

NEWPORT MUNICIPAL UTILITY DISTRICT
Minutes of Meeting of Board of Directors
August 25, 2016

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on Thursday, August 25, 2016, in accordance with the duly posted notice of said meeting, with a quorum of directors present, as follows:

Jim Hembree, President
Wayne T. Scott, Vice President
Don Cox, Secretary
Margarette Chasteen, Assistant Secretary
R. Gary Hasse, Director

and the following absent:

None.

Also present were Delia Yanez, Mandi Guerra, Thomas Page, Carlos Castrejon, Andrea Martin, Delilah Arolfo, Debbie Shelton, 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. Minutes of the meetings of July 28, 2016, August 4, 2016, and August 11, 2016 were presented for the Board's review and approval. Director Cox suggested certain amendments to the minutes of July 28, 2016, regarding the order of events related to attorney Taylor Goodall's disclosure of the law firm's conflict of interest due to its representation of the District and Harris County MUD No. 525. Upon unanimous vote, the Board approved the July 28, 2016 minutes as amended, and the August 4, 2016 and August 11, 2016 minutes as presented.

2. Delia Yanez presented a tax assessor/collector's report. 2015 taxes were 97.94% collected. All prior years were over 99% collected. 12 checks were presented for the Board's review and approval. One check was voided due to misprint. The tax assessor reported receipt of certified values from the Harris County Appraisal District. The District has certified value of \$432,835,271, value under protest at owners' value of \$50,915,428 and \$11,585,221 of uncertified value. Therefore, the District's total value will be at least \$495,335,970. 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.

3. The Board reviewed a Payment Services Agreement with First Mobile Trust, LLC. The tax assessor/collector noted that her firm was changing the company it uses to process online credit card payments. The attorney confirmed receipt of a completed Texas Ethics Commission Form 1295. The attorney confirmed that she had reviewed the agreement and had

no objections to it. Upon unanimous vote, the Board approved the Payment Services Agreement with First Mobile Trust, LLC as presented.

4. Mandi Guerra presented a bookkeeper's report, a copy of which is attached. The District has 7.24 months of reserve in its operating funds. The bookkeeper is modifying the budget to put all detention pond maintenance expenses into budget item 6345. Upon unanimous vote, the Board approved the bookkeeper's report as presented and authorized payment of bills with the checks listed thereon.

5. The Board considered customer service requests and inquiries. Mr. Thomas Page addressed the Board regarding his home at 17126 Port O'Call. He stated that he understood that he was in violation of the District's policies due to a drainage issue on his property. He reported that he has lived in the home since 1989 and has had drains in the backyard since he purchased the home. In fact, the existence of the drains helped in his decision to purchase the home. His home had not had issues with drainage until new homes were constructed to the side and behind his home, after which time he experienced ponding in the yard. Another problem came to light during the District's smoke testing, when smoke came out of Mr. Page's backyard drain. Upon investigation, the operator learned that Mr. Page's drain was connected to the District's sanitary sewer system and was therefore a violation of District policies and a source of inflow and infiltration. The operator cut the connection to the sanitary sewer line. Mr. Page installed a pump to alleviate drainage issues, but the pump was not keeping up during heavy rains. Mr. Page admitted that he had opened a clean-out to the District's sanitary sewer system in his backyard and let his yard drain. He stated that he did not deny this was a violation but was done to keep water from flooding into his home. He apologized and assured the Board that it would not happen again. In response, the operator raised the clean-out to the point that it will not drain in the yard. The operator confirmed that the District was billed \$1,756.57 in labor charges to remove the illegal connection and raise the clean-out. The operator noted that their office had to perform substantial investigation to determine the existence of the connection, disconnect it, and raise the clean-out. Director Cox noted that taxpayer money was spent. Director Hembree noted that he would be in favor of requiring Mr. Page to pay for the work associated with raising the clean-out, which totaled \$142.94. After discussion, upon unanimous vote, the Board voted to require Mr. Page to pay \$142.94 within two weeks to avoid disconnection of services.

