

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
Minutes of Meeting of Board of Directors  
August 16, 2018

The Board of Directors (“Board”) of Newport Municipal Utility District (“District”) met at 16703 Golf Club Drive, Crosby, Texas, on August 16, 2018, in accordance with the duly posted notice of said meeting, with a quorum of directors present, as follows:

R. Gary Hasse, President  
Earl B. Boykin, Vice President  
Margarette Chasteen, Secretary  
Deborah L. Florus, Assistant Secretary  
DeLonne L. Johnson, Director

and the following director absent:

None.

Also present were Teague Harris, Rich Harcrow, George House, Chad Rochester, Delia Yanez, Jorge Diaz, Debbie Shelton, Katie Sermas, Cullen Francis, George Rochester, Justin Jenkins, Nino Corbett, Channing Corbett, Carlos Castrejon, Justin Graham, Don Cox, Shannon Waugh, Eileen Fashoro, 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 reviewed minutes of July 19, 2018 meeting. The Board suggested one revision. Upon unanimous vote, the Board approved the minutes as corrected.

2. There were no customer inquiries or appeals regarding utility services, billing, or other District services.

3. The Board briefly discussed a schedule for workshop meetings. Some Board members noted that there was an Association of Water Board Directors meeting last Friday in Humble, and new Directors could prepare for their duties by attending such workshop meetings. Director Boykin stated that he would like for the Board to conduct workshop meetings as necessary so that all directors can learn about their duties. Director Hasse suggested that the Directors continue to attend conference functions as they are able, and the District will schedule future workshop meetings as needed and as consultants are available.

4. Delia Yanez presented a tax assessors/collector’s report, a copy of which is attached. The 2017 taxes are 97.86% collected. One wire transfer was made and eight checks were presented for the Board’s review and approval. Director Boykin questioned one check written to a family trust, and the tax assessor provided information indicating that the account holder had been successful in challenging their values and had achieved a value reduction, which in turn generated a tax refund. Upon unanimous vote, the Board approved the tax assessor/collector’s report as presented.

5. Jorge Diaz presented a bookkeeper's report, a copy of which is attached. The District received extraordinary revenues of \$23,778.35 due to a FEMA reimbursement and \$450,000 for a portion of the non-taxable entity tap fee paid by IOUE Educational Center. Upon unanimous vote, the Board approved the bookkeeper's report as presented and authorized payment of checks listed thereon.

6. The Board reviewed the operations and billing and collections report, a copy of which is attached. The District's water accountability stood at 96%, while the District produced 31.301 million gallons of groundwater and 4.392 million gallons of surface water. The operator reviewed in some detail the repairs performed at various District facilities.

At the wastewater treatment plant, the District reported one peak flow violation on July 4, 2018, and the District experienced 11.1 inches of rainfall. The operators discussed repairs performed and pending at the wastewater treatment plant. Director Hasse asked about the pump at the Dunes lift station, and the operator reported that it has been deragged twice and repairs are pending.

The operator presented a smoke testing report for Newport Sections 3 and 5. It appears that the District will have enough evidence to demonstrate that some damages were done to the sanitary sewer collection system as result of Hurricane Harvey, and the operator will continue to pursue FEMA claims on provable damages.

Director Johnson noted that a customer on social media had implied that they have had repeated sewer backups due to a problem with the District's lines. Rich Harcrow stated that the District does investigate sewer backups. If the District lines are the problem, the District makes immediate repairs. The District also has a policy to reimburse customer plumbing expenses, when those expenses are proven to be attributable to a problem in the District's sewer lines.

The Board reviewed the billing and collections report. Total current billing was \$319,120.28, while total current payments were \$329,477.92. The 30 day arears were \$22,938.27. Deposits in house totaled \$510,867.50.

The Board next reviewed the report of Aggressive Waste regarding pick-ups. There was one missed pick-up, and twelve yellow tags were issued for non-compliant heavy trash.

The operator provided information regarding their detailed response to requests for information from customer Dusek. The customer had attended the prior month's Board meeting. The operator provided her with a detailed water usage log, monthly usage graphs and related documents. Also in response to her request, the operator conducted a meter test, and the customer's meter is accurate.

The operator reported that the District had received an additional check from the insurance company for a water well claim made in May. The insurance denied a portion of the claim, applied the deductible, and paid the balance. The operator reported that the balance due from FEMA for reimbursement for Hurricane related damages is approximately \$348,000. Upon

unanimous, vote the Board approved the operations and billings and collections reports as presented.

7. The operator presented the report on the parks and recreational facilities. The operator reported on the special events that have been conducted. The new button to operate the splash pad has been received, and the operator will take the splash pad out of service on the first day of school to replace the button. The operator took action to remove some personal property that had been placed on the District's park property by neighboring owners or inhabitants of the Veach tract. Upon unanimous vote, the Board approved the parks and recreational report as presented.

8. Teague Harris presented an engineer's report, a copy of which is attached. The engineer discussed the chlorine dioxide pilot study. The engineer has requested a proposal from Evoqua and anticipates that the cost will not exceed \$30,000. The engineer has also contacted the TCEQ to determine whether the District will have to get approval to change the form of disinfection before performing the pilot study. Upon unanimous vote, the Board approved the pilot study not to exceed \$30,000.

