

NEWPORT MUNICIPAL UTILITY DISTRICT
Minutes of Meeting of Board of Directors
October 27, 2016

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on October 27, 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, David Kasper, Robert Santini, Nino Corbett, Carlos Castrejon, Andrea Martin, Debbie Shelton, David Guidry, Chad Rochester, Eileen Fashoro, 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 held September 22, 2016, October 13, 2016, and October 20, 2016 were presented for the Board's review and approval. Upon unanimous vote, the Board approved the minutes as presented.

2. Director Scott presented a letter of resignation to the Board. He noted that he was very pleased to have served on the Board and was resigning because he was moving out of the District. Upon unanimous vote, the Board accepted the resignation of Director Scott. The Board presented Director Scott with a plaque and commended him for all of his efforts to improve the Newport Board and community.

3. There was presented the attached Order Appointing Director, which order confirms the appointment of David Guidry to fill the term of resigned director Wayne Scott. Mr. Guidry presented a brief summary of his activities of the Newport area. He noted that he lived there since 1989 and served on the Property Owners Association and the ESD No. 5 board. Mr. Guidry presented a Letter of Qualification, Statement of Appointed Officer and an Oath of Office. Upon unanimous vote, the Board adopted the order as presented and accepted the qualifications, Statement and Oath of Office of Director Guidry. Mr. Guidry completed a questionnaire regarding potential conflicts of interest and received a memorandum regarding completion of Public Information Act/Open Meetings Act training. Mr. Guidry participated in the remainder of the meeting.

4. Delia Yanez presented a tax assessor/collector's report. 2015 taxes were 98.47% collected. All prior years were over 99% collected. 13 checks were presented for the Board's review and approval. One check was voided due to a misprint. 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.

5. Mandi Guerra presented a bookkeeper's report, a copy of which is attached. She noted that the District had surplus funds available from the most recent bond sale of approximately \$144,000. The Board noted that it would be appropriate to closeout the 2008 bond comparison as those proceeds had been spent. The attorney noted that the reports for the annexation deposits for the Newport Court, Ltd. tract and the International Union of Operating Engineers' tract should be revised. Engineering costs should be allocated evenly between the two deposits. The bookkeeper noted that she would make those revisions before the next Board meeting. The bookkeeper noted that Community Bank was the District's current depository, but they were difficult to work with in getting signature cards for the new director. The Board noted that they wanted to have Community Bank remain as the depository because they were a local bank. The attorney presented a \$5,000 check from Harris County MUD No. 525 for costs associated with the special meeting conducted to discuss the proposed agreement with them. Upon unanimous vote, the Board approved the bookkeeper's report as presented and authorized payment of bills with the checks listed thereon.

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

7. Andrea Martin presented a billing and collections report. Total current payments were \$300,348.80, while total current billing was \$255,456.51. Deposits in-house were \$428,107.50. The 30-day arrears were \$63,397.12 at the end of September, and as of today's meeting they were at \$23,326.94. There were 42 new connections in the District, of which 35 were owners and seven were renters. Of those new connections, eight were new homes, and 27 were pre-existing homes. 22 accounts were finalized, and there were 65 vacancies.

The operator next presented a report on behalf of Aggressive Waste. The garbage contractor issued two yellow tags for non-compliant household trash, and 11 yellow tags were issued for non-compliant heavy trash.

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

8. The Board then acknowledged that the tax assessor/collector had published a Notice of Public Hearing in the *Star Courier* to consider the District's 2016 tax rate, showing a proposed rate of \$0.629 per \$100 assessed valuation. The hearing was declared open for public comment and question and, hearing none, the President closed the hearing.

9. There was presented the attached Order Adopting Appraisal Roll and Setting a Tax Rate and Levying a Debt Service and a Maintenance Tax for the Year 2016. Upon unanimous vote, the Board adopted the order as presented, which order levies a maintenance tax rate of \$0.329 per \$100 assessed valuation and a debt service tax rate of \$0.30 per \$100 assessed

valuation for a total combined tax levy of \$0.629 per \$100 assessed valuation for the 2016 tax year.

There was then presented the attached Amendment to Statement of Directors Furnishing Information Required by Section 49.455(b), Texas Water Code, as Amended. The attorney noted that the Amendment to Statement of Directors is filed in the real property records of Harris County and informs property owners in the District that they are located in a water district and what the current tax rate is. Upon motion duly made, seconded and unanimously carried, the Board voted to adopt the amendment as presented, authorized its execution by all directors present, and authorized the attorney to file the document as required by law.

10. The Board briefly discussed the schedule for the November and December Board of Directors meetings. The meetings will be changed due to the holidays. The operations meeting will remain on November 10, 2016, but the general Board meeting will be November 17, 2016. The December operations meeting will remain on December 8, 2016, and the general Board meeting will be December 15, 2016.

11. The Board entertained various developers' reports. Carlos Castrejon presented a report on behalf of Lennar. In the Villas, all the townhomes are under construction. Lennar has sold 33 of the 44 townhomes. In Section 8, the developer expects to start home construction by the beginning of next year. In Section 12, utility work is ongoing. The contractor is beginning to cut streets and stabilize the subgrade. Director Cox expressed concern that the construction equipment may pose a hazard to traffic. The developer stated that they would make certain that the contractor placed appropriate signage in the construction areas.

Eileen Fashoro stated that she had nothing to report.

Nino Corbett stated that Newport Court subdivision is underway. Paving is in and lot grading is commencing. The sidewalk around the detention pond is being constructed. There may be a need to relocate the homeowners association sign and the developer will work with the NPOA.

