

NEWPORT MUNICIPAL UTILITY DISTRICT
Minutes of Meeting of Board of Directors
January 17, 2019

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on January 17, 2019, 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 Rich Harcrow, Carlos Castrejon, Christine Matzonkai, Andrea Martin, Delilah Arolfo, Delia Yanez, Jorge Diaz, Debbie Shelton, Chad Rochester, Clint Sutton, Nino Corbett, Don Cox, William Veach, Terry Libbra, 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 minutes of the meeting of December 20, 2018 were presented for the Board's review and approval. Upon unanimous vote, the Board approved the minutes as presented.

2. The Board considered customer inquiries. Terry Libbra addressed the Board and stated that he and his wife walk the park trails regularly. The trails used to be cleared right after the floods or heavy rains, and now it is taking longer to clean them up. Rich Harcrow responded to the resident's concerns. He stated that since Hurricane Harvey, there is a lot more debris in Gum Gully, which finds its way onto the trails after heavy rainfalls. District representatives have been in touch with Harris County Flood Control representatives to discuss the matter and propose solutions.

Don Cox addressed the Board and thanked them for the new website. He stated that it was very well done and contained really useful information.

3. Delia Yanez presented a tax assessors/collector's report, a copy of which is attached. The District's 2018 taxes are 62.65% collected, and all prior years were over 99% collected. Two wire transfers were made, 11 checks were issued, and two checks were voided.

The attorney presented a proposed water termination list. The attorney reported that the District can terminate a customer's water service, if that customer's taxes have been delinquent for more than six months. The attorney asked the Board members to review the

report and contact her personally if they knew of any special circumstances or reasons why any taxpayers should not be terminated as listed. Upon unanimous vote, the Board authorized the water terminations as listed on the report.

Upon unanimous vote, the Board approved the tax assessor/collector's report as presented.

4. Jorge Diaz presented a bookkeeper's report, a copy of which is attached. He noted that the District has 9.63 months of operating reserves. The District received \$146,002.50 from FEMA for the wastewater treatment plant generator. The Board reviewed the District's budget versus actual comparison. The District had actual revenues of \$316,000 during the 2018 fiscal year. Upon unanimous vote, the bookkeeper's report was approved as presented.

5. The attorney reported that the annual capital payment of \$250,000 has not yet been received from Harris County MUD 525. The attorney will continue to communicate with representatives of the MUD and their developer to secure payment.

6. The Board discussed the Veach penalty that was previously assessed and property boundary issues. Mr. William Veach addressed the Board and stated that he was aware of the incidence of water pollution from the recreational vehicle that has since been removed from the home site. He stated that his son was currently in prison, and he further reported that his son had rented the trailer to third parties who had created the nuisance with the R.V. He also stated that his niece had told him that she was going to attend the December meeting, so he believed that someone would be present to discuss the matter with the Board before the penalties were levied. He stated that the fence that the District had constructed on the property line had destroyed the value of his home. He apologized for what his family had done, but he stated that he needed to be able to use the driveway that crosses onto the District's property to sell the home. He also stated that he did not want to have to commence any legal action against in the District and hoped to amicably resolve the issues. The attorney noted that it was appropriate to discuss District's real property and threatened litigation in closed session, but any decisions about the penalty and the fence would have to be made in open session. The Board agreed to take the matter under advisement.

7. The Board reviewed the annual CPI adjustment, late fees, and document production fees for the groundwater reduction contracts. The attorney noted that the CPI had been flat during the year, and so all of the current agreements with CPI increases would remain at the same rate of \$3.51 per 1,000 gallons. The attorney recommended a \$500 document preparation fee. The Board agreed to the \$500 document preparation and agreed to leave new contracts at \$3.51 per 1,000 gallons until further discussion. The Board also asked the attorney to place the item back on the February agenda and assist the Board with determining the market value of Series A groundwater certificates, which are similar to the groundwater credits sold by the District.

8. The Board considered tax exemptions for the year 2019. There was presented the attached Order Adopting Residence Homestead Exemption for Persons Sixty-Five or Older or Disabled. The attorney noted that in previous years, the Board had authorized an exemption of \$20,000 of the market value of each residence homestead within the District of

individuals who are disabled or 65 years of age or older. After discussion, upon unanimous vote, the Board voted to adopt the Order as presented reflecting an exemption of \$20,000.

9. There was presented the attached Order Levying Additional Penalty for Delinquent Taxes. The order levies a 20% penalty on 2018 delinquent taxes for business personal property on April 1, 2019 and for real property on July 1, 2019. Upon unanimous vote, the Order was adopted as presented.