Mr. Harris met with Dan Pearce, a local representative for the Lakewood Corporation, to discuss a possible purchase of land for a forebay at the surface water plant. They asked that Newport send a formal request for the property and the acreage needed.

On the tank recoating at Water Plant No.1 and surface water treatment plant, David Kasper has reported to Teague Harris that the contractor has one remaining punch list item to complete. Then the final pay application will be processed. At Water Plant No. 1, the operator has been coordinating with various contractors for the emergency generator installation and transfer switch. Everything has been brought up to code according to CenterPoint, and the generator is scheduled to be installed on August 28, 2018.

At Water Plant No. 1, the operator took water samples to Water Systems Engineering to run a chemical and bacteriological profile related to taste and odors. They will recommend a specific well treatment program based on the results, which are anticipated to be received in two to three weeks.

At Water Well No. 2, the operators had an initial conversation with the SJRA canal operators regarding obtaining an easement to construct a well collection line from Well No. 2 to the service water treatment plant. The SJRA requested that IDS send correspondence to their engineer describing the project and the well line collection route. The Water Well No. 2 rehabilitation is on hold pending the results of the well collection line easement. David Kasper has requested that Aquametric revise its final pay application for the water meter replacement project, pending the operator's final measured quantities. With regard to the North Diamondhead 16-inch water line project, the engineer held a pre-construction meeting, and a notice to proceed was issued effective August 13, 2018.

The engineer discussed the wastewater treatment plant FEMA mitigation plan. The engineer plans to finish their conceptual report on August 20, 2018 and will present it to FEMA at their status meeting on August 21, 2018. The engineer has reviewed pre and post

Harvey sanitary sewer inspection videos and has identified several areas in which there is clear evidence that Harvey damaged the sanitary sewer systems. Director Chasteen questioned the engineer on whether the Harris County bond election for flood control projects had any projects that would benefit or affect the Newport area. Teague Harris stated that he did not have a definitive answer but would check. The engineer received the draft topographic survey exhibit for the wastewater treatment plant berm and facilities from Jones and Carter. The engineer also coordinated with the operator to make comments on the draft waste discharge permit. A revised draft has been received, and the operator and engineer will review.

The engineer next reported on development and utility service matters. He met with representatives of Lennar to go over their pending projects. He recommended that the Board concur with the advertisement for bids for Newport Section 7 Replat 1 water, sewer and drainage, and the Board concurred. In response to a question from the Board, the engineer noted that the Section 7 Replat would result in a total home count of 98 for Replats 1 and 3. The engineer also issued a plat release letter for Newport Section 4 Partial Replat 2 and 3, with three and six lots respectively. Upon unanimous vote, the engineer's report was approved as presented.

9. The Board discussed developers' reports. Chad Rochester reported on the status of Newport Section 9. The irrigation company will be wrapping up next week. Mr. Rochester requested concurrence of the Board with solicitation of bids for two projects, once the detention pond issue has been resolved.

Carl Castrejon addressed the Board regarding development by Lennar. The developer intends to begin building homes soon in Section 8 Partial Replat 3. In Section 7, the developer is wrapping up clearing. They plan to use detention excavation to fill the lots. In Section 7 Replat 1, bids will be received on August 30, 2018, and the developer is hoping to have lots on the ground by December. The developer has had 26 sales year to date.

Nino Corbett discussed the status of his development. He stated that he was happy to be working with Teague Harris on the projects. Newport Court is complete. There were 68 total lots, and 24 are left to be built. In the Defined Area, the master drainage plan has been submitted. The developer hopes to have lots on the ground in the Defined Area by late next year.

Eileen Fasharo reported on the status on the Rampart's development. Rampart sold 74 lots in Section 7 to Lennar. These will be replatted into 80 lots. Upon unanimous vote, the Board approved the developers' reports as presented.

10. The Board discussed the District's website design. Shannon Waugh of Off Cinco showed the Board members the proposed website. The Board suggested certain revisions to the site. The attorney will review the legal requirements of the website, in the hopes that the website can go live by September 1, 2018.

11. The Board briefly discussed a memorandum for consideration of requests to use District property. Lori Aylett presented a draft of considerations for the board to review. She noted that the District was not obligated to honor any request to use its land. The District

owns property for water supply, wastewater treatment, storm drainage and parks. She gave a brief summary of state law that allows the sale, abandonment or release of its land or any interest in land to third parties. She noted that requests for District land use should be put in writing, and several issues should be addressed in the request so that the Board can review the positive and/or negative effects. The Board noted that they would conduct a special meeting on Monday, August 27, 2018 at 3:00 p.m. to consider the developers' requests.

12. The Board considered an amendment to its garbage contract with Aggressive Waste. The new provisions of the contract will go into place on October 1, 2018. The contract reflected changes that the Board had previously discussed and approved regarding heavy trash collection and yard waste collection. Upon unanimous vote, the Board approved amendment to the garbage contract with Aggressive Waste.

