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NEWPORT MUNICIPAL UTILITY DISTRICT
Minutes of Meeting of Board of Directors
January 26, 2017

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on January 26, 2017, in accordance with the duly posted notice of said meeting, with a quorum of directors present, as follows:

Jim Hembree, President
R. Gary Hasse, Vice President
Don Cox, Secretary
Margarette Chasteen, Assistant Secretary
David P. Guidry, Director

and the following absent:

None.

Also present were Delia Yanez, Mandi Guerra, David Kasper, Delilah Arolfo, Nino Corbett, Brandon Smith, Andrea Martin, Debbie Shelton, Robert Santini, Carlos Castrejon, 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 December 15, 2016, and January 12, 2017 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, a copy of which is attached. 2016 taxes were 63.64% collected as of the end of December. All prior years are 99% collected or above. 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 considered tax exemptions for the year 2017. 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. Upon adoption of this order, the same exemption could be provided for the 2017 tax year. Upon unanimous vote, the Board adopted the order as presented.

4. There was presented the attached Order Levying Additional Penalty for Delinquent Taxes. The order levies a 20% penalty on 2016 delinquent taxes for business personal property on April 1, 2017 and for real property on July 1, 2017. Upon unanimous vote, the order was adopted as presented.

5. The Board deviated from the regular order of the agenda because Director Cox stated that he needed to leave the meeting early to attend a funeral. The Board briefly discussed the Water Supply and Groundwater Reduction Agreement with Harris County MUD 525. Director Hembree stated that he had performed calculations that were unaudited but supported of costs per 1,000 gallons of \$7.91. The attorney reported that she expects to receive a counteroffer from MUD 525, but they are not yet finished exploring all of their options. MUD 525 believes that they will need water by August and may request interim water while they are constructing a well. The Board noted that they would take no action until they received a counteroffer and asked the attorney to put the item on the next business agenda for consideration.

6. The Board discussed a proposed Order Calling a Bond Election. Director Hembree presented a summary of the current voted authority and the projects left to be performed by developers and central plant expansions that are on the horizon. Director Hembree's summary indicated that the District could likely complete all of the projects for which the District currently has reimbursement contracts, but the District could not enter into any new reimbursement contracts without using additional authority that the District does not currently have. David Kasper presented a land use map and a summary of projects that have not yet been included in the bond issue. The engineer can currently foresee about \$37 million of developer projects, including one out-of-district tract that Lennar had proposed for annexation a few months prior. The engineer anticipates \$12 million in District projects. A bond election for \$48,720,000 could support all anticipated growth, including the annexation tract. That amount would take the place of the \$19,815,000 that the District currently has authorized but unissued. Director Hembree stated his opinion that all future annexation tracts be considered as defined areas. The Board also considered whether the District should conduct paper or machine vote balloting or conduct an election with the County. The Board noted that there were a number of undecided issues and they would like to have more time to review the engineer's projections. Accordingly, the Board deferred any action on calling a bond election.

Director Cox exited the meeting.

7. Mandi Guerra presented a bookkeeper's report, a copy of which is attached. The District has 9.85 months in reserve. This amount includes revenues received for tap fees, inspections for the Union tract, legal fees for the Union tract, and the tower site rentals. The attorney requested that the bookkeeper put the legal fee deposit on to the same report as the International Union of Operating Engineers' previous deposits for the annexation. The Board also suggested that the bookkeeper separate the Union Center tap fees and inspections so that the District can recognize those revenues separately and account for the expenses separately as well. Upon unanimous vote, the Board approved the bookkeeper's report as presented and authorized payment of bills with the checks listed thereon.

8. There was then presented for the Board's review and approval an Order Appointing Investment Officer, which appointed Mr. Jorge Diaz as investment officer of the District. Upon motion duly made, seconded and unanimously carried, the Board adopted the attached order as presented.

9. The Board then considered developers' reports. Carlos Castrejon reported that Lennar was finished with paving and water, sewer and drainage construction in Section 12.

They are completing the model home at the entrance, and three home starts have begun. The developer is also working on hardscape. Lennar has 13 home starts in Section 8 and by the end of February, there should be residents in Section 8. The operator noted that Lennar had poured a concrete trail over a District water line. Robert Santini noted that the trail crosses onto other properties, and the developer had submitted plans to the owners and to the pipeline. The operator noted that the District has a six-inch water line in the area, and the operator will provide a layout showing the location of the line. The developer noted that it was the intent for the property owners association to maintain the trail. Delilah Arolfo also reported that the District received complaints about drainage because of the detention wall constructed by the developer. The developer confirmed that the big box storm sewer drain would be maintained by Harris County.