6. Debbie Shelton reported on receipt of bids for sale of the \$5,500,000 Unlimited Tax Bonds, Series 2016A. The District received an A rating from Standard & Poor's. Debbie Shelton presented eight bids that were received by the District and reported that the lowest bid was that of Raymond James & Associates with a net effective interest rate of 2.570722% with an insurance policy provided by National Public Finance Guarantee. Upon unanimous vote, the Board approved the Order Awarding Sale of Series 2016A Bonds to Raymond James & Associates, which Order is attached to the minutes.

Lori Aylett described the bond order for the Series 2016A Bonds. Upon unanimous vote, the Board adopted the Bond Order for Series 2016A Bonds, which Order is attached to the minutes.

It was mentioned that a paying agent/registrars agreement is required for each issuance of District bonds. Upon unanimous vote, the Board approved and authorized signing a Paying Agent/Registrar Agreement with Bank of New York, Mellon Trust Company for the Series 2016A Bonds.

Debbie Shelton described actions that will be taken to prepare and distribute the Official Statement for the Series 2016A Bonds. After discussion, upon unanimous vote, the Board approved the Official Statement for the Series 2016A Bonds and authorized issuance and distribution of the Official Statement as required by law.

Upon unanimous vote, the Board adopted a Resolution Authorizing Actions for Approval, Registration and Delivery of the Series 2016A Bonds.

Debbie Shelton stated that she would begin the work to compute the assessed value and corresponding reimbursement due to each developer.

7. The Board President entertained developers' reports. Carlos Castrejon reported that Friendswood Development Company has sold 40 of its 44 townhomes, and they are currently working on a re-plat of Section 8. Director Hasse noted that he was concerned about the silt fencing during construction, and the developer stated that he would be required to keep silt fencing in place and would review the situation.

Nino Corbett was not at the meeting but telephoned Director Hembree to say that his paving was behind schedule because of rain.

8. The Board considered other customer service inquiries. The operator reported receipt of one complaint from a resident because they had to use a key fob to get into the splash pad.

9. Andrea Martin presented a billing and collections report. Total current payments were \$273,075.58, while total current billing was \$318,810.32. The 30-day arrears were \$58,731.25 at the end of July, and as of today's meeting they were at \$18,338.26. There were 47 new connections in the District, of which 34 were owners and 13 were renters. Of those new connections, seven were new homes, and 40 were pre-existing homes. 23 accounts were finalized, and there were 52 vacancies.

The operator next presented a report on behalf of Aggressive Waste. The garbage contractor issued three yellow tags for non-compliant household trash, and 10 yellow tags were issued for non-compliant heavy trash.

Upon unanimous vote, the Board approved the billing and collections report as presented. Director Scott exited the meeting due to another commitment.

10. The Board reviewed operations and engineering matters. Brandon Smith noted that the operator's representatives met with the SJRA manager and assistant manager on the Highlands division. The operator advised the SJRA that their application of herbicide without prior notification had undesirable effects on the District's operations of its plant. The SJRA has promised better cooperation and communication in the future.

The operator reported that Lennar had provided them with two change orders, but the operator and attorney had not confirmed whether the District engineer had reviewed them. The attorney will provide the change orders to the District engineer and put them on the next meeting agenda for approval.

The engineer acted according to the Board's previous authorization and will file a Notice of Intent for coverage under the stormwater permit at the sewage treatment plant upon expiration of the current permit.

11. Lori Aylett presented an attorney's report. She reported that she had been asked to draft one groundwater reduction contract with Chin Liang Chen for one million gallons. Upon unanimous vote, the Board approved the groundwater reduction contract with Chin Liang Chen as presented.

The attorney then reported that the dissolution of Harris County MUD No. 19 occurred. Taylor Goodall went to Austin on behalf of the firm to make certain that the application was approved because the Commission had some last minute questions about the assets of dormant MUD 19.

Upon unanimous vote, the Board approved the attorney's report as presented.

12. The Board discussed a detention pond maintenance agreement. David Kasper previously directed correspondence to the County stating that the District would maintain the detention pond if necessary. The Board noted that at this time it was not necessary for the District to prepare a maintenance agreement. The District may have to do a maintenance agreement in the future, but the costs associated with maintenance should be billed back to the International Union of Operating Engineers.

