

NEWPORT MUNICIPAL UTILITY DISTRICT
Minutes of Meeting of Board of Directors
October 23, 2017

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on October 23, 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 David Kasper, Rich Harcrow, Cullen Francis, Delilah Arolfo, Andrea Martin, Debbie Shelton, Nino Corbett, Chad Rochester, George Rochester, Robert Santini, and Lori G. Aylett.

The President called the meeting to order and declared it open for such business as might properly come before it.

1. The attorney discussed the District's standard form reimbursement agreement. When the District first began to enter into reimbursement contracts with developers, the District had a debt service tax rate of \$0.60. The tax rate test in the agreement, however, had been tied to the debt service rate in effect the year the bond application was submitted. As the District's tax rate declined over the years, developers agreed that it became harder and harder to achieve meaningful reimbursement. Therefore, the tax rate test was discouraging new development. In response to that, some years ago the Board set a \$0.60 tax rate test in the agreements. The financial advisor discussed the tax rate test and how she calculates reimbursement. Robert Santini addressed the Board and stated that their first project, the Villas, is in a position to get 100% reimbursement because of the value added by the project versus the amount of infrastructure it took to develop. None of their other projects is set to get 100% reimbursement. Using the current test, Lennar is estimating that it would receive 69% reimbursement on its next phase of development. If any further reductions are made to the tax rate test, it could in fact kill deals for Lennar. Director Cox inquired as to whether Lennar was involved in any projects where they were receiving less than 70% reimbursement, and Mr. Santini confirmed that they were not. Director Cox stated his opinion that he does not mind paying full reimbursement if developers build a quality product. Nino Corbett addressed the Board and stated that he had a reimbursement for his east side property that expired some months before. In Newport Court, his development costs have increased, but the increase in house values has offset this. The reason Nino Corbett created a defined area across FM 2100 was because he needed a much higher tax rate than could be supported in "old" Newport. He believes that the \$0.60 tax rate will still work in his existing development. He is hoping to create a quality

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development and asked the Board not to jeopardize that by changing the formula. Director Cox noted that the District had to make certain that the tax rate to its taxpayers does not increase, and the attorney noted that this was the second component of the test. Debbie Shelton reviewed an example of the tax rate tests with the Board. Director Hembree stated his opinion that the tax rate tests should be left in place as is. Director Chasteen expressed her concurrence with this. She stated that the developers have come to the District to develop, and it was her opinion that the Board should not pull the rug out from under them. The attorney noted that she had three reimbursement contracts that have been requested by the developers. Lennar has requested a contract for Section 7, Dunhill has requested a contract for its seven acres, and Rochester has requested a contract for its 11 acres. She wanted direction from the Board on how to draft the agreements and whether any changes need to be made.

Discussion turned to the issue of bonding capacity and whether any changes needed to be made to limit reimbursement on some other basis. David Kasper stated that he had concerns that the District is going to run out of bond capacity, and all of the developers were aware of this. The District will have to have a bond election in the future in order to complete reimbursement to all developers, if the District is fully built out. David Kasper proposed deleting developer interest and engineering costs from eligibility for reimbursement. He noted that reviewing those matters and including them in the bond applications added months to the process. Robert Santini responded and stated that removing those items from reimbursement would take away Lennar's incentive to build the larger homes. The Board noted that if a developer could achieve 100% reimbursement, they should be allowed to obtain it. After a full discussion, upon motion made by Director Hembree, seconded by Director Guidry, the Board voted unanimously to continue with the existing reimbursement policies and authorized the attorney to draft the reimbursement agreements based upon the form previously approved by the Board.

Nino Corbett requested that the attorney place an item on the next agenda regarding a reimbursement for Newport Point's defined area.

The attorney noted that the District's bond application was substantially complete. However, Robert Santini had notified her that Lennar was no longer willing to pay for the cost of the Bond Anticipation Note, because it likely could not get funded before November 30, 2017, which was a firm deadline for them. After discussion, upon unanimous vote, the Board authorized the engineer to submit the bond application without the Bond Anticipation Note on an expedited review basis.

2. The Board discussed the budget for the fiscal year ending December 31, 2018. Director Hasse stated that he saw some problems with the general ledger and some coding of expenses needs to be changed. Director Guidry noted that he would like to change several things about the budget to simplify its presentation to the Board. He discussed the matter in some detail. Delilah Arolfo noted that in the past, they had tried to be very specific with one-time capital purchases so that they could be identified. After a lengthy discussion, the Board authorized Director Guidry to meet with the District bookkeeper to develop a proposed budget.

3. The Board discussed detention pond maintenance. The District engineer drafted a map of all ponds and areas to be maintained. The pond in Section 8 is on the brink of

begin ready to be accepted and will definitely be maintained by the District in 2018. Delilah Arolfo presented a proposal from Environmental Allies for detention pond maintenance. The Board asked the operator to get a firmer proposal from them for the cost per cut.

