

NEWPORT MUNICIPAL UTILITY DISTRICT

Minutes of Meeting of Board of Directors

February 23, 2017

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on February 23, 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, Brandon Smith, Andrea Martin, Eileen Fashoro, Carlos Castrejon, Rich Harcrow, Darryl Johnson, 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 January 26, 2017, and February 9, 2017 were presented for the Board's review and approval. The Board suggested one correction to the January 26, 2017 minutes. Upon unanimous vote, the January 26, 2017 minutes were approved as corrected and the February 9, 2017 minutes were approved as presented.

2. Delia Yanez presented a tax assessor/collector's report, a copy of which is attached. 2016 taxes were 82.83% collected, while all prior years were over 99%. Two wire transfers were made, and 15 checks were presented for the Board's approval. 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. There was presented the attached Resolution Authorizing Challenge to the Appraisal Roll. The attorney noted that the preliminary tax roll comes out in May, and the tax assessor has a limited amount of time to review the roll and challenge any errors or omissions that are found. The tax assessor should be authorized to make such challenges on the District's behalf. Upon unanimous vote, the Board approved the resolution as presented.

4. Mandi Guerra presented a bookkeeper's report, a copy of which is attached. She was pleased to report that the District has almost 10 months of reserves in the general operating fund. Director Guidry had questions regarding variances on the information presented on the bookkeeper's report versus the billing and collections report, and the bookkeeper and operations representatives responded to his questions. After discussion, upon

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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 developers' reports. Carlos Castrejon reported on the activities of Lennar. He provided an update on the various construction and sales data. A Notice to Proceed has been issued for clearing and grubbing for Phase 2 of Section 8. During this contract, the existing detention pond will need to be expanded. Lennar is wrapping up its model home in Section 12. They have had seven home starts in Section 12 and one sale. In Seven Oaks South, Section 8, Lennar has had 69 home sales. In the Villas, Lennar has sold 41 units, and three are left. In response to a question from the Board, the developer stated that the average sales price in Section 8 was \$220,000. The developer discussed the fact that there was a drainage issue with property owners adjacent to their Section 12 development. The developer has done topography work, and they are proposing the addition of an inlet to alleviate these concerns.

Eileen Fashoro reported on the activities of Rampart. She noted that Lennar had taken down the rest of Section 8 last month, which they are developing into 84 lots. Rampart continues to work with a company to develop 11 acres across the street from the meeting building and they are looking at developing some lots on Chart. She stated that because the District was not going to entertain a bond election in May, this project will probably be put on hold. She also noted that the church on South Diamondhead is not going forward with construction of a permanent structure, and they plan to move out and sell their property.

6. There were no customer inquiries regarding utility services or billing for the Board's consideration.

7. Andrea Martin presented a billing and collections report. Total current billing was \$231,804.92, while total current payments were \$260,968.57. The 30-day arrears were \$49,069.95 at the end of January, and as of today's meeting they were at \$12,646.84. There were 32 new connections in the District, of which 25 were owners and seven were renters. Of those new connections, 10 were new homes, and 22 were pre-existing homes. 20 accounts were finalized, and there were 59 vacancies.

Delilah Arolfo then approached the Board and requested the Board's concurrence for her company to read meters over the weekend because February was a short month. She stated that it typically takes three days to read the meters, and currently the District has two types of meters, which makes reading them more difficult and time-consuming. She estimated that the additional cost to the District would be approximately \$9,000, but her actual costs would be even more. The Board questioned whether this had been an issue before in the month of February. The operator indicated, that this year her crews had been very busy working on taps during the week. The Board asked what the consequence was if they did not want to pay for additional costs for reading meters over the weekend. The operator indicated that if they waited to read the meters during the weekday, the office would not be able to close-out the books in a timely manner, and taps might be delayed. The operator emphasized the importance of being consistent with when bills are sent to customers. She indicated that even if the Board did not want to approve payment of any funds, she would still have the meters read over the weekend so that her office could maintain an appropriate schedule. The Board members indicated that they were not necessarily unwilling to pay additional money but simply wanted to understand all the consequences of the

proposal. Director Guidry inquired as to whether the District could simply push back the read dates and penalty dates and not have reports available for the operations Board meeting. The operator reported that the penalty date was established by the District's rate order, but if meters are read on the weekdays she would be unable to get the reports ready for the District's operations meeting. Director Cox asked why the District was being given this proposal so late in the month and why the operator had not already planned for this contingency. Ms. Arolfo stated that the workload balance is not always easy to foresee due to taps and other repairs. She also stated that the Board had asked her to give instances where extra manpower was needed, and she was simply doing so. Director Hasse noted that the District was going to experience expenses either way, because the District would have to pay the costs associated with the extra work in the field to read meters or extra costs in the billing office responding to customer complaints and closing out the books. It was Director Hasse's position that the operator should not have to absorb all of the District's extra expenses. Director Chasteen similarly stated that the District would be impacted one way or the other. Ms. Arolfo reminded the Board that when budgeting was discussed, the Board requested that she bring these items to their attention. She also noted that many district customers get perturbed when their bills are not received on the exact day. After a lengthy discussion, Director Guidry called for a vote on the issue. Director Guidry made a motion to pay a maximum of \$9,000 for reading meters outside regular business hours, and the motion was seconded by Director Hasse. The Chair called for a vote, and the motion passed with a vote of three to two, with Directors Cox and Hembree opposing.

