

NEWPORT MUNICIPAL UTILITY DISTRICT

Minutes of Meeting of Board of Directors

September 20, 2018

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on September 20, 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 Debbie Shelton, Jorge Diaz, Christine Matzonkai, Andrea Martin, George House, Rich Harcrow, Delilah Arolfo, Clint Sutton, Carlos Castrejon, Rhonda Rushton, Chad Rochester, Teague Harris, Vernon Webb, Don Cox, Jim Carpenter, Nino Corbett, Michael Cox, Taylor Goodall, 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 August 16, 2018 and August 27, 2018 meetings. Upon unanimous vote, the Board approved the minutes as presented.

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

3. Rhonda Rushton presented a tax assessors/collector's report, a copy of which is attached. The District's 2017 taxes are 98.18% collected. Lori Aylett presented a list of delinquent tax accounts. She reported that pursuant to Texas law, the District may discontinue providing utility services to customers who have been delinquent in payment of their taxes for more than six months. She recommended that the Board disconnect service on all of the listed accounts. Upon unanimous vote, the Board authorized water termination on the listed accounts. Upon unanimous vote, the Board approved the tax assessor/collector's report as presented.

4. The Board reviewed the 2018 tax rate for the District. Debbie Shelton addressed the Board and provided a tax rate analysis. She reminded the Board that setting the tax rate was a two step process. At today's meeting, the District must determine the highest rate that it will consider setting, and then publish a notice of a public hearing to be held at the next meeting. Last year, the District levied a debt service rate of \$0.29 per \$100 assessed valuation and a maintenance and operations rate of \$0.30 per \$100 assessed valuation. The financial advisor recommended a 2018 debt service rate of \$0.28 per \$100 assessed valuation. She noted

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that the average home in the District had increased slightly from its 2017 level of \$160,482 to the 2018 value of \$167,109. The Board discussed the maintenance and operations needs of the District. The financial advisor noted that the District could take the proposed \$0.01 reduction on debt service and move it to maintenance and operations to continue building the District's general fund. Director Chasteen noted that it was her opinion that the District should allocate the available money to maintenance and operations, as the District's budget needs continue to increase. Director Hasse agreed noting that the District had aging infrastructure and inflow and infiltration. After discussion, upon unanimous vote, the Board authorized publication of a proposed 2018 tax rate of \$0.59 per \$100 assessed valuation.

5. The Board briefly discussed whether a tax rate needed to be levied in the Defined Area. The developer, Nino Corbett, notified the financial advisor that he does not expect to have houses completed in the Defined Area before the end of 2019, so the Board therefore determined that there was no need to levy a tax in the Defined Area for 2018.

6. Jorge Diaz presented a bookkeeper's report, a copy of which is attached. The District's operating reserve is at 9.37 months and continues to trend upward. The Board reviewed the bookkeeper's report in some detail. Upon unanimous vote, the Board approved the bookkeeper's report as presented and authorized payment of checks listed thereon.

7. The Board reviewed the District's operations and billing and collections report. The District's water accountability was 98%. At the surface water plant, the operator will install the actuators and solenoids during a low water use season in October or November. The work is better done at that time, because the surface water treatment plant will have to be taken out of service. The generator installation was successful. At the wastewater treatment plant, there was 3.9 inches of rain, and the plant operated within all permit parameters. The operators discussed the work on the report, a copy of which is attached. The operator stated that they intended to switch vendors for magnesium hydroxide to achieve cost savings for the District. In addition, the operator plans to change the sludge hauling vendor for the same reason.

Rich Harcrow gave a detailed report on work done in the District and to the distribution system. There was a discussion regarding the cost of water line leaks. Director Hasse had asked the operator to break the cost of District operations related to water line leaks during the previous month. Of the charges, \$3,063 were attributable to customer service lines, while \$11,043.50 was attributable to District main line breaks. Delilah Arolfo reported briefly on the operator's procedures in the event of water line leaks. The customer service representatives on the telephone try to help the customers solve the problem by asking whether the leak is on the customer's side of the meter. However, in the end, the District operator always responds to the call-out if the customer insists. Director Hasse asked to see this information on an ongoing basis so the Board can determine whether there is a trend or some reason for the District to change its policy on customer call-outs. The operator stated that she would provide information on the report regarding District calls versus customer calls.

Andrea Martin presented a billing and collections report. Total current billing was \$318,368.48, while total current payments were \$352,861.18. The 30 day arrears were \$26,430.84. Deposits in house totaled \$508,992.50.

She next presented the Aggressive Waste disposal report. There was one missed pickup and two yellow tags for non-compliant heavy trash.

