

## NEWPORT MUNICIPAL UTILITY DISTRICT

Minutes of Meeting of Board of Directors

April 26, 2018

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on April 26, 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

and the following director absent:

None.

Also present were Delia Yanez, Christine Matzonkai, David Kasper, Andrea Martin, Chad Rochester, DeLonne L. Johnson, George House, Allyson Baker, Debbie Shelton, Eileen Fashoro, Rich Harcrow, Crystal Kirby, Carlos Castrejon, Josh Rambo, Clint Sutton, Richard Morrison, and Lori G. Aylett, attorney for the District.

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

1. The Board considered an Order Appointing Additional Election Officials. The attorney noted that the alternate early voting clerk, Ms. Karen Vandagrif, must sit at the polling place for eight hours each day. The early voting clerk, Charles Thompson, is still hospitalized and neither he nor his wife, Carol Thompson, has been able to assist with the duties. Director Hasse has identified a qualified Newport resident, Donna Perri, to serve as an additional alternate early voting clerk. The attorney advised the Board that Ms. Perri was related to Carol Jones, who is employed by the Newport Property Owners Association. This in no way disqualifies Ms. Perri from service, but the attorney wanted the Board members to be aware of the relationship. In response to a question from the Board, the attorney noted that Ms. Perri would be required to take an oath of office of an election official and adhere to all strict legal requirements for the early voting clerk. Upon unanimous vote, the Board adopted the Order Appointing Additional Election Officials as presented.

2. Minutes of the meetings held March 19, 2018 and March 22, 2018 were presented for the Board's review and approval. Upon unanimous vote, the Board approved the minutes as presented.

3. There were no customer inquiries for the Board's consideration.

4. The Board reviewed a tax assessor/collector's report. 2017 taxes were 95.35% collected. 13 checks, two wire transfers, and one voided check were presented for the Board's review and approval. Upon unanimous vote, the Board approved the tax

assessor/collector's report as presented and authorized payment of bills with the checks drawn on the tax fund.

5. The attorney discussed the financial advisor's contract. Lori Aylett advised the Board that the District's current financial advisor, Hilltop, no longer has any employees in their office who have experience working for municipal utility districts. Debbie Shelton addressed the Board and stated that she had recently moved to Masterson Advisors. The firm currently has 11 employees and specializes in municipal utility district work. She stated that Masterson Advisors was local, employee-owned, and ready to do business. After discussion, upon unanimous vote, the Board voted to provide 30 days' notice of termination to Hilltop and engage Masterson Advisors.

6. Allyson Baker presented a bookkeeper's report, a copy of which is attached. The bookkeeper reported that the District has 9.85 months of reserve. The Board noted that the Harris County MUD 525 deposit of \$250,000 should be reflected on a separate page, not with the IUOE deposits. The bookkeeper confirmed that MUD 525 has not paid for the monthly invoicing for water, and the attorney will check with their counsel. Upon unanimous vote, the Board approved the bookkeeper's report as presented.

7. Josh Rambo presented an audit of the District's books and records for the fiscal year ended December 31, 2017. The District had revenues over expenditures of \$73,249 in the general fund. The District increased its fund balance each year over the past five years, which is an indication that the District is performing well. The District's books and records are in good order, and the auditor will be giving an unqualified opinion. The Board noted that there was no mention of Hurricane Harvey and its impact on the District budget. The auditor noted that not many homes in the District flooded, and the District's taxable value was not adversely affected. However, the attorney suggested that the District might want to add language to the Management's Discussion and Analysis regarding the impact of Hurricane Harvey on the District's general fund budget versus actual expenditures. Upon unanimous vote, the Board approved the audit and authorized its filing as required by law.

8. There was presented the attached Resolution Affirming Review of Investment Policy, Strategies and Objectives and the list of approved brokers/dealers. The attorney noted that according to the Public Funds Investment Act, the District is annually required to review its investment policy to assure its compliance with Texas law. The attorney recommended no revisions to the investment policy, and the auditor's report noted no deficiencies with respect to how the District's investments are handled. The Board also reviewed a list of brokers/dealers to be authorized to engage in investment transactions with the District. Upon unanimous vote, the Board adopted the Resolution and brokers/dealers list as presented.