13. The Board discussed revisions to the District's Rate Order and Rate Schedule. The attorney noted she had made some proposed revisions to the Rate Order to account for the corresponding changes in garbage collection. The Board also agreed that it would be appropriate to change the irrigation tap fee to recover the District's cost if a road bore was necessary. Irrigation meters that require road bore will be performed at District cost. The Board also agreed that it would be appropriate to charge a \$150 meter tampering fee. Upon unanimous vote, the Board approve the attached Resolution for Adoption of Order Establishing 1) Policy and Rates for Water and Waste Collection and Disposal Service and 2) Rules and Regulations Governing Sewer House Lines, Sewer Connections and Water Main Connections and the attached Order for Adoption of Schedule of Water and Waste Collection and Disposal Service Fees and Rates.

14. The Board agreed to table the presentation from Community Bank on payment options.

15. The attorney briefly reported on the status of the District's \$4,225,000 Unlimited Tax Bonds. The Bonds have been approved by the Attorney General of Texas, and the closing is scheduled for next Tuesday.

16. Justin Jenkins presented on Agreed-Upon Procedures Report for the District's \$4,225,000 Unlimited Tax Bond Series 2018. Mr. Jenkins noted that he had reviewed canceled checks and pay estimates to support reimbursement to developer, Lennar Homes of Texas Land and Construction, Ltd. The conclusion of the report is that the District owes reimbursement to the developer of \$1,993,275.34. The District will have surplus funds of \$84,318 due to the actual bond interest rate being lower than the rate that was estimated in the bond application. Upon unanimous vote, the Board approved the Agreed-Upon Procedures Report and authorized distribution of reimbursement proceeds to the developer in accordance with the report.

17. There was presented the attached amendment to Statement of Directors following issuance of Series 2018 Unlimited Tax Bonds. The attorney noted that the amendment is filed in the real property records of Harris County and notifies the property owners that they are in a water district, how much bond debt has been issued by the water district, and what its tax rate is. Because the District has issued more bonds, the statement must be amended. Upon

unanimous vote, the Board approved the amendment to the Statement of Directors and authorized its execution by all Directors that were present.

18. The Board returned to the discussion of the audit. Director Boykin expressed concern about the material weakness that was pointed out in the District's latest annual audit. The auditor explained that this disclosure is made in virtually every water district audit. Because the current accounting principles, the auditor is required to report the material weakness. The material weakness noted is that the District's management has not engaged an auditor to prepare the District's financial statements. Instead the District's bookkeeper prepares the financial statements, and the auditor may make certain adjustments to those financial statements. Most water districts in the state accept this disclosure and take no action to remedy the material weakness. The only way this disclosure can be removed from the District's report is for the District to hire a second auditor to prepare the District's financial statements. Most water districts have not elected to spend the extra money to hire a second auditor.

19. Lori Aylett reported on a proposal from IUOE Educational Center for payment of the non-taxable tap fee. The Union has secured a temporary tax exemption for the years 2017 and 2018, and the Union has already paid the District \$225,000 per year for the two years in which the temporary exemption has been received. The Union is seeking a permanent tax exemption, and if it is received, the Union will owe the balance of the non-taxable entity tap fee. The Union is prepared to offer the District an irrevocable letter of credit that the District can use to draw upon to pay the balance of the non-taxable entity tap fee when the permanent exemption is granted. In exchange, the Union would like to secure the exact amount of the non-taxable entity tap fee. The tap fee is computed based upon the outstanding debt of the District. Because the District will be issuing a new series of bonds when the closing occurs next Tuesday, the District will be extending its bond debt from the year 2039 to the year 2041. The attorney recommended that the District authorize her to negotiate the terms of a letter of credit agreement for payment of the tap fee, with the amount calculated based upon the District's debt through the year 2039. Upon motion made by Director Boykin, seconded by Director Chasteen, the Board vote with a vote of 4-1, with Director Johnson opposing, to authorize the attorney to negotiate a letter of credit agreement for non-taxable tap fees through the tax year 2039.

20. The Board reviewed a option and ground lease agreement with Crown Castle. The attorney noted that Crown Castle had agreed to the District's terms for extension of the cell phone tower lease at the sewage treatment plant from 2022 to 2046. Upon unanimous vote, the Board approved the option agreement with T-Mobile as presented.

21. The Board discussed the fence installation along the District's property line. The operator noted that a neighboring property owner was beginning to encroach upon District park property again, and this has been a recurring problem. The Board discussed whether a fence should be installed on the boundary line. The Board tabled action on the matter until the District's could review the situation on the ground.

22. The Board briefly discussed the groundwater projections and credits with MUD 525. Director Hasse noted that he had spoken with Johnson Development and they are very interested in discussing the possibility of a sewage agreement with the District. The attorney noted that MUD 525 had not been paying the amounts owed under the groundwater

reduction contract. Teague Harris noted that he would convey to the MUD 525 developers that they should present a proposal in writing regarding the sewage service and get current on the water supply payments.

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

Margaret Chasteen  
Secretary