Andrea Martin next presented a report on behalf of Aggressive Waste. No yellow tags were issued 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.

8. The Board discussed the operations and engineering meeting and actions to be taken. The engineer reported that the water meter replacement project is out for bids, and the bid opening is scheduled for March 21, 2017.

The operator reported that on February 3, 2017, the operators in the field were inspecting the parks and walking the District facilities when they noticed a storm drain outfall with water flow during dry weather. The water was tested and found to have a chlorine residual, indicating a water main break. Upon investigation, the operator uncovered a large main line break at 17447 Typhoon Way. The break was so large that it had caused a void under the street, and the operator made the necessary emergency repairs. The operator reported the main line break to the operator liaison Director Hasse. Before the break, the surface water treatment plant was operating at 1,000 gallons per minute. After the break was repaired, the plant was operating at 450 gallons per minute. The operator estimated that the District probably lost 648,000 gallons per day while the leak was operating at this peak level. The leak has likely been going on for several months but has probably increased in size and scope. Because the Harris County storm sewer system is not tight, the water was able to enter the storm sewer system and make its way to the outfall and remain undetected for months.

Finally, the operator reported that on February 23, 2017, some children walking on private property adjacent to the District's park found a dead body inside of a tent. The tent could not be seen from the District's trails or facilities, and the operator confirmed that the tent was on private property. She was simply providing the information for the District's general knowledge and information as the story had been covered in the news media.

Upon unanimous vote, the operations and engineering report was approved as presented.

9. The Board then considered the attached Resolution Affirming Review of the District's Identity Theft Prevention Program. The attorney noted that the District is required to review its program on an annual basis. The attorney and operator had no recommended changes to the program. Accordingly, upon unanimous vote, the resolution was approved by the Board as presented.

10. Lori Aylett presented an attorney's report. Some months ago, her firm had sent correspondence to MP Technology regarding damage done to a District water line while the contractor was installing power poles for the property owners association. The contractor responded and denied liability. Directors Hasse and Chasteen attended the last NPOA meeting and made them aware that there was an issue with that contractor. The NPOA confirmed that they would not use that contractor again. For the time being, the Board elected to take no further action on the claim against MP Technology.

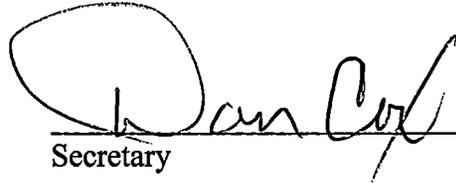
The attorney briefly discussed the defined area plan and noted that once the election was complete, the District would need to enter into a reimbursement agreement with the developer regarding the defined area. There was general discussion on whether District bond proceeds (versus defined area bond proceeds) would be used to construct facilities to get to the defined area. The attorney noted that these matters are all subject to negotiation with the developer. Director Cox noted that he was still concerned about the utilization of defined area plans and the fact that developers seem to think that they are required to get 100% reimbursement. He noted that in other districts, developers do not receive full reimbursement.

11. The Board discussed a Water Supply and Groundwater Reduction Agreement with Harris County Municipal Utility District No. 525. MUD 525 presented a counteroffer for the Board's consideration. Newport MUD had proposed a charge of \$7.18 per 1,000 gallons, and MUD 525 had countered with a response rate of \$5.16. In addition, MUD 525 had provided much lower house count projections, which would lower the amount of guaranteed take-or-pay revenues that the District would receive from MUD 525. MUD 525 also proposed that their participation in the plant expansion be optional and not mandatory. The Board noted that they were just receiving the counter-proposal and needed time to digest the information. After discussion, the Board agreed to table consideration of the matter until the next regular business meeting.

12. At 12:43 p.m., the Board convened in executive session pursuant to Texas Government Code §551.071 to receive advice from the attorney regarding pending or threatened litigation. At 1:03 p.m., the Board reconvened in regular session. Upon unanimous vote, the

Board authorized engagement of a surveyor to affix boundary lines on an area of District park property near Traffrail Way.

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


Secretary