

NEWPORT MUNICIPAL UTILITY DISTRICT

Minutes of Meeting of Board of Directors

September 22, 2016

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on September 22, 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, Brandon Smith, David Kasper, Justin Jenkins, Robert Santini, Nino Corbett, 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 August 25, 2016 and September 8, 2016 were presented for the Board's review and approval. Upon unanimous vote, the Board approved the minutes as presented.

2. Delia Yanez presented a tax assessor/collector's report. 2015 taxes were 98.3% collected. All prior years were over 99% collected. Six checks were presented for the Board's review and approval. One check was voided. 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. Mandi Guerra presented a bookkeeper's report, a copy of which is attached. The District purchased flags for use in all of the District's parks. The bookkeeper replaced a check that was lost in transit. The operator is working on getting the monitoring service to remove the charge for cable TV, which should not be on the bill. Upon unanimous vote, the Board approved the bookkeeper's report as presented and authorized payment of bills with the checks listed thereon.

4. The Board entertained various developers' reports. Carlos Castrejon stated his appreciation to the Board for working with Lennar on the bond issue. The developer reported that four homes have been sold in Section 8. The detention pond grass has not been established as anticipated so the contractor had to re-seed and re-grade. In Section 12, the contractor is wrapping up utilities and then will begin paving. Lennar hopes to deliver lots by December. In

the Villas, Lennar sold 43 townhomes. Director Hasse expressed concern about the dirt on Golf Club Drive, and the developer stated that he would address that with better storm sewer inlet protection.

Nino Corbett reported on the status of his development and said that Newport Court was coming along. Water, sewer and drainage construction was almost complete, and pavers will move in soon. He expects to deliver lots in early November. He is also looking toward development of the 181 acres across the street.

5. There were no customer service requests or inquiries for the Board's consideration.

6. Andrea Martin presented a billing and collections report. Total current payments were \$325,381.52, while total current billing was \$275,409.88. The 30-day arrears were \$62,679.25 at the end of August, and as of today's meeting they were at \$25,557.39. There were 41 new connections in the District, of which 33 were owners and eight were renters. Of those new connections, six were new homes, and 35 were pre-existing homes. 27 accounts were finalized, and there were 63 vacancies.

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

Upon unanimous vote, the Board approved the billing and collections report as presented.

7. The Board discussed the status of the District's 2016 bonds and the developer reimbursement. The attorney noted that the Attorney General had approved the bonds, and they are scheduled to close next week. She turned the floor over to Justin Jenkins of McCall Gibson Swedlund Barfoot, PLLC to present and agreed-upon procedures report. He confirmed that his company reviews pay estimates and canceled checks to determine amounts due to developers. Schedule A showed the amount due to Newport Seven Land. Reimbursement to Newport Seven Land for the Seven Oaks North section was based upon an appraisal, while the Seven Oaks South was based on actual water, sewer and drainage construction payments. According to the auditor, the final amount that can be paid to Newport Seven Land, assuming that they qualify pursuant to the financial advisor's tests, for Newport Seven Oaks North and South is \$2,079,582.60. The auditor then reviewed Schedule B amounts due to Lennar Homes for construction of Newport Villas which totaled \$209,656.50. On the District projects, the District has been directed not to expend the proceeds until all approved plans and specifications are in place. As a result of the audit and the lower interest rate, the District appears to have \$115,697 in surplus funds. In response to a question from the Board, Mr. Jenkins stated that he does compare actual invoices and payments to determine reimbursement amounts.

The Board then discussed the fact that no developer interest was included in the bond application. The attorney and engineer confirmed that they had not included developer interest to avoid complicating the bond application and because according to the preliminary

values of the development, it was not believed the developers would be entitled to 100% reimbursement. According to Commission rules, developers can review developer tests.