10. There was presented the attached Resolution to Tax Tangible Personal Property in Transit in Defined Area Which Would Otherwise Be Exempt Pursuant to Texas Tax Code, Section 11.253. The attorney explained that the District can by law tax tangible personal property in transit if it adopts this resolution. Several years ago, the District adopted such a resolution for Newport, and it would appropriate to adopt the same resolution for the Defined Area. Upon unanimous vote, the Board approved the Resolution as presented.

11. The Board reviewed developers' reports. Carlos Castrejon reported that Texasite is preparing to begin work in Section 7. The developer is two months behind schedule due to the wet weather. The detention pond has been completed. In 2018, Lennar had 35 sales, or roughly three sales per month.

Chad Rochester discussed his developments in Section 6 and Section 10. The clearing and grubbing contract was awarded to K&K. The attorney reported that she had received comments from the engineer regarding the right-of-entry and was prepared to provide that document to the developer and the developer's contractor.

Nino Corbett stated that he had four closings in Newport Court. There are currently 54 homes there and ten lots left to develop. He contacted the District's engineer about the bond issue summary. Mr. Corbett's general plan for Newport Pointe is complete. He is still working with the builder. He reported that the route of his force main would cross the front of Section 6, and requested that Rochester make sure to leave room in the easement for the force main when doing their utility construction.

The Board considered District operations. The District accounted for 96% of the water produced. The clarifier at the surface water plant is making an unusual noise, and EFS has referred it to Houston Bearing. They are making the necessary repairs. A contractor is making a warranty repair on the generator at Water Plant No. 1

At the wastewater treatment plant, the District had average daily flows of 1,056,000 gallons. There was ten inches of rain, and the plant operated within permit. The District did have an unauthorized discharge on December 8, 2018. The discharge was reported and cleaned up as required by law. The operator performed District work as listed on the report.

Rich Harcrow presented bids for work from EFS for four projects including replacement of ten horsepower pumps at the wastewater treatment plant, final screen repairs at the wastewater treatment plant, install improved lighting at the plant, and replace the guide rails at the South Diamondhead lift station. Director Florus asked about whether the District was required to seek competitive bids. The attorney noted that when the project size is between \$25,000 and \$75,000, the District must solicit three bids based upon a uniform specification. For

projects over \$75,000, bids must be advertised. The total of the quotes from EFS did not require solicitation of competitive bids. The operator confirmed that EFS was a top quality contractor, and in the operator's opinion, the quotes presented were competitive. Upon unanimous vote, the Board approved the bids of Electrical Field Services, Inc. for the work listed thereon.

Andrea Martin presented the billing and collections report. Total current payments were \$292,350.03, while total current billing was \$272,147.80. As of today, the arrears totaled \$21,529.40. The District collected standby fees of \$5,668.56 during 2018.

The Board reviewed the garbage collection report from Aggressive Waste. Aggressive Waste also provided correspondence to the Board and apologized that there were four days where the routes were missed or late.

The Board reviewed correspondence from a resident requesting a waiver of the deposit. The Board noted that the District had procedures in its Rate Order regarding deposits and should not deviate from the District's regular procedures. Accordingly, the request for waiver of the deposit was denied. The operator presented the hard freeze protection plan for the Board's information.

Christine Matzonkai discussed FEMA reimbursement projects. The District received funds for the generator of \$146,002.50. Back in February 2018, the District elected to participate in the pilot DAC program also known as PAAP DAC. Recently, FEMA gave the District the option to change to the new DAC, but the pilot program gives the District 5% of the total claim, including the portions of the claim that are covered by insurance. It was therefore to the District's advantage to remain in PAAP DAC. Upon unanimous vote, the Board approved the operations and billing and collections report as presented.

12. The Board discussed parks and trails matters. The operator cleaned a low water crossing after heavy rainfall on three separate occasions and repaired a large area of erosion on the trail next to Gum Gully. The operator presented bids for shade structures at Port O'Call Park, Diamondhead Park, and Flying Bridge Park. The Board took the bids under advisement and asked the attorney to place the matter back on the agenda. If the District did all three shade structures, the size of the project would be such that the District would need to solicit bids from two other contractors. The operator will work on getting quotes. Upon unanimous vote, the Board approved the parks and trails report as presented.

13. There was presented the attached Order Adopting Rules and Regulations for District Parks, Recreational Areas and District Property, Facilities, Easements and Rights-of-Way. Director Hasse presented some proposed amendments to the rules to address the use bluetooth speakers, tablets, and other loudspeakers. Director Johnson expressed some initial disagreement with the proposed rule change. He stated that people go outside to be loud. Director Florus noted that the park is for all people. If someone is disturbed by loudspeakers, the rules are in place to protect them as well. The Board debated the matter in some detail. Upon unanimous vote, the Board approved the Order as presented.