9. The Board considered review of the District's investments for compliance with Senate Bill 253. The attorney reminded the Board that Senate Bill 253 prohibits the District from investing with entities that support terrorist organizations. The District's investment officer must periodically review a list of such entities that will be prepared by the Texas Comptroller of Public Accounts and made available on their website. The Board authorized the investment officer to perform periodic reviews to confirm compliance with Senate Bill 253.

10. Lori Aylett discussed the continuing disclosure filing with regard to the District's bonds. Pursuant to Bond Orders previously adopted, the District is required to annually update certain material information, including the audit, that might be of interest to District bondholders. Upon unanimous vote, the Board authorized the attorney to make the continuing disclosure filing as required by law.

11. The Board considered the requirement to file a HB 1378 (Chapter 140, Texas Local Government Code) Annual Local Debt Report. The attorney noted that the District can comply with the law by filing its audit with the Texas Comptroller. Upon motion duly made, seconded and unanimously carried, the Board voted unanimously to authorize the attorney to make the required Annual Local Debt Report filing.

12. The attorney presented the annual maintenance report for the arbitrage analysis, originally dated August 24, 2005. The District has undertaken all necessary actions to comply with federal laws regarding arbitrage and rebate matters.

13. The Board reviewed operations and engineering matters. The engineer reported receipt of a proposed Change Order No. 1 from Lennar for Section 8, Replat 3, in the amount of \$1,498.78. The change order represents a quantity adjustment, and the engineer recommended its concurrence on its approval. Upon unanimous vote, the Board approved Change Order No. 1 as recommended by the engineer.

The engineer reported on the Water Well No. 2 update. Weisinger estimates a cost of \$12,500 to inspect Water Plant No. 2 to determine its condition. The engineer recommended that the District dismantle the cinderblock building before beginning the inspection, because the building is not in good condition and it will cost more to try to work around it than to demolish and replace it. Rich Harcrow presented a quote to remove the building for \$5,000. The engineer stated that he hopes that this analysis of the water well will reveal that it is capable of being used so that the District can avoid drilling a water well at the surface water plate site in 2023. Upon unanimous vote, the Board approved the proposal for removal of the building and the inspection proposal of Weisinger.

David Kasper discussed the wastewater treatment plant. He presented a proposal from Jones & Carter for work associated with surveying the site and providing topographic information. The bond application currently under review by the TCEQ contains money for the engineering and survey work that is proposed. Upon unanimous vote, the Board authorized the engineer to obtain a formal proposal and Form 1295 from Jones & Carter for performing the topographic surveys at the wastewater treatment plant.

The Board next reviewed the remaining bond capacity projections prepared by David Kasper. Taking into account the bond application that has already been filed, the District will have net remaining voted bonds of \$15,590,000. Completed projects that should be included in a 2018 bond issue total approximately \$10,170,000. In addition, the District now may need to consider a wastewater treatment plant levee at a cost of \$1.5 million. The planned wastewater treatment plant expansion will cost \$4,780,000. This would leave the District with net remaining bonds of \$2,950,000 at the end of 2019. The District has committed to Newport Pointe to reimburse that developer for the lift station, force main, and water extension improvements using

the voted capacity. Once those facilities are constructed, the District will be out of voted authority. In addition, the District has made a commitment for a reimbursement agreement to Lennar for Newport, Section 7, and anticipated costs of that project are \$3.5 million. Also, the District has entered into a reimbursement contract with Rochester for their Golf Club tract, with anticipated costs of \$440,000. In summary, the District has already committed in excess of its voted authority. Director Guidry expressed the opinion that the District should not make any more commitments to developers until the District has secured a plan for a bond election and for its future development needs. In addition, the District engineer stated that it would be prudent for a district the size of Newport to budget \$500,000 a year for repairing the aging infrastructure. At the conclusion of the discussion, the Board requested that the attorney place subject of a bond election on the next agenda.

14. Andrea Martin presented an operator's report. The District received notice from McCann Security that they are ceasing business operations at the end of April. One of their employees has formed his own company, Citywide AVS. That company is offering the same maintenance agreement for the District's camera and security facilities. The Board requested the attorney place an item on the next regular agenda regarding a maintenance agreement with Citywide AVS.