Lennar presented Change Order No. 2 for development in Section 12 totaling \$26,244. The District engineer confirmed that of that amount, only \$1,012 was subject to District reimbursement. The change order was for extra cement sand that had to be used. Upon unanimous vote, the Board approved the change order as presented.

Nino Corbett reported on the status of his developments. Lots are staked, and Harris County is set to inspect. The builder trailer will be moved in next week, and the developer anticipates the first slab will be poured by the second week in February. He expressed his appreciation to the District operator and engineer for their efforts in communicating with residents regarding cleanup of trash that was thrown onto developer property. Mr. Corbett is also proceeding with necessary actions needed to support a defined area election on the Newport Point tract across FM 2100.

10. The Board considered an amendment of the Water, Sewer and Drainage Improvement Financing and Construction Contract with Lennar Homes of Texas Land and Construction, Ltd d/b/a Friendswood Development Company. The attorney noted that Lennar had acquired the remainder of Section 8 and wished to have their contract amended to add all of the land that they owned in Section 8. Likewise, the developer would need to execute a waiver of special appraisal for all of the land that it owned. Upon unanimous vote, the Board approved the amendment of the preconstruction contract and the waiver of special appraisal as presented.

11. The Board considered customer inquiries. The operator reported that one resident, Maxine Gray, complained about Rochester's repair of her sidewalk. The Board instructed the operator to refer the complaint back to Rochester.

12. Andrea Martin presented a billing and collections report. Total current billing was \$229,912.88, while total current payments were \$301,072.90. The 30-day arrears were \$54,413.13 at the end of December, and as of today's meeting they were at \$19,117.31. There were 45 new connections in the District, of which 30 were owners and 15 were renters. Of those new connections, nine were new homes, and 36 were pre-existing homes. 16 accounts were finalized, and there were 57 vacancies.

Ms. Martin reported that the District received \$6,605.94 of stand-by fee payments during 2016. The District's total receivable for stand-by fees stands at \$177,208.85.

The operator next presented a report on behalf of Aggressive Waste. No yellow tags were issued for non-compliant household trash, and five yellow tags were issued for non-compliant heavy trash. During the recent heavy rains and flooding, Aggressive Waste notified the operator that they were behind schedule. The operator was able to convey that information to residents when they called.

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

13. The Board reviewed operations and engineering matters. The District accounted for 86% of the water produced. Director Guidry went through operator work orders and found only a few minor errors. The operator reviewed the corrections and credits with the Board. The operator asked for guidance from the Board on who to contact for advice and counsel between meetings on District matters. After discussion, the Board authorized the following directors to confer with the operator: Director Chasteen, parks; Director Hasse, operations; Director Guidry, financial matters.

David Kasper discussed engineering matters. He received bids for the water tank painting project. The low bid appeared to be CFG Industries at \$511,330, including contingencies. The budget was \$575,000. The contractor provided the required Form 1295. Upon unanimous vote, the Board authorized award of the contract as recommended by the District engineer.

14. Delilah Arolfo presented utility account write-offs for 2016. The Board suggested that they might know the location of customer Sam Henry on Broadwater and asked the operator not to write off that account. Upon unanimous vote, the remainder of the accounts were written off as uncollectible.

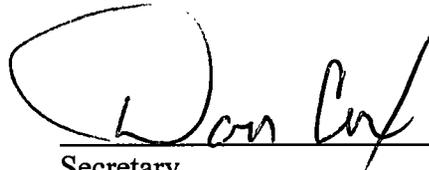
15. Lori Aylett presented an attorney's report. As of March 1, 2017, the new groundwater contract rate will be \$3.44 plus the annual CPI increase. The attorney noted that she had a brief meeting with the developers of Seven Oaks, and they have reported that not all of their reimbursement amounts were included in the District's last bond issue. They had some land costs for the detention pond and developer interest that were not included. The attorney advised them that Lennar Homes had also stated that they were still owed amounts, and there were not enough surplus funds from the bond issue to fully reimburse both developers. The Board will have to consider reimbursement at the time of the next bond issue.

Director Hembree asked about the demand letter sent to MP Electrical. The attorney noted that the contractor had responded and refused to pay, claiming that the line locates were defective.

16. At 12:15 p.m., the Board convened in executive session pursuant to Texas Government Code §551.071 to receive advice from the attorney regarding pending or contemplated litigation. At 12:53 p.m., the Board reconvened in regular session. The Board authorized the District engineer to perform an on-the-ground survey of certain areas of the District's park property to determine whether an encroachment onto District property exists. If an

encroachment exists, the attorney would be authorized to direct correspondence demanding its removal within 60 days.

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


Secretary