Christine Matzonkai reported on the status of FEMA and insurance claims. The District received another \$5,000 of insurance proceeds for damage done by Harvey to the District building. The District has received two more payments from FEMA, and thus far has received \$112,384.95. Upon unanimous vote, the Board approved the operations and billing and collections report as presented.

8. The Board received reports from the developers. Carlos Castrejon reported on the development efforts of Lennar. There has been one sale this month and 31 sales year-to-date. Clearing in Section 7 is complete. The detention pond contractor has moved onsite but has not been able to do too much due to rain. The developer presented metes and bounds descriptions to the attorney today for preparation of fill easement on District property for the benefit of the Lennar lots. Mr. Castrejon presented a reforestation plan and noted that the work will be done in January.

9. The chair deviated from the order of the agenda to receive a request for sewer service and review groundwater credits and projections with Harris County MUD 525. Taylor Goodall addressed the Board and stated that he was a law partner of Lori Aylett at Smith, Murdaugh, Little & Bonham, L.L.P. Smith, Murdaugh, Little & Bonham represents Harris County MUD 525. Lori Aylett noted that since her law firm represented both water districts there was a legal conflict of interest that she was required to disclose.

Mr. Goodall then introduced Michael Cox of Johnson Development. Mr. Cox noted that he was working with the new owner of the property within Harris County MUD 525. Newport and MUD 525 executed a groundwater agreement last year, and MUD 525 has not been able to make the necessary take-or-pay payments although the district did make the first capital contribution payment. The developer noted that they expected to be a year down range from where they really are. He would like the opportunity to work with the District to reconcile the existing agreement. He stated that MUD 525 had understood its obligation for the capital contribution and would continue to make those as required. However, he requested the Board's help with timing on the payments for water usage. In addition, he asked that the Board authorize its engineer to perform a feasibility analysis on the possibility of a waste discharge contract with the District. After discussion, upon unanimous vote, the Board authorized the engineer and attorney to work with the developer of MUD 525 regarding a feasibility study for a sewer agreement and amendments to the water supply agreement, subject to receipt of a necessary deposit from the developer of MUD 525.

10. The Board returned to developers' reports. Nino Corbett addressed the Board and stated that he was working with TxDOT regarding drainage issues. This will slow down his development and there would therefore be no need to tax the Defined Area in 2018. The Newport Court detention pond appears to be in good condition. David Weekley had three sales there last month. Director Hasse asked that the developer convey to their contractors need for more diligence about compliance with the stormwater pollution prevention plans.

Jim Carpenter addressed the Board regarding Rampart's development. He stated that he is working on several opportunities for sales, and he appreciated the Board's willingness to work with MUD 525 and Johnson Development.

Chad Rochester reported that landscaping and irrigation is in in Section 9.

11. Teague Harris presented an engineer's report, a copy of which is attached. The engineer has drafted a request to the TCEQ to approve an exception to use chlorine dioxide for the pilot study for taste and odor. The engineer presented a proposal from Evoqua for the 60-day chlorine dioxide study in the amount of \$24,500 conditioned upon TCEQ approval of the study. Upon unanimous vote, the Board approved the proposal from Evoqua.

The engineer received a report for water samples from Water Systems Engineering. The consultant did not find a smoking gun, i.e. the consultant did not find sulfate or sulfate reducing bacteria in the well. Therefore, it does not appear that treatment of the well casing to reduce bacteria will provide a sufficient reduction in odor. The engineer believes above ground treatment may be necessary. He is still investigating potential solutions.

The engineer contacted the SJRA Highlands Division manager to ask about obtaining an easement across their property. The engineer is preparing a letter and exhibit for their group to consider.

With regard to the FEMA mitigation project, the engineer submitted comments and conceptual cost estimates on August 22, 2018. The first option is to raise the elevation of buildings and equipment, while the second option is to raise the levee. The engineer prefers to raise the levee because it will protect the entire plant from flooding. The engineer is planning a meeting with senior Harris County flood plain officials to discuss regulatory issues. In addition, the engineer submitted a letter report to FEMA on August 28, 2018, regarding his review of Harvey sanitary sewer videos before and after Harvey.

The engineer noted that the previous engineer, David Kasper, had identified \$895,330 in critical sanitary sewer lines that need to be repaired. He asked if the Board wished to proceed forward on the basis of Mr. Kasper's recommendations. The Board asked Teague Harris to prepare his own cost estimate and review the priority one sanitary sewer line repairs so that the project can continue moving forward.

The District engineer next discussed stormwater permit renewals. As the District takes over more detention basins, Harris County allows the District to use a master permit for \$500 per year. The Seven Oaks permit will renew in October, and the engineer has all of the necessary documentation. The District also has taken over the Newport Court detention pond, but needs some documentation from the developer. Nino Corbett stated that he had information that he could provide in that regard.

