

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

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on October 26, 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

and the following director absent:

Jim Hembree, Director.

Also present were Debbie Shelton, Delia Yanez, Allyson Baker, Andrea Martin, David Kasper, Delilah Arolfo, Greg Katt, Nino Corbett, Rich Harcrow, Chad Rochester, Crystal Kirby, 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 September 25, 2017 and September 28, 2017 were presented for the Board's review and approval. Upon unanimous vote, the Board approved the minutes as presented.
2. The Board discussed the garbage contract with Aggressive Waste. Crystal Kirby addressed the Board and stated that her firm had been able to adjust some other contracts and her personnel and can change the District's service dates to Monday and Thursday, effective January 1, 2018. The Board thanked Ms. Kirby for the consideration. Ms. Kirby stated that she would work with the attorney on drafting a contract amendment. Delilah Arolfo asked about when Aggressive Waste could get new dumpsters at the plant sites. Ms. Kirby stated that she would check with Emmitt Kirby regarding the matter. Dumpsters have been hard to come by since the hurricane. The Board noted that the last service date under the old schedule would be on December 30, 2017 and the next service date would then be January 4, 2018. The attorney noted that the District would also need to amend its rate order before the end of the year to change the service dates.
3. Delia Yanez presented the tax assessor/collector's report, a copy of which is attached. 2016 taxes were 98.33% collected, while all prior years were over 99%. Seven checks 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.

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4. The Board discussed the draft budget for the fiscal year ending December 31, 2018. Director Guidry noted that he had visited with the District's bookkeeper Wilbert Ticzon and gone over revenues and expenses and a chart of accounts. Director Guidry wants to consolidate and condense the expense accounts to cut out about one-half of them. He noted that repairs and maintenance could be consolidated into one account so that it can be better viewed. The directors can still go to the general ledger to see individual expenses. Director Guidry is proposing only one utility account. Currently, the operator trails and parks account is strictly labor or equipment and could be shifted. Director Cox asked how the Board would know if the parks labor was getting out of budget versus plant labor. Director Guidry noted that could be confirmed by review of the general ledger. Director Guidry's intent is to simplify the budget. Director Hasse noted that in his business he uses accounts and subaccounts. Delilah Arolfo noted that she had not yet had a chance to review the proposed budget changes and could not make a comment on it. Director Chasteen stated that the Board should have a special workshop meeting to make sure that changes are not being made just for the sake of making changes. Director Guidry stated that he could have a budget ready for a workshop meeting. Director Hasse noted that the District currently does not budget for security or law enforcement, and he believes that this is an issue that the District should account for. Allyson Baker noted that Director Guidry's efforts to simplify the appearance of the budget are in line with what other districts are doing. Basically, the board members are making parent accounts. After discussion, the Board agreed to have a special workshop meeting on Thursday, November 2, 2017 at 10:00 a.m., to develop a chart of accounts and to discuss the budget. The Board requested that the bookkeeper, operator, and the financial advisor be present.

5. The Board discussed whether any consultant contracts were in need of amendment. None of the consultants stated any need for adjustment to their contract.

6. The Board discussed review of the tax rate and whether to authorize a republication of the rate. The District's tax assessor has published notice of a proposed tax rate. The District was considering a debt service tax rate of \$0.29 and a maintenance and operations rate of \$0.30. Debbie Shelton noted that she was comfortable with the debt rate based upon the previously discussed bond issue to be funded in 2018. Her firm does not typically make a recommendation on the maintenance and operations rate. However, she was a little surprised that the District chose an overall rate of \$0.59, as she had thought the District would settle at \$0.60. The Board noted the difficulty with setting a maintenance tax rate before it had adopted a budget. The financial advisor noted that this was a function of the District's fiscal year which ends December 31, 2017. Certified values are usually received from the Appraisal District in late August. The District should be looking at the budget then, and in past years they did. Director Hasse noted his belief that the District was putting the cart in front of the horse. The District does not know how much money is needed. There are security concerns, expenses from the hurricane, and other related matters. Director Hasse presented a memorandum on budget items which were of concern to him. Director Guidry noted that he was not in favor of raising taxes above the amount needed to generate the same amount of maintenance tax revenues as last year. He stated that he was not going to vote on anything other than a \$0.30 maintenance tax rate unless a professional convinces him it has to be done. Director Cox stated his position that he wants to lower taxes for the residents. Director Hasse noted that revenues from MUD 525 have been incorporated into the budget, and if that agreement does not happen, the District will not have those revenues. In addition, the District recently approved the contractor's request for a \$1

increase to the garbage contract. After a lengthy discussion, the Board noted that they were at an impasse with regard to whether to republish a new tax rate. The attorney suggested that since the District had published notice of the \$0.59 tax rate, the Board should go ahead and conduct a public hearing on that proposed tax rate, so that a future meeting with all five Board of Directors present, that rate could be set if it was ultimately agreed upon by a majority of the Board.

