

NEWPORT MUNICIPAL UTILITY DISTRICT
Minutes of Meeting of Board of Directors
July 27, 2017

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on July 27, 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 Allyson Baker, Delia Yanez, Debbie Shelton, Delilah Arolfo, Rich Harcrow, Andrea Martin, Carlos Castrejon, Greg Katt, Eileen Fashoro, Cullen Francis, Cheryl Sargent, Chad Rochester, Jennifer Seipel, 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 discussed the cost summary for the District's bond anticipation note and bond application report. The District engineer, David Kasper, summarized costs for all of the projects that were currently in any phase of development in the District and provided the information to the District's financial advisor, Debbie Shelton. Debbie Shelton stated that the purpose of today's discussion was to determine which developers' costs should be included in the upcoming bond anticipation note and bond application report. Director Cox stated his concern that the developers should have value on the ground to support the issuance of bonds before they are sold. There was discussion about the costs of issuance associated with a bond anticipation note and how those costs could be shared among developers. Lennar has already agreed that they will pay the costs associated with issuance of a bond anticipation note and have that amount reduced from their reimbursement. The other developers have not yet made that commitment, but there would be some reduction of cost to Lennar if the other developers participated. Ms. Shelton reviewed the calculations for reimbursement for the various developers. It appeared that at this time, the Seven Oaks developer and Lennar had value on the ground to support the bond issue amount and reimbursement, while the other developers were in earlier phases of development. It was noted that the Seven Oaks cost summary had one uncertainty because of the land value for the detention pond, which might have to be determined by an appraisal. In addition, it was noted that the Seven Oaks developer had already been paid for a majority of the amount owed to it. After a lengthy discussion regarding the pros and cons of all facets of the reimbursement, upon unanimous vote, the Board authorized the engineer to prepare a cost summary for the upcoming bond issue using only the amounts reimbursable to Lennar Homes, as they had requested the issuance of the bond anticipation note and had been willing to pay the costs associated with it. The Board also

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noted that they should have a special meeting to discuss whether any District projects needed to be included in the bond application report. After discussion, the Board agreed to conduct a special meeting at 9:00 a.m. on Thursday, August 17, 2017.

2. Minutes of the meetings held June 20, 2017, June 22, 2017, and July 7, 2017 were presented for the Board's review and approval. The Board suggested corrections to persons in attendance at the June 22, 2017 meeting, and upon unanimous vote, the Board approved the June 22, 2017 minutes as corrected. Upon unanimous vote, the Board approved the minutes of June 20, 2017 and July 7, 2017 as presented.

3. Delia Yanez presented the tax assessor/collector's report, a copy of which is attached. 2016 taxes were 97.76% collected, while all prior years were over 99%. 10 checks and one voided check were presented for the Board's review and 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.

4. There Board discussed the request from Cheryl Sargent for deferral of water termination which had been scheduled by the attorney's office because her taxes were delinquent. The attorney noted that her office attempted to work with Ms. Sargent for almost tow years now regarding the delinquent taxes owed but had been unable to come to a resolution. Ms. Sargent addressed the Board and stated that her husband had passed away two years ago without a will and there had been controversy with his grown children and her. The home that they lived in in Dayton is for sale, and the home that is in the District does not have a mortgage. Ms. Sargent owes approximately \$5,088. Ms. Sargent implored the Board to give her additional time to sell her home in Dayton and use the proceeds to pay the taxes. Upon unanimous vote, the Board extended Ms. Sargent's deadline to pay the taxes until the end of December, 2017 and advised the attorney to take no further action with regard to water termination on this account.

5. The Board reviewed a proposed tax assessor/collector's contract for the Newport MUD defined area with Assessments of the Southwest. The attorney noted that she had reviewed the proposed agreement and the terms and conditions of it were substantially similar to the District's current agreement. The District will not be billed for tax assessor/collector services for the defined area until a tax is levied. Upon unanimous vote, the Board approved the tax assessor/collector's contract as presented.

6. The Board discussed a Water Supply and Groundwater Reduction Agreement with Harris County Municipal Utility District No. 525. Director Hasse noted that he had received another counterproposal from the MUD 525 developer. After the last meeting, Director Hasse had contacted them and expressed the concerns with the previous proposal. The 525 developer had listened to those concerns and sent the counterproposal that was now under consideration. The 525 developer is proposing an initial base rate of \$5.16 per 1,000 gallons plus the SJRA rate, and MUD 525 will be required to take or pay for water based upon its development projection schedules provided in an exhibit. In addition, MUD 525 will pay a water reservation fee equal to the price charged by the San Jacinto River Authority for raw water. Finally, MUD 525 will pay four installments of \$250,000 each as a contribution to the Newport surface water facility refurbishment and/or expansion. The Board had a lengthy discussion regarding the pros and cons of selling water to MUD 525. The Board also discussed the production capabilities of the surface water treatment plant and the District's water wells, and the schedule for surface water conversion

imposed by the Subsidence District. Director Hembree suggested that the District investigate the possibility of charging MUD 525 as an out-of-District customer at a multiplier of the in-District water rate. Director Hasse noted that the MUD 525 proposal under consideration was what was on the table for consideration. Director Hasse also noted that from 2018 to 2025, the District will make over \$4 million in revenues from the sale of water. After a lengthy discussion, upon motion made by Director Guidry, seconded by Director Chasteen, the Board voted with a vote of 3 to 2 with Directors Hembree and Cox opposing, to accept the proposal of MUD 525 for provision of water services and authorized the attorney to work with counsel for MUD 525 to draft the necessary revisions to the contract for the Board's consideration.