The Board then discussed the District's formula for reimbursement with financial advisor Debbie Shelton. Ms. Shelton discussed the value added by each developer and reviewed the formulas in the District's reimbursement contracts. It appeared that each developer had added the value to entitle it to be reimbursed for 100% of its development. The Board discussed the possibility that the District could add value of central plant facilities to the debt service formula, but the Board determined that was not necessary or advisable since the capacity already existed to serve the tracts.

Discussion returned to the developer interest. Lennar also indicated that they had some engineering invoices that were not included in the bond application report. David Kasper confirmed that he did send the cost summary to the various developers before sending it to the Texas Commission on Environmental Quality. By the time Lennar sent in the invoices that they left out, the District engineer had already filed the bond application with the TCEQ. According to the developer, these invoices should have been reimbursable and should have been included in the bond application. The Board could consider paying developer interest and invoices from a surplus funds application if it is determined that they are eligible expenses.

Justin Jenkins explained the concept of developer interest to the Board in some detail. He noted that the general Commission rule is that interest can be paid through two years after the final completion date of the project. That means that some projects may be entitled to more than two years interest because the first pay estimate paid at the beginning of the project may accrue interest until two years after the completion of the project. Justin Jenkins made a very rough calculation of potential developer interest owed. He concluded that the Seven Oaks South clearing and grubbing might have accumulated around \$700 in interest. The Seven Oaks South water, sewer and drainage projects might have accumulated something in the range of \$37,000 of developer interest. The Lennar clearing and grubbing project might have accumulated something in the range of \$480 in developer interest, while the Lennar water, sewer and drainage project might have accumulated \$10,300 in developer interest. The attorney recommended that the Board consider at a future meeting the possibility of submitting a surplus funds application to the TCEQ to clear all of the old invoices and developer interest, provided that the developers met the necessary tests to be entitled to be paid the amounts.

After a full discussion of the agreed-upon procedures report, upon unanimous vote, the Board approved the developer agreed-upon procedures report and authorized distribution of the amounts listed thereon to the developers at the closing of the bond sale, subject to their conveyance of facilities to the District for permanent maintenance.

8. Debbie Shelton discussed a proposed District tax rate. She reviewed the needs of the District for debt service in the coming fiscal year. She recommended a debt service tax rate of \$0.30 per \$100 assessed valuation. She noted that a maintenance and operations tax rate of \$0.329 per \$100 assessed valuation would help the District meet its budgetary needs. Upon unanimous vote, the Board authorized publication of the tax rate calculations with a \$0.629 tax rate, \$0.30 of which is debt service and \$0.329 is maintenance and operations.

9. The Board reviewed operations and engineering matters. The operator provided a new list of authorized signers to Community Bank, which resulted from the election of new Board members. The engineer reported receipt of a request for utility capacity commitment from the International Union of Operating Engineers. The engineer drafted the utility commitment for 133 esfc, and the Board approved the commitment as presented. The engineer presented Change Order No. 1 to the Section 8 detention pond for an additional area to be filled and grubbed. The cost difference was \$9,038. Upon unanimous vote, the Board approved the change order as presented. The engineer presented Change Order No. 1 to the Section 8 water, sewer and drainage project which resulted in a net deduction of \$77,277.68 because the original contract had included taps, which are performed by the operator. Delilah Arolfo called into question certain parts of the change order relating to the additional clearing and removal of the 8" line, which she said was done by her personnel. She asked for the opportunity to review the change order and make a determination if that portion of the change order was in fact reimbursable by the District. Upon unanimous vote, the Board approved the change order but did not determine reimbursement.

10. The Board considered a request for annexation of 72 acres owned by Lennar Homes of Texas Land and Construction. The acreage is also known as Newport Southwest. Mr. Robert Santini addressed the Board and talked about the proposed development of 200 homes on the acreage. The average home value would be \$235,000. Construction necessary would be water, sewer and drainage and an underground lift station. The developer would also have to build a detention pond. The developer anticipates 50-foot lots in three phases. The first phase would be 73 homes. The attorney noted that the District did not have remaining voted bond authority sufficient to reimburse the developer for the proposed infrastructure. The District already has existing commitments with the various developers and internal projects that must be completed to serve the District at full development.