7. The Chair opened a public hearing on the proposed tax rate of \$0.59 published by the tax assessor/collector. No residents were present to discuss the proposed tax rate, and the Chair closed the public hearing. Director Cox made a motion to set the tax rate at \$0.29 for debt service and \$0.30 for maintenance. The motion was seconded by Director Guidry. The Chair called for a vote and Directors Cox and Guidry supported the motion, while Directors Hasse and Chasteen opposed the motion. The attorney noted that the Board could not set the tax rate with a two to two vote. She will place items regarding both republication of the notice and setting the tax rate on the November 13, 2017 operations meeting and the November 16, 2017 business meeting agendas.

8. Allyson Baker presented a bookkeeper's report, a copy of which is attached. Upon unanimous vote, the Board approved the bookkeeper's report as presented and authorized payment of bills listed thereon.

9. There was nothing new to report regarding development in the District.

10. The Board considered the Water, Sewer and Drainage Improvement Financing and Construction Contract with three developers. Lennar has requested a contract for Section 7, which it owns. DH Homes has requested a contract for seven acres, which they own. Rochester Development is under contract for purchase of 11 acres and requested an agreement to cover that tract. The Board noted that they had previously discussed the terms of the contracts in much detail at the previous meeting. The attorney noted that she had drafted the three contracts in accordance with the Board's previous approval and in the standard form that all developers have been utilizing. Upon unanimous vote, the Board approved the contracts as presented and further authorized execution of waivers of special appraisal for the land. The Board authorized the attorney to record the waiver of special appraisal on the Rochester tract after they take title to the tract.

11. There were no customer service inquiries for the Board's consideration.

12. The Board discussed operations and engineering matters. The engineer confirmed that two District projects were added to the bond application report. The District is going to do sanitary sewer rehabilitation and smoke testing and manhole inspections. The engineer believes that the new bond issue amount will be \$4,330,000. The attorney noted that the District would need to put an order to approve the bond application on the next agenda, as the amount has increased. Debbie Shelton noted that she wanted to revisit her tax rate recommendation based upon the new bond issue amount.

The operator reported that she is moving forward with the District's claim with FEMA. The District operator has provided many photographs and evidence to FEMA and to the insurance carrier.

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

13. Lori Aylett presented an attorney's report. She noted that she had no groundwater reduction contracts for the Board's review. In fact, she had been contacted by the Harris-Galveston Subsidence District, and they have indicated that they will not honor the District's existing groundwater reduction agreement with New Orleans Cold Storage. Apparently New Orleans Cold Storage wells were located in Area 1. It is now the Subsidence District's policy that the District can only enter into groundwater reduction agreements with well permit holders with wells in Area 2 or 3. The attorney argued the point at some length with the Subsidence District, but they have been firm in their decision even though they honored the same agreement with New Orleans Cold Storage last year. The attorney recommended that the Board issue a refund to New Orleans Cold Storage in the amount of \$22,724, and the Board concurred.

14. Lori Aylett presented memoranda of law regarding House Bill 89 and Senate Bill 252. The attorney explained that House Bill 89 prevents the District from entering into contracts with companies for goods and services unless the contract contains written verification from the company that it does not and will not boycott Israel during the term of the contract. Senate Bill 252 prevents the District from entering into contracts for general construction, improvement, service, public works projects, or purchases of supplies, materials, or equipment with any company engaged in active business operations with Sudan, Iran, or a foreign terrorist organization. The attorney presented recommended language to be added to applicable agreements with District contractors.

15. There was presented the attached Order Approving Investment Policy. The attorney explained that pursuant to changes to the Public Funds Investment Act, the Board should amend its investment policy. The policy should be amended to make a reference to newly enacted Chapter 2270 of the Government Code, which prohibits the investment of District funds in companies that do business with terrorist organizations. Further, the investment policy must be amended to change the definition of business organizations that must acknowledge receipt of the policy, and the form of the business organization's acknowledgment has changed. Upon unanimous vote, the Board adopted the attached Order Approving Investment Policy as presented.

16. The Board discussed the temporary right-of-entry agreement with the Veach family. The trash, shed and RV have been removed from District property. There is still an asphalt road that runs across District property, and the operator asked for direction on what to do with the driveway. Upon unanimous vote, the Board voted to take no action on the removal of the driveway at this time. Upon unanimous vote, the Board ratified the previously exercised temporary right-of-entry agreement with the Veach family.

17. The Board discussed a contract for detention pond maintenance. Delilah Arolfo has received one proposal from Environmental Allies and she recommended that the District get a presentation from them. Director Guidry recommended that Environmental Allies make a proposal based on cutting the detention ponds four times a year and/or when the operator recommends.

18. The Board deferred consideration of renewal of insurance, as the proposals for renewal were not yet available.

19. The Board President requested that the attorney move the developers' reports and customer service inquiries to the top of the agenda for efficiency.

20. At 12:45 p.m., the Board convened in executive session pursuant to Texas Government Code, Section 551.074 to discuss director duties. At 1:03 p.m., the Board reconvened in regular session.

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


Secretary