4. David Kasper presented an engineer's report, copy of which is attached. Mr. Kasper reported that a Notice to Proceed was issued on September 12, 2017 for Newport, Section 8, Replat 3 and the construction phase for Newport, Section 8, Replat 4 is complete.

With regard to new development in the District, Rochester is working on the design of the 11-acre subdivision on Golf Club Drive across from the surface water treatment plant, and bids were received with a proposed construction costs of \$124,208.

With regard to 2016 bond issue projects, the ground storage tank at the surface water plant is ready to be placed in service pending repair of a pressure gauge, and CFG has started blasting operations on the hydropneumatic tanks. With regard to the water meter replacement project, the meters have arrived and installation is pending receipt of the Verizon SIM card. Plans have been submitted to the City of Houston and Harris County for the Gum Gully crossing water distribution system improvements. No comments have been received yet on the design. With regard to the television inspection of critical line segments by Cleanserve, the engineer reviewed with the Board a summary of the reports and videos and evaluation efforts. The engineer recommended that the District proceed with planning for the rehabilitation of Priority 1 sanitary sewer lines as listed on the attached report.

With regard to the 2017 Bond Application Report and Bond Anticipation Note, numbers will be presented at the District's regular Thursday Board meeting.

The engineer reported that he has postponed making a recommendation for award of the contract until CenterPoint Energy completes their pressure study to determine what gas system improvements are needed to supply the generator. If a diesel generator is desired, award of the contract could move forward.

It was reported that the engineer provides the Board with his report the Friday prior to the operations meeting. The Board asked the engineer if he could provide the report any sooner and the engineer stated that he would provide his report to the Board by the Thursday prior to the operations meeting.

Director Hasse inquired about the building at the wastewater treatment plant. The operator contacted an independent engineer to evaluate the control building, and their recommendation was to demolish the building. It was reported that it would be hazardous for operations staff to be in the building due to sewage soaking into the walls. The operator presented bids to demolish the building for the Board's review. No bid was accepted at this time. The Board authorized the engineer to prepare an estimate to present to FEMA to raise the berm and rebuild the building and the cost of new flood pumps. Director Cox stated his opinion that the building should not be removed and recommended construction of a new building on top of the existing control building. Director Hasse reported the cost involved to build on top of the existing control building would be more expensive than to demolish the existing building and construct a new building. Director Cox stated his opposition to construction of a new building.

Director Guidry stated his opinion that if the existing building is contaminated, it needs to be demolished. Director Chasteen concurred with Directors Hasse and Guidry.

Director Cox reported that the old RAS room that is no longer in use is a fall hazard to operations personnel and needs to be filled in. Rich Harcrow informed the Board that over 48 loads of dirt have been added to the pit. The operator estimates that it will take another 60 load of dirt to fill the pit.

Upon unanimous vote, the Board approved the engineer's report as presented.

5. The Board next reviewed the operations and maintenance report, a copy of which is attached. Josh McKethan reported on operations of the water system in the District. Ground water permitted through February 28, 2018 was 206 million gallons, and remaining ground water as of September 25, 2017 was 69.918 million gallons. Total ground water produced was 26.042 million gallons, and total surface water was produced was 2.59 million gallons. Billed water was 26.221 million gallons with an accountability of 94%.

Josh McKethan reported on completed and pending work at the surface water treatment plant and water plants. Pending work at the surface water treatment plant includes rehabilitation of the ground storage tank, EFS to decommission the hydropneumatic tank, and replacement of the carbon pump. At Water Plant No. 1, the operator needs to complete rehabilitation of the hydropneumatic and ground storage tanks, and repair Booster Pump No. 2 due to damage sustained during Hurricane Harvey. At Water Plant No. 2, the operator needs to replace the two-inch air relief valve and the bad electrical component needs to be replaced.

Cullen Francis reported on the status of the wastewater system in the District, work completed at the wastewater treatment plant and District lift stations. Mr. Francis reported on the need for a new comminuter grinder unit at the wastewater treatment plant. The old unit was damaged beyond repair during Hurricane Harvey. The cost of a new grinder unit is \$66,000. The operator confirmed that the unit was only available from one supplier, and therefore the District is entitled to a sole source exception from competitive bidding requirements. A claim will be filed with the District's insurance company. Upon unanimous vote, the Board authorized purchase of a new grinder unit.

Rich Harcrow reported on the District work. There were five water leaks and main line repairs and seven sewer back-ups and sewer line repairs. The operator responded to various miscellaneous call outs during the month.

Upon unanimous vote, the Board approved the operator's report.

6. Rich Harcrow then presented a report on District parks, a copy of which is attached.

Upon unanimous vote, the Board approved the District parks report.

7. Andrea Martin presented a billing and collections report, a copy of which is attached. There was no garbage report to present.

8. Directors Cox and Guidry reported on the District walk-through held on October 17, 2017.

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


Secretary