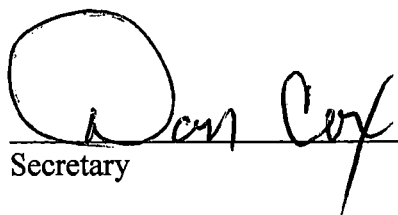
13. The Board discussed a Water Supply and Groundwater Reduction Agreement with Harris County Municipal Utility District No. 525. Lori Aylett disclosed that her firm had a conflict of interest as it represented both the District and MUD 525. The attorney advised the Board that for her to proceed with negotiations, the Board would have to acknowledge and consent to the conflict of interest. The attorney discussed the existence, nature, implications, possible adverse consequences, and advantages of the common representation. The subject was discussed in much detail. Director Cox indicated that he was uncomfortable with having the law firm represent both parties. In particular, he did not want Taylor Goodall to give any presentations to the Newport Board regarding the proposed agreement, as he was the contact attorney for Harris County MUD 525. Lori Aylett noted that the conflict of interest was with the law firm of Smith, Murdaugh, Little & Bonham, L.L.P., and not with the individual attorneys who attended each district's meetings. She noted that her firm owed the same duty to Newport MUD as it owed to Harris County MUD 525. She further stated that she believed that the firm's representation of the District and MUD 525 would not be materially affected. Director Cox stated that he would not support entering into any kind of agreement with MUD 525 unless it lowers the District's taxes and the customer's water bills. Lori Aylett noted that she could not discuss the terms of the proposed agreement or its negotiation until the Board acknowledged and consented to the conflict of interest. She noted that if the Board was not comfortable with the law firm representing both parties, the law firm would have to withdraw from representation of each

client, and each client would have to engage separate counsel to negotiate the terms of the agreement. She noted that she would be willing to assist the Board in engagement of separate counsel, if the Board so desired. She noted that she valued her continuing representation of the District and did not want to do anything to jeopardize the Board's trust. After a full discussion, upon motion made by Director Chasteen, seconded by Director Hembree, the Board voted with a vote of 3 to 0, with Director Cox abstaining, to acknowledge and consent to the conflict of interest of Smith, Murdaugh, Little & Bonham, L.L.P. in its representation of both the District and Harris County MUD 525.

Discussion then turned to the terms of the agreement. Delilah Arolfo stated that she wanted to clarify some of the issues that were presented in the draft agreement. Her company has not yet been asked to make a proposal to be the operator of Harris County MUD 525. Her firm does not have a signed contract with Harris County MUD 525. The Board then begin to review the terms of the agreement in some detail. The Board noted that it would be necessary to conduct a special meeting to comply with Harris County MUD 525's requested schedule, which is to have an agreement in place by the end of October. Director Cox stated that he wanted any special meetings paid for by Harris County MUD 525. Director Hembree noted his belief that any special meetings should be paid for as a part of the District's ongoing business. The Board discussed the matter in some detail, and upon motion made by Director Cox, seconded by Director Hasse, the Board voted with a vote of 3 to 1, with Director Hembree opposing, to require that any special meetings be paid for by Harris County MUD 525.

The Board reviewed the proposed agreement section by section. The Board and the operator noted that they needed to see a proposed Exhibit A as soon as possible to understand the location of the proposed lines and meters. Director Hembree noted that language should be added to the water supply agreement making it parallel to the District's agreement with the San Jacinto River Authority for water supply. The Board noted that they needed to understand what the definition of pro-rata was in reference to water plant expansions in 2025. The Board noted that they need to have updated water demand projections from Harris County MUD 525 in order to make an informed decision about how much water should be taken from the River Authority and pumped from the District's wells to supply MUD 525. Director Hembree stated his position that the water supply agreement should require Harris County MUD 525 to take-or-pay for 450 esfcs of capacity plus water used in processing that capacity. The Board also noted that they wanted the metering provisions changed to reflect that the meter will be owned and operated by Newport, not MUD 525. The Board noted that they needed to reflect upon the price and term of the agreement, as well as the payment for groundwater credits. The attorney noted that she would make revisions to the draft for the Board's consideration and begin discussions with the San Jacinto River Authority and the Harris-Galveston Subsidence District.

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


Secretary