

NEWPORT MUNICIPAL UTILITY DISTRICT
Minutes of Special Meeting of Board of Directors
July 7, 2017

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on July 7, 2017, in accordance with the duly posted notice of said meeting, with a quorum of directors present, as follows:

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

and the following absent:

None.

Also present were Andrea Martin, Delilah Arolfo, David Kasper, 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. The Board reviewed the operator's contract and proposed amendments. Delilah Arolfo reported that she was proposing to increase the payment for surface water plant monthly charges from \$64,596.37 to \$75,746.67. Wastewater treatment plant operations would go from \$31,027.66 to \$41,946.67. Repairs and maintenance would go from \$64,775.67 to a work order basis. The operator estimates that work orders will total approximately \$70,000 per month. Parks and trails monthly costs would increase from \$17,110.17 to \$22,000. Detention pond supervision would go from \$746.47 to \$866.67. In response to questions from the Board, Ms. Arolfo noted that the manager, Rich Harcrow, does not inspect taps. He is only called to a site if there is a problem, and the District operator has other employees who are qualified to inspect taps. After discussion, the Board members noted that they would like to go back to a work order basis on tap fees as well. There was a lengthy discussion on how projects are assigned and how the operator allocates manpower under the District's contract. There was also discussion regarding the maintenance responsibilities of the park, and the Board noted that the District operator provides services that a landscaping company such as BrightView would not provide. It was Director Guidry's opinion that the requested amendments to the contract were justifiable. After discussion, upon motion made by Director Cox, seconded by Director Chasteen, the Board voted unanimously to authorize amendments to the operator's contract in the total sum requested by the operator, with the exception that tap fees will be charged on a work order basis. Director Hembree asked the Board's permission to reallocate the amounts in the base monthly fee schedule for the various services provided, with a cost to be the same total. The Board authorized Directors Hembree and Guidry to reallocate the various components with the costs not to exceed the total amount authorized.

amp -

2. The Board took no action on the BrightView contract or the park cleaning contract.

3. The Board considered contracts with McCann Security for cameras and monthly maintenance charges at the surface water treatment plant, the sewage treatment plant, Flying Bridge Park, and South Diamondhead Park. Upon unanimous vote, the Board authorized the contracts as presented.

4. At Director Hembree's request, the attorney gave a brief explanation on the requirements of the Open Meetings Act. The attorney noted that the Open Meetings Act is violated if a quorum of board members conducts a deliberation without a notice of the meeting having been posted as required by law. The attorney advised that there were criminal consequences associated with violation of the Open Meetings Act, so it is important for board members to conduct their business at duly called meetings of the Board of Directors.

5. The Board discussed a counterproposal received from Harris County MUD 525. Director Cox noted his previous stipulation that for him to approve any contract with MUD 525, the result must be to lower the taxes or water bills of District residents. Director Chasteen agreed that any agreement must be beneficial to the District. The attorney reviewed the contract with the Board in some detail. Director Hembree asked the engineer if he had resolved the issue of the over-credits to be allocated by the Harris-Galveston Coastal Subsidence District. The engineer noted that the District has not yet received anything from the Subsidence District in writing, but they have indicated that they will approve the issuance of over-credits. The District should update its groundwater reduction plan to make certain that it will receive these credits. Robert Thompson at the Subsidence District is currently reviewing the District's 2014 over conversion credit application.

The Board reviewed the proposed MUD 525 contract in some detail. Director Hembree questioned whether using 350 gallons per day was an appropriate measure of an equivalent single family connection, and the engineer stated that it was. Director Hembree also noted that the District loses about 20% of its raw water in producing potable water, and this should be recovered in providing finished water to MUD 525. Director Hembree also noted that it was his position that the District should charge MUD 525 for the SJRA take-or-pay amount based upon providing water for 1,450 connections from the first day of the contract, since the District will have to purchase the water, and should recover for the 20% water loss during production. Director Chasteen noted some typographical errors on the contract. Director Guidry had questions about the Board's liability in entering the contract. Director Cox asked for an explanation of how the District's customers could benefit from the contract.

Discussion then turned to an analysis provided by David Kasper. In Scenario 1, the District would be on its own and would not contract with MUD 525. In that circumstance, in 2025, the District would need to increase its total water production and could do so by expanding the surface water treatment plant at a cost of \$5,140,000 or by building a new water well on the surface water treatment plant site at a cost of \$2,100,000. The Board noted that in the past, the District had always assumed that a surface water treatment plant expansion would be required. The engineer stated that he was looking at the capacity analysis with "fresh eyes" and taking into account the over conversion credits that should be available from the Subsidence District. With

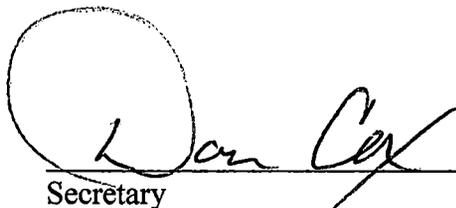
this assumption, the District may be able to construct a new well and not expand the surface water treatment plant.

In Scenario 2, the engineer assumed that the District would provide service to MUD 525 in the requested amount of 1,450 ESFCs on a single pressure plane. Under this analysis, in 2025, the District would need to expand its surface water treatment plant at a cost of \$5,140,000. In addition, other water supplies would be required, and the District could meet those in the form of adding a new well at a cost of \$2,100,000. The District will also be required to add elevated storage at a cost of approximately \$500,000. The total cost of all expansions is \$7,740,000, and the MUD 525 share would be approximately \$5,760,941.

In addition, the engineer provided some updated costs on water production. According to the engineer's estimate, the latest cost of producing surface water is \$5.21 per 1,000 gallons, while blended water cost \$4.70 per 1,000. The engineer noted that the variable cost to produced blended water was \$0.73, and the more water that the District produced, the cheaper the cost of production.

Director Cox again noted that he would need to provide some advantage to District residents to justify entering into a contract with MUD 525. The Board discussed the possibility of raising the minimum amount of water that District customers could use as a way of providing a benefit to District residents. The operator noted that raising the minimum water provided to residents would cause an immediate reduction in revenues. The District would need to make certain that it was receiving revenues from MUD 525 to offset this reduction. The attorney noted that the MUD 525 developer could probably build a first phase of a water well for less than \$5,500,000, and the engineer noted that MUD 525 could avoid having to build the surface water transmission line if the District provides water. After a lengthy discussion, the Board agreed to table the matter and review the information provided in more detail. The Board asked the attorney to place items regarding the MUD 525 counterproposal on the operations and regular business agendas.

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


Secretary