Chad Rochester with Rochester Engineering addressed the Board. He stated that Rochester had advertised for bids and received six bids. The low bidder was Site Work Constructors. Their bid amount was \$672,769.50, but no one was familiar with this contractor. Mr. Rochester requested references and received only one reference, which was negative. Monarch was the second low bidder with a price of \$686,028.32. Chad Rochester recommended award of the contract to the second low bidder, as they had good references and had completed several utility contracts of this nature. The District engineer, David Kasper, concurred with Mr. Rochester's recommendation. The attorney confirmed that the Board is not required to award to the low bidder and may instead award to the bidder whose work results in the most economical completion of the District's project. Mr. Rochester confirmed that he had a Form 1295 from Monarch. Upon unanimous vote, the Board accepted the recommendation of the District engineer and the developer's engineer in awarding the contract to the second low bidder, Monarch. The Board found and determined that award of the contract to Monarch would result in the best and most economical completion of the District's project. Mr. Rochester hopes that homes will be started in February, 2017.

12. The Board reviewed operations and engineering matters. The engineer noted that he had nothing to add to his report presented last week. The operator reported that MagnaFlow is cleaning the storm ceptors at the detention pond in preparation for permit renewal. The operator provided quotes for repairs at the Flying Bridge Lift Station totaling \$17,660. At Water Plant No. 1, the SCADA system needs to be programmed at a cost of \$24,900. The Board approved the quotes for the necessary work to be done. In the coming weeks, the operator will setup walk-throughs for the new directors.

13. The Board considered a request for annexation of 27.4-acre Preserve at Newport tract by Lennar Homes of Texas Land and Construction. Robert Santini stated that they had revised their original request for annexation of the larger 70 plus acres. Instead, the developer would like to annex a smaller portion of the project consisting of 27.4 acres. The acreage is adjacent to Newport. The cost estimate for utilities is in the range of \$1.6 million. The developer is ready to go with clearing immediately. The home values are estimated to be \$235,000 and above. There may be some homes with views of the golf course, which could have higher values.

The Board discussed the request in some detail. The Board noted that it had \$19,815,000 in remaining voted authority for water, sewer and drainage bonds. The District already has development agreements in place with other developers, and approximately \$4.8 million worth of utilities are under construction currently. In addition, the District has two major central plant projects to do in coming years, including an expansion of the sewer plant and surface water treatment plant. Director Guidry noted that it appeared to him as if the District needs to conduct another bond election in any event to obtain additional voted authority to complete existing developments. Nino Corbett addressed the Board and stated that he had developed Newport Court but cannot get developer financing for his larger acreage project, Newport Pointe, because pursuant to the District's reimbursement formulas, he cannot achieve close to 100% reimbursement. Mr. Corbett will have 68 lots developed in Newport Court and will need to begin designing lots in the new sections at 12 to 18 months. He believes he may have up to \$12 million in infrastructure costs in the Newport Pointe project. Mr. Corbett noted that the District needed to have a bond election, and the District may also want to consider using a defined area. Director Hembree asked representatives of Lennar and Newport Pointe to attend next month's meeting to discuss the matter further. Nino Corbett noted that he would first need to meet with the District's financial advisor.

The attorney presented information and a checklist on annexation procedures and procedures for designation of a defined area. The Board could considering making a designed area to include both Lennar's development and Newport Pointe's development. In the alternative, the Board could designate two separate areas. Those developers should meet to discuss the best approach for the District. In any event, the District would have to act quickly to be able to annex Lennar's tract and be prepared for an election in May, 2017 on a designated area.

After a full and complete discussion, upon unanimous vote, the Board agreed in principle to proceed with annexation of the Lennar tract, but the Board declined to enter into any reimbursement agreement with Lennar, as the District does not have sufficient voted authority.

The District will continue to discuss the possibility of a bond election and/or designation of the defined area.

14. Lori Aylett presented an attorney's report. She had one groundwater reduction agreement with New Orleans Cold Storage in the amount of 6,600,000 gallons. In the past month, the attorney send a demand letter to the contractor who broke several of the District's water lines. The contractor has already responded to deny any liability. The attorney will work with the operator to determine the facts. T-Mobile sent return correspondence to the District stating that the District's counteroffer for renewing the cell tower lease at the sewage treatment plant was too high and they will continue to look for other sites. The attorney noted that the District recently received approval to annex the Newport Court and International Union of Operating Engineers tract and will put those items on next month's agenda. Upon unanimous vote, the Board approved the attorney's report as presented.

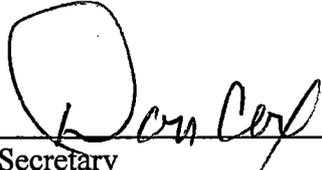
15. The Board tabled consideration of an Order Authorizing Application to Texas Commission on Environmental Quality for Use of Surplus Construction Funds. The attorney noted that the developer and the District engineer had a variance in the amounts they thought were reimbursable, and those two parties will continue to work together.

16. The Board discussed the Water Supply Contract with MUD 525. The attorney went over the agreement in detail with the Board. The engineer presented Exhibit A. After a full discussion, upon unanimous vote, the Board approved the Water Supply Contract with MUD 525 and authorized the attorney to distribute the draft to MUD 525 for their review.

17. The Board discussed land acquisition. The Seven Oaks developer is finishing development and may wish to dedicate some properties to the District at no cost to use for parks and trails. The Board confirmed that they were interested in acquiring the tracts if possible.

18. The Board briefly discussed consultant contracts. The District's operator is preparing a new contract for the Board's review.

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


Secretary