

NEWPORT MUNICIPAL UTILITY DISTRICT
Minutes of Special Meeting of Board of Directors
March 7, 2018

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on March 7, 2018, in accordance with the duly posted notice of said meeting, with a quorum of directors present, as follows:

R. Gary Hasse, President
Don Cox, Vice President
Margarette Chasteen, Secretary
David P. Guidry, Assistant Secretary
Jim Hembree, Director

and the following absent:

None.

Also present were Debbie Shelton, Nino Corbett, Chad Rochester, Eileen Fashoro, Delilah Arolfo, David Kasper, and Lori G. Aylett.

The President called the meeting to order and declared it open for such business as might properly come before it.

1. The attorney noted that the Board had requested a workshop meeting to discuss the Defined Area reimbursement agreement, the bond elections that were held in 2005 and purposes for those bonds, and related matters. First, Director Cox asked questions about the maintenance of the detention ponds. He asked whether the Board could require developers to pay for the detention pond maintenance. The attorney noted that developers were sometimes required to pay for detention pond maintenance in the early years of their construction, but those payments become an operating advance, for which they are entitled to reimbursement.

Discussion then turned to the 2005 bond election. Director Hembree noted that the District found itself in need of voted bond authority in 2005 because it only had \$6.5 million of bonds remaining. The engineer estimated the cost to develop the remaining undeveloped land in Newport, and came up with a plan for the issuance of \$30 million in water, sewer and drainage bonds and \$5 million in parks bonds. Director Hembree noted that Newport had hit a snag and was not developing in 2005, and the Board wanted to rejuvenate the building program. As Chris Claunch noted in one of the community meetings, "a community that is not growing is dying". As part of this growth strategy, the District formulated developer reimbursement contracts that were stricter than the TCEQ requirements. There were tax rate protection tests put into place that have served the District well. At the community meetings, the Board told the voters that of the \$30 million in bonds, \$12 million would be set aside for water, sewer and drainage construction for platted areas of Newport. Another \$12 million would be set aside for central plant projects. The remaining amount of voted authority would be used to cover the soft costs of the bonds. The bonds would be issued for 20 to 25 years, and at that time, the Board promised the voters that they would not raise taxes from their current level of \$0.70, \$0.60 of which was debt and \$0.10

was maintenance. According to that projection, the voted authority would last until 2020, at which time the District would need another bond election. This is precisely how things have worked out. David Kasper reviewed the remaining voted authority with the Board, the projects that are already underway or completed, and the capital expansion needs of the District. The timing is now to begin preparation for the next bond election.

Discussion then turned to the cost needed to develop within the District to prepare for service to the Defined Area tract. The Defined Area tract will need a central lift station at a cost of approximately \$1.2 million, a force main at a cost of approximately \$1.6 million, and a water lines at a cost of approximately \$400,000. The engineer estimates the total cost of \$3.3 million plus the soft costs for these facilities. The Board considered whether these funds should be committed from the \$30 million in voted authority from Newport MUD, as opposed to from the Defined Area bonds. Debbie Shelton then reviewed the various projections related to making such a commitment. The financial advisor assumed that Newport Pointe would add an additional \$148 million to the tax roll. She assumed the \$3.2 million bond issue, but if the issue has to be slightly larger due to Mr. Kasper's projections, this does not change the analysis by much. The financial advisor demonstrated that the District can reimburse the developer 100% of the cost associated with the lift station, force main and water lines without raising the overall District tax rate. In addition, that area generates \$377,000 of maintenance tax revenues that would be for the benefit of Newport.

The financial advisor then provided a cash flow analysis of the Defined Area. She used the same growth projections and assumed setting a \$0.65 debt service tax rate in the Defined Area. This tax rate would support the issuance of approximately \$14,750,000 of bonds, which would generate approximate developer reimbursement of \$11,550,000. This is not good news for the developer because his development costs are in the range of \$20 million. Ms. Shelton noted that developer reimbursement depends upon value creation. Nino Corbett assumed the construction of \$250,000 homes, and he believes that to be conservative. The other factor is the cost of development, and the developer has been conservative on that as well. The developer can build 125 lots before the force main is needed. After discussion, the Board agreed that it would be appropriate to pay the cost of the force main, water lines and lift station from Newport MUD bonds, and have the remainder of the water, sewer and drainage facilities in the Defined Area be paid with Defined Area bonds. The Board authorized the attorney to draft an agreement for reimbursement of the force main, water lines and lift station, using the same reimbursement tests that other developers are required to meet in Newport. The remaining Defined Area facilities will be subject to a different contract and a \$1.25 tax rate test.

2. The Board discussed the developer reimbursement agreement with Rochester. Chad Rochester addressed the Board and stated that he wanted to purchase five acres and develop 45-foot lots. He stated that the average value of the homes is \$198,000 on the lots that Lennar is currently building. The Board noted that they were concerned about the value added by 45-foot lots. The Board was also concerned about street parking and the fact that the development would be located at a main entrance to the subdivision. Several Board members noted that the Board was trying to take all actions to encourage the orderly development of homes that would hold their value. The Board agreed that more information was needed from Rochester before any developer reimbursement agreement could be considered.

3. The Board briefly discussed the polling places and election officials. The attorney noted that the range of payment to election officials was \$15 to \$22. The Board agreed to set a rate of \$20 per hour. Director Hasse noted that Charles Thompson was likely willing to be a presiding judge. The attorney will place the Order Designating the Polling Places back on the Monday operations agenda.

4. The Board discussed participation in the Texas Class Investment Pool. Director Guidry noted that the bookkeeper had made him aware of the Pool, and the Pool functions much like TexPool. The District could diversify its holdings by participating. Upon unanimous vote, the Board approved opening an account in the Texas Class Investment Pool.

5. At 4:55 p.m., the Board convened in executive session pursuant to Texas Government Code §551.071 to discuss attorney / client privilege matters. At 5:18 p.m., the Board reconvened in regular session.

6. At the conclusion of the meeting, Director Hembree stated that he was resigning from the Board, effective immediately. The Board members accepted his resignation with regret and thanked him for his many years of service to the Board.

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


Secretary