The engineer next discussed development matters. In Newport Section 7, Lennar requested approval of Change Order No. 1 relating to modification of the detention pond outfall pipe. The modification will better protect the District's trail from erosion and keep water off the trail. Upon unanimous vote, the Board approved the change order as presented.

Lennar has taken bids for construction of water, sewer and drainage in Section 7. The developer recommended award of the contract with Alternate 1 included. The developer's engineer is also recommending award of the contract to the second low bidder, Texasite, LLC. The difference between the low bidder and the second low bidder is \$11,000, and the low bidder's references were not good. The attorney reminded the Board that the District can award the project to any contractor that it determines will result in the best and most economical completion of the project. Upon unanimous vote, the Board authorized award to the second low bidder Texasite for the amount of \$627,727, as recommended by the developer's engineer and the District engineer.

The engineer next discussed the Rochester development. Rochester had originally been told by Harris County Flood Control that no detention would be required in Section 6, but the County has subsequently changed their position. Rochester investigated whether detention volume for the subdivision could be provided in the proposed Section 10 detention basin. If the Section 10 detention basin is maximized by reducing the maintenance berm from 30-feet to 20-feet, the required detention volume could be provided. Director Chasteen stated that she would like to see more details of the developer's proposal before the Board could make a decision. The rest of the Board was in agreement with Director Chasteen's comments and therefore deferred action. Mr. Rochester stated that he might be in a position to begin advertising for clearing and grubbing of Section 6. Upon motion duly made and seconded, the Board voted with a vote of 3-2, with Directors Johnson and Florus opposing, to authorize the developer to advertise for clearing and grubbing for Section 6.

The Board continued discussion on Rochester's development and Newport Section 10. The reserve in Section 10 that the detention basin was proposed to be located in is restricted to landscape purposes. The City of Houston has requested that the reserve be included in the Section 10 plat so that its uses can be revised to landscape and drainage. Because the District owns the reserve, the District would have to sign the replat. The Board reiterated that they were just being made aware of this information and wanted to understand more of what would be entailed in executing the replat. Further, they asked if Rochester had secured the approval of the property owners association for this replat. The Board declined to take action until more information was provided. Finally, Mr. Rochester requested the Board's authorization to advertise for bids for the Section 10 water, sewer and drainage contract. The Board stated that they were not able to take action on authorization for bids until the issues surrounding the detention pond on District property were resolved.

Finally, the engineer briefly reported on the Harris County drainage bond election that recently passed. There is one project for Jackson Bayou Watershed, which includes Gum Gully. Upon unanimous vote, the Board approved the engineer's report as presented.

12. The Board reviewed the parks and recreational facilities report. The operator installed baby changing tables in all restrooms. The splash pad button was replaced under warranty. One tree was removed that was leaning on a fence. 792 key fobs have been issued. One party is scheduled. Upon unanimous vote, the Board approved the parks and recreational facilities report as presented.

13. The Board considered a First Amendment to Agreement for Annexation of Utility Service with IUOE Educational Center. The attorney explained the terms and conditions regarding the latest draft of the First Amendment. If the District approves the agreement, the IUOE Educational Center will provide a letter of credit insuring a non-taxable entity tap fee payment will be paid to the District as calculated for the tax years 2019 through 2039. Director Johnson noted his previous opposition to the agreement because he believes that the District should secure the commitment through 2041, since the District has now issued more bonds and its debt service requirements are not completed until 2041. Upon motion duly made, seconded and carried with a vote of 4-1, with Director Johnson opposing, the Board approved the First Amendment as presented.

14. The attorney presented two groundwater reduction agreements. One with W&P Development for 20,500,000 gallons and one with Kenneth Kirsch for 900,000 gallons. Upon unanimous vote, the Board approved the groundwater reduction agreements as presented.

15. The attorney asked that the Board defer the right-of-entry agreement with Rochester Enterprises, and the Board concurred.

16. The attorney noted that she had just received the metes and bounds descriptions for the fill easements for the benefit of Lennar property and will begin working on them.

17. The Board discussed the meeting and office building. Director Hasse noted that the District has previously discussed the status of the District's current meeting building. It is his belief that the meeting building has reached the end of its useful life. Delilah Arolfo stated her opinion that the District should have a safe building that can also be used by operations personnel during hurricanes. Operations personnel currently shelter in place in the District during hurricane events so that they can respond as soon as it is safe. The Board members agreed that it would be appropriate to begin looking at options in this regard. The attorney noted that she would send contact information and addresses so that the Board members could take tours of various MUD facilities.

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


Secretary