14. The Board reviewed a written engineering report from IDS, a copy of which is attached. Delilah Arolfo took exception to some of the characterizations of her firm's

participation in the FEMA meetings. The attorney noted that she has spoken with Teague Harris, and he would like to submit the resignation of IDS as District engineer. The Board noted that the District needed engineering services as soon as possible. Therefore, the Board will conduct special meetings on February 1, 2019 at 6:00 p.m. and February 15, 2019 at 4:00 p.m. to take action on this matter.

15. Debbie Shelton presented a financial advisor's report and discussed the Bond Application cost summary. She noted that the District can issue \$7,500,000 in bonds without an impact on the existing debt service tax rate. The financial advisor requested an appraisal district estimate of value. She discussed the District's reimbursement tests with the Board in some detail. She noted that the general idea is that the District determines tax rate revenue that it could generate with a \$0.60 tax rate, which was the tax rate that was in effect when development began in the District. She first reviewed the status of Rochester's development. Rochester has 84 lots and has added value of \$16,800,000. This generates tax revenue of \$100,800 per year. This is sufficient to reimburse Rochester for the development costs in Section 9.

In Newport Court, the developer has completed 61 homes and has 7 vacant lots left to develop. The tax revenue produced at \$0.60 totaled \$94,076. The average annual debt service on the reimbursement amount was \$97,128. This indicates that Newport Court is very close to being able to be fully reimbursed.

She next discussed the Newport Section 4 replat of DH Homes. They have ten completed homes, and the tax revenue generated at \$0.60 is \$18,531. The average annual debt service on the reimbursement amount would be \$29,801. Therefore, DH needs more completed homes to justify complete reimbursement.

The financial advisor then discussed the Newport Section 8 calculation. This is more complicated, because the developer has already been previously reimbursed and that debt service must be taken into account. The developer has spent about \$1,672,300, but according to the District's tax rate test currently only qualifies for \$1,005,000. The Board very briefly discussed the Seven Oaks contract and the circumstances surrounding reimbursement to them. The Board discussed the tax rate test and development agreement in some detail. The Board thanked the financial advisor for the detailed explanation.

Ms. Shelton then noted that she monitors the District's existing debt for refunding bond opportunities. The District's park bonds are callable on April 1, 2019, and the District could achieve debt service savings by calling those bonds and issuing refunding bonds at a lower interest rate. The Board authorized the financial advisor to begin work on a refunding bonds issue.

16. There were no groundwater reduction contracts.

17. The attorney reported on activities undertaken on the Board's behalf during the previous month. She has worked extensively with the operator and engineer regarding outstanding matters.

18. The Board briefly discussed the request from Newport Seven Land regarding purchase of donation of park reserves and reimbursement. Some of the Board members asked why this item remained on the agenda and noted that the District already had enough park properties to maintain. Director Hasse stated that there was a lot of erosion in the area but that the properties might be useful in some way for flood control. He asked that the Board at least listen to the proposal of Newport Seven Land, and the Board agreed that the item would remain on the agenda.

19. The Board discussed the garbage collection contract. Director Florus noted that the District needs a reliable trash service and it does not currently have that. The District needs to understand where the market is in terms of trash collection. The attorney noted that the District had previously sent a Notice of Default to the contractor and had given them an opportunity to cure the outstanding problems, the District is continuing to experience missed collections. The Board authorized the attorney to get bids for waste collection for the Board's review.

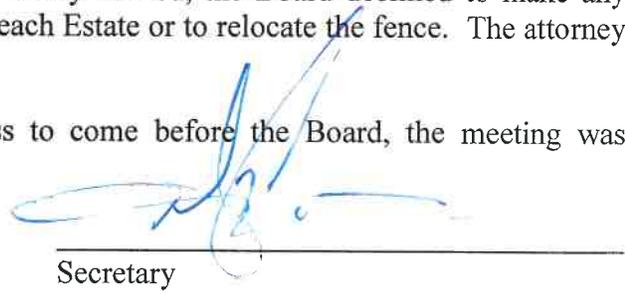
20. The Board discussed the meeting and office building. Director Hasse reported that the architect will get a site plan and elevation certificate so that planning can continue.

21. Director Hasse noted that the District was at the beginning of a new year, and it would be a good idea to rotate officers on an annual basis. After discussion, the Board elected the following slate of officers:

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

22. At 6:30 p.m., the Board convened under executive session pursuant to Texas Government Code §551.071 and §551.072 to discuss attorney / client privilege matters and the value of real estate. At 6:53 p.m., the Board reconvened in regular session. Upon motion made duly made, seconded and unanimously carried, the Board declined to make any adjustment to the penalties levied against the Veach Estate or to relocate the fence. The attorney will communicate the decision to Mr. Veach.

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



Secretary