: Best Practice

Background:

The Government Finance Officers Association (GFOA) has long recommended that state and local governmental entities obtain independent audits of their financial statements performed in accordance with the appropriate professional auditing standards. Properly performed audits play a vital role in the public sector by helping to preserve the integrity of the public finance functions and by maintaining citizens' confidence in their elected leaders.

Recommendation:

GFOA makes the following recommendations regarding the selection of auditing services:

- The scope of the independent audit should encompass not only the fair presentation of the basic financial statements, but also the fair presentation of the financial statements of individual funds and component units. The cost of extending full audit coverage to the financial statements of individual funds and component units can be justified by the additional degree of assurance provided. Nevertheless, the selection of the appropriate scope of the independent audit ultimately remains a matter of professional judgment. Accordingly, those responsible for securing independent audits should make their decision concerning the appropriate scope of the audit engagement based upon their particular government's specific needs and circumstances, consistent with applicable legal requirements.
- Governmental entities should require in their audit contracts that the auditors of their financial statements conform to the independence standard promulgated in the General Accounting Office's *Government Auditing Standards* even for audit engagements that are not otherwise subject to generally accepted government auditing standards.
- Governmental entities should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors. Such multiyear agreements can take a variety of different forms (e.g., a series of single-year contracts), consistent with applicable legal requirements. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multiyear agreements can also help to reduce audit costs by allowing auditors to recover certain "startup" costs over several years, rather than over a single year.
- Governmental entities should undertake a full-scale competitive process for the selection of independent auditors at the end of the term of each audit contract, consistent with applicable legal requirements. Ideally, auditor independence would be enhanced by a policy requiring that the independent auditor be replaced at the end of the audit contract, as is often the case in the private sector. Unfortunately, the frequent lack of competition among audit firms fully qualified to perform public-sector audits could make a policy of mandatory auditor rotation counterproductive. In such cases, it is recommended that a governmental entity actively seek the participation of all qualified firms, including the current auditors, assuming that the past performance of the current auditors has proven satisfactory. Except in cases where a multiyear agreement has taken the form of a series of single-year contracts, a contractual provision for the automatic renewal of the audit contract (e.g., an automatic second term for the auditor upon satisfactory performance) is inconsistent with this recommendation.
- Professional standards allow independent auditors to perform certain types of nonaudit services for their audit clients. Any significant nonaudit services should always be approved in advance by a governmental entity's audit committee. Furthermore, governmental entities should routinely explore the possibility of alternative service providers before making a decision to engage their independent auditors to perform significant nonaudit services.
- The audit procurement process should be structured so that the principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit. In no case should price be allowed to serve as the sole criterion for the selection of an independent auditor.

Committee: Accounting, Auditing, and Financial Reporting

- References:**
- *CPA Audit Quality: A Framework for Procuring Audit Services*, General Accounting Office, August 1987.
 - *Audit Management Handbook*, Stephen J. Gauthier, GFOA, 1989.
 - *An Elected Official's Guide to Auditing*, Stephen J. Gauthier, GFOA, 1992.
 - *Governmental Accounting, Auditing and Financial Reporting (GAAFR)*, Stephen J. Gauthier, GFOA.

Approved by GFOA's Executive Board: October 2002

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