15. The Board reviewed developer reports. Chad Rochester reported that in Section 9, LGI has constructed about 83 homes and has about 10 homes left to start. The developer is still waiting on CenterPoint to install lighting. The Golf Club tract is under design, and the developer anticipates that he is about two weeks from submitting plans. There will be 45 homes, and the average home value is \$225,000.

Carlos Castrejon reported on the activities of Lennar. In Section 8 and Section 12, Lennar sold six homes this month and has sold 14 year-to-date. Partial Replat 3 in Section 8 homebuilding is ongoing. In Partial Replat 4 in Section 8, Lennar is rapidly running out of lots. Section 7, Partial Replat 1 is on today's Houston Planning Commission meeting agenda for approval. That replat will contain approximately 103 lots, 70% of which are 50-foot lots and 30% of which are 45-foot lots. A full plan should be available for the Board's review next month.

Nino Corbett reported on the activities of Newport Court. They have had 40 sales to date, and the average home value is \$245,000. The developer is about to proceed into the 55-foot lots. The developer met with the watershed coordinator and determined that the Defined Area is out of the 100 and 500 year flood plain. Nino Corbett wants to revisit the value estimates with the District's financial advisor.

Eileen Fashoro reported on the activities of Rampart, Section 7. She wanted to make the Board aware that there was erosion on the back part of Gum Gully in that area. She stated that there is a potential development delay in Section 7 because utilities will be constructed on the front part of the lots. Some of the lots in the original Section 7 are owned by individuals, and easements will be needed to be granted from those individual owners.

16. The Board discussed a Reimbursement Agreement and Utility Commitment with Rochester Enterprises for the 5.21-acre tract on North Diamondhead. Chad

Rochester stated that he understood that the District had no more voted bond capacity to serve his development and that any reimbursement would be contingent upon a successful future bond election. Mr. Rochester stated that he would be willing to stipulate to this fact in the reimbursement agreement. The Board noted that they were under an obligation to serve the property and should grant a utility commitment for 20 lots. Upon unanimous vote, the Board approved the issuance of a utility commitment letter for 20 lots in the Rochester North Diamondhead tract. The Board requested that the attorney draft a reimbursement contract with language making reimbursement contingent upon a successful bond election. The Board agreed to conduct a special meeting on May 8, 2018 at 3:00 p.m. to consider the terms of such an agreement.

17. Lori Aylett presented an attorney's report. She briefly discussed the ongoing election issues. She stated that the election officials have settled into their duties very nicely. She advised the Board to tell their friends and neighbors to bring a voter registration card and photo ID for best service at the polls. DeLonne Johnson noted a concern that he might have been able to take more than one ballot when he recently voted. The attorney noted that she would discuss that matter with the early voting clerk to make sure that the ballots are secure and thanked Mr. Johnson for bringing the matter to her attention. She requested that Board members bring any election concerns to her attention, and her office will make contact with the election officials, as appropriate and necessary.

18. Richard Morrison addressed the Board and stated that he had been working with the operator on FEMA projects. He intends to have a draft of a request for proposals for 406 mitigation for the Board's consideration at the special meeting.

19. The Board discussed the garbage contract. Crystal Kirby addressed the Board and stated that she had gotten the Notice of Default and has made efforts to cure. She has gotten all of their trucks purchased, and the employees were back on the job. The Board noted that service had improved since the notice was issued, and the District believes that the garbage contractor is currently in compliance with the contract.

20. The Board briefly discussed the IUOE Training and Education Center Detention Pond Maintenance Agreement. Director Cox noted that he has some comments to the agreement, and the Board agreed to defer the agreement to the special meeting.

21. The Board agreed to defer consideration of the District's website until the May regular meeting.

22. The attorney noted that AVR had not updated their software maintenance agreement to include the required language stating that they will not boycott Israel, and they had not yet provided a Form 1295. Accordingly, the Board tabled consideration of the software maintenance agreement.

23. The District operator reported that they are working on a quote from EFS for the filter media covers. The Board will consider action when more bids are received.

24. Finally, the Board discussed the status of the District's insurance claim. The District has received \$513,592.30 thus far. The insurance adjuster is still in the process of issuing a letter stating the final outcome of the District's claims.

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

  
Secretary