The Board asked whether the District could use a defined area plan. The attorney presented a proposed defined area plan memo and reviewed it with the Board in some detail. Because of the District's size, it can define or designate areas that are subject to special taxation. The area would have to be defined by metes and bounds, and the Board would have to conduct a hearing as to the advantages of creating the defined area. The plan for water, sewer and drainage improvements would have to be included in the defined area, and the engineer would have to formulate an engineering plan in support of a bond election. A bond election would have to be conducted on the defined area. After that time, Newport's Board could issue bonds payable only by a tax assessed against land and improvements in the defined area and only for benefit of water, sewer and drainage facilities constructed in the defined area. The defined area would also pay the tax of Newport MUD. It would be important to figure out how much infrastructure would be needed in each proposed defined area. The Lennar defined area could be separate from or combined with a defined area of another developer, such as the Newport Pointe tract. In addition, the District should evaluate its expansion requirements at its central plant facilities to serve any defined areas. The engineer stated that it would take him some time to firm up costs associated with the development and expansions necessary to serve the full District.

11. Lori Aylett presented an attorney's report. She had been in contact with attorneys for the International Union of Operating Engineers. They plan to construct a District water line without the possibility of reimbursement because they did not properly bid the project.

The attorney is working on a demand letter to MP Technologies for damage done to District facilities. In addition, the attorney is scheduling a meeting with the SJRA to discuss the District's future water needs and the possibility of providing services to Harris County MUD No. 525. Upon unanimous vote, the Board approved the attorney's report as presented.

12. The Board discussed the defined area plan in a little more detail. Mr. Robert Santini made a formal request that the Board review the possibility of creating a defined area for his development.

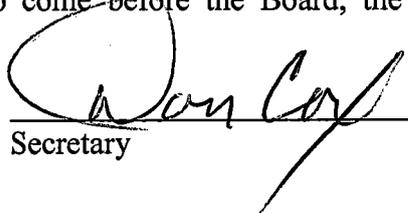
Nino Corbett then addressed the Board and stated that his development costs had increased. He stated that he had been quietly watching the development of MUD 525 and understands that the District is trying to make money by providing service to the neighboring district. However, he noted that MUD 525 is able to fully reimburse its developer, and Mr. Corbett's tax rate tests in Newport may constrain him from being able to develop his own tract. Without a defined area plan, it was Nino Corbett's belief that he could not get fully reimbursed for his development. Mr. Corbett stated that Lennar had raised the bar in the neighborhood, for which he was pleased. He stated that he would provide the District engineer all of his development costs and noted that they are much higher because of a lift station and offsite drainage.

13. The Board considered correspondence from Crown Castle. Crown Castle has indicated that they are beginning alternate site review because they are entering into the last term of their lease with the District. The Board discussed the proposed counteroffer terms. The Board noted that a suitable counteroffer to Crown Castle would be the same term ending 2046, with a starting lease rate of \$1,831 per month, a 4% increase per year, and a \$3,000 signing bonus. The Board authorized the attorney to prepare a counteroffer.

14. The Board reviewed consultant contracts. The auditor requested a 7% increase in their fee next year. The attorney requested that her budget be increased by \$5,000. The engineer requested that their budget be increased by \$295 per month. The bookkeeper requested a \$200 per month increase and noted that their last increase was five years ago. AVR requested an increase of \$317 per month, and the operator requested a 3.9% increase or \$6,800 per month. The bookkeeper presented a proposed contract and the required TEC Form 1295. Upon unanimous vote, the Board approved adoption of the bookkeeping contract as presented. Upon unanimous vote, the Board approved the remaining consultant requests for budgeting purposes.

15. The Board briefly discussed the MUD 525 agreement. The attorney reviewed the provisions of the latest draft and discussed some proposed pricing. It will be important for the Board to conduct a special meeting for the sole purpose of reviewing the contract and discussing its terms.

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


Secretary