7. The Board discussed the times and dates of the District Board meetings. After discussion, the Board agreed to have its operations / engineering meeting at 10:00 a.m. on the Monday before the fourth Thursday of the month. The District's regular business meeting would continue to be held on the fourth Thursday of the month at 10:00 a.m.

Director Hembree then left the meeting.

8. Allyson Baker presented a bookkeeper's report, a copy of which is attached. The District has 12 months of reserves in the operating fund. After payment of today's bills, the District will have a balance in the operating fund of \$4,418,265.52. The capital projects fund stands at \$2,565,583.80. The debt service fund balance is \$1,367,124.16. Director Guidry pointed out that the general ledger was out of balance and needed to be corrected. Upon unanimous vote, the Board approved the bookkeeper's report and authorized payment of bills listed on the report.

9. There Board considered a proposed First Amendment to the Water, Sewer and Drainage Improvement and Financing Construction Agreement with Rochester Enterprises. Chad Rochester noted that he had 11.8 acres under contract for purchase with Rampart. He requested that the Board amend its existing reimbursement contract to increase the land size to include this tract and make a corresponding commitment for utility capacity to serve 32 lots. The Board members noted that they were not prepared to approve any amendments to reimbursement agreements, as they wanted to review reimbursement agreements and procedures for reimbursement to all developers.

10. There were no customer service inquires for the Board's consideration.

11. The Board entertained developer reports. Carlos Castrejon reported that Section 12 had 18 closings, and Section 8, Partial Replat 4 had 22 closings. The developer took bids for water, sewer and drainage facilities in Partial Replat 3 in Section 8. The low bidder appeared to be CE Barker with a bid price of \$312,478.31. Upon unanimous vote, the Board approved award of the contract to the low bidder CE Barker for the price bid.

12. The Board discussed operations and engineering matters. The operator reported that they had corresponded with Upstream Environmental regarding detention pond mowing and maintenance. The contractor now wants an additional \$3,200 to cut the easement ditch adjacent to the detention pond, weedeat and seed it. The operator noted that at the time they reviewed the District facilities with the contractor, the dimensions of the ditch were pointed out. It appeared that the proposal included a price for mowing the ditch. The Board authorized the

attorney to direct correspondence to the contractor to advise them to mow the ditch, and the District will hold payment until the work is performed.

The Board briefly discussed the generator but agreed that the matter should be tabled, as the District has a portable generator in place that will suffice for this hurricane season. The engineer will work on specifications for advertisement of bids for a generator.

13. Lori Aylett presented an attorney's report and noted that all items had been previously discussed in the meeting.

14. The Board reviewed the ethics letter and update by Investment Officer Jorge Diaz. The attorney noted that annually the Investment Officer is required to disclose whether he has any personal business relationships with any entities seeking to sell an investment to the District. Mr. Diaz submitted the required disclosure which indicated that he had no such relationships to disclose. Upon unanimous vote, the Board approved the Investment Officer disclosure as presented and authorized its filing with the Texas Ethics Commission and in the minutes of the District, as required by law.

15. The Board considered acceptance of the detention pond in Newport Court. The engineer and operator confirmed that the detention pond had been completed in accordance with the plans and specifications, and the developer had mowed and seeded the ditch according to specifications. Upon unanimous vote, the Board agreed to accept the Newport Court detention pond for permanent maintenance.

16. The Board received a request for consent to encroachment for a driveway over certain District facilities. The engineer and operator confirmed that construction of the encroachment would not impair the District's facilities and recommended its approval. The Board noted that in the past, the District has charged the person who requested the consent to encroachment a fee for engineering and attorney fee costs. Upon unanimous vote, the Board approved the consent to encroachment, subject to receipt of necessary fees.

17. The Board discussed attendance at certain AWBD functions. The Board members inquired as to whether it was problematic for more than two directors to attend an AWBD function. The attorney advised that it was very common for the entire Board of Directors of a district to attend an AWBD function or conference, so long as the directors did not gather together and discuss district business. The Board noted that they were in consensus that any Board member who wants to attend an AWBD function on behalf of the District may do so.

18. At 1:10 p.m., the Board convened in executive session pursuant to Texas Government Code §551.071 to discuss pending or threatened litigation. At 1:25 p.m., the Board reconvened in regular session. No motions were made.

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


Secretary