

NEWPORT MUNICIPAL UTILITY DISTRICT
Minutes of Special Meeting of Board of Directors
October 20, 2016

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on October 20, 2016, in accordance with the duly posted notice of said meeting, with a quorum of directors present, as follows:

Jim Hembree, President
Don Cox, Secretary
Margarette Chasteen, Assistant Secretary
R. Gary Hasse, Director

and the following absent:

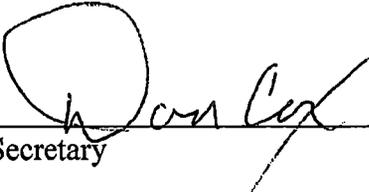
Wayne T. Scott, Vice President.

Also present were Delilah Arolfo, Brandon Smith, David Guidry, Andrea Martin, David Kasper, and Lori G. Aylett.

The President called the meeting to order and declared it open for such business as might properly come before it.

The President opened the meeting and declared that the purpose of the meeting was to have a workshop on terms and conditions of a water supply and groundwater reduction agreement with Harris County Municipal Utility District No. 525. Director Cox stated his position that any such agreement should have a tangible benefit to Newport in terms of either reducing the tax rate or reducing the water bill. The engineer explained that the more water the District can make in Newport, the easier it will be to spread the costs of the water. There was a lengthy discussion of how to allocate any revenues received from MUD 525. Director Hembree noted that the District's maintenance tax subsidized the water rates and that according to his calculations the all-in costs of water production are \$6.90 per 1,000 gallons, including the SJRA raw water rate. The District should at least recover those costs from MUD 525. The Board discussed whether to require MUD 525 to take-or-pay for water and agreed to use a take-or-pay minimum approach. The Board also agreed to assess a 10% surcharge for the cost of water. In addition, the Board agreed that any SJRA rate increases should be passed along to No. 525. A CPI charge should be assessed against the remainder of the base rate which was \$7.18 after deducting the SJRA rate from the base. Any agreement should require MUD 525 to build a surface water line by 2025 to begin receiving unblended surface water in 2025. The transmission line will have to be sufficient to deliver pressure to No. 525 customers, and design of the line will be approved by Newport's engineer. The District's expansion in 2025 will take into account the full build-out of No. 525 at 1,450 ESFCs and the District's needs at build-out. Future agreements will contemplate that MUD 525 will have to take-or-pay for surface water in accordance with the Subsidence District's requirements. After a lengthy discussion, the Board authorized the attorney to draft revisions to the agreement to take into account the terms expressed by the Board in the workshop meeting.

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



Secretary