

NEWPORT MUNICIPAL UTILITY DISTRICT

Minutes of Meeting of Board of Directors

November 16, 2017

The Board of Directors ("Board") of Newport Municipal Utility District ("District") met at 16703 Golf Club Drive, Crosby, Texas, on November 16, 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 director absent:

None.

Also present were Debbie Shelton, Delia Yanez, Allyson Baker, Andrea Martin, David Kasper, Delilah Arolfo, Kim Courte, Rich Harcrow, Cullen Francis, Josh Rambo, Dan Webb, Officer Gary Hendry, 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 Chair deviated from the normal order of business to discuss renewal of the District's insurance policies. Kim Courte addressed the Board and provided a renewal proposal with Arthur Gallagher Co. She stated that Delilah Arolfo and her company had done a phenomenal job with processing the insurance claim relating to Hurricane Harvey. Their work in the field during the hurricane saved the District at least \$500,000. They were instrumental in getting photographs and timelines so that the majority of the District's losses would be covered under equipment failure. The District has property coverage of \$16,670,477, with a \$5,000 deductible. Flood Zones AE are not covered under the current policy and would need to be added under a separate renewal policy. There currently is a \$25,000 deductible for Flood Zone X locations for items damaged by flood water. The adjusters have met in the field with the operator on numerous occasions, and the operator has been provided information on how to submit the losses. The operator is well ahead of the curve on the Harvey claim. Ms. Courte was pleased to be able to offer a renewal at this time, given that the District's major claim is still pending. The boiler and machinery deductible has been increased from \$5,000 to \$25,000. The insurance company increased the deductible because they expect equipment failures to increase after the hurricane because the equipment has been put under stress. Erosion is not covered by any policy. To obtain coverage for Flood Zone AE, the District will need to add a separate policy with an additional premium cost of \$18,076, with a \$2,500,000 sublimit, a \$25,000 deductible, and an extra expense of \$50,000. In addition, if the District considers adding law enforcement, the premium will be \$1,000. The renewal premium cost is \$76,187 for existing coverage, plus \$18,076 to add flood coverage to the AE zones. The Board thanked Ms. Courte for her presentation.

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2. The Chair next received a presentation from Dan Webb and Officer Gary Hendry. Dan Webb stated his opinion that the District should have 25 police officers for a community of its size. Currently the NPOA provides some security for the trails. Supplemental law enforcement contracts with Harris County cost approximately \$76,000 for each deputy. Officer Hendry addressed the Board and stated that there was a drug problem in the area so patrolling the parks takes a backseat to the drug problem and other safety issues. The officer has received numerous calls about vandalism and juveniles fighting on the trails. Officer Hendry also discussed the fact that the County only has three officers on this side of the San Jacinto River dedicated for patrols. The NPOA would love to have District's participation in supplemental law enforcement on the trails. The Board thanked Mr. Webb and Officer Hendry for their presentation.

3. The Board reviewed the tax rate with the District's financial advisor. Debbie Shelton presented four spreadsheets with difference scenarios regarding the District's tax rate and budget needs. When the District issues its series of bonds, the financial advisor will make a debt service tax recommendation of \$0.34, up from the current year's recommendation of \$0.29. Revenues have increased, as have expenses. David Kasper stated that if the District does not continue to develop new homes, the date for the sewage treatment plant expansion would be pushed forward. The District may also need to issue bonds to address inflow and infiltration issues. Director Hasse stated his position that the District should republish tax rate calculations with the same overall rate as 2016, because the budget as currently drafted is too tight. He reiterated his list of concerns regarding lowering the tax rate and asked that they be attached to the minutes. Director Guidry stated that the District was going to receive \$1 million from insurance proceeds and the District is anticipating \$400,000 in net revenues. Director Guidry stated that he was comfortable with keeping the tax rate as previously published. Director Chasteen stated her opinion that the District needs to pursue additional maintenance tax revenues. Director Hembree noted that the District will have money coming back from capital projects, and he believes that the previously published tax rate is adequate. He stated that the District's expenses were out of control, and that subject needed to be addressed. Director Cox stated his opinion that the District should give its taxpayers a break. After a full discussion, upon motion made by Director Cox, seconded by Director Hembree, the Board voted to adopt the attached Order Setting Tax Rate, Approving Tax Roll, and Levying Debt Service Tax and Maintenance and Operation Tax for the Year 2017, with a vote of three to two, with Directors Chasteen and Hasse opposing, which order levies a maintenance tax rate of \$0.30 per \$100 assessed valuation and a debt service tax rate of \$0.29 per \$100 assessed valuation for a total combined tax levy of \$0.59 per \$100 assessed valuation for the 2017 tax year.

4. There was then presented the attached Amendment to Statement of Directors Furnishing Information Required by Section 49.455(b), Texas Water Code, as Amended. The attorney noted that the Amendment to Statement of Directors is filed in the real property records of Harris County and informs property owners in the District that they are located in a water district and what the current tax rate is. Upon motion duly made, seconded and unanimously carried, the Board voted to adopt the amendment as presented, authorized its execution by all directors present, and authorized the attorney to file the document as required by law.

5. The Board returned to discussion of the insurance policies. Upon unanimous vote, the Board approved renewal of the District's insurance policies based upon the proposal submitted by Kim Courte, and voted to add AE flood zones to the coverage.

6. Minutes of the meetings held October 23, 2017, October 26, 2017 and November 2, 2017 were presented for the Board's review and approval. Upon unanimous vote, the Board approved the minutes as presented.

7. There were no developers present, so no developer's reports were given.

8. There were no customer service inquiries or appeals regarding utility service for the Board's consideration.

9. The Board briefly discussed a reimbursement agreement for the Newport Defined Area. The engineer noted that he needed to review the lines to be constructed. The developer of Newport Point may have used all of the capacity in the lines in that area, and therefore other lines may have to be constructed to support the defined area. The attorney noted that she had not yet had an opportunity to discuss the contract with developer Nino Corbett. Accordingly, the Board tabled consideration of the defined area reimbursement agreement.

10. The Board briefly discussed a request from Newport Seven Land regarding purchase of park reserves. The developer has requested that the District consider paying them for the land to be used for park reserves. They also requested that the District consider reimbursement in a future bond issue for engineering and land cost items left out of the previous bond issue. It was noted that the preconstruction agreement with Newport Seven Land had expired by its own terms. The reserves would be suitable for a trail, but Delilah Arolfo pointed out that they flooded during Harvey. The District would take on additional mowing costs as a result of taking title to additional land. After discussion, the Board tabled the request until they could receive more information from the developer.

11. The Board discussed the garbage contract with Aggressive Waste. Aggressive Waste confirmed that they can begin waste collection in Newport on a Monday / Thursday schedule for a cost of \$12.50 per connection effective January 1, 2018. After discussion, upon unanimous vote, the Board approved a new garbage collection contract with Aggressive Waste under those terms and conditions.

12. 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.

13. Delia Yanez presented the tax assessor/collector's report, a copy of which is attached. 2016 taxes were 98.45% collected, while all prior years were over 99%. 11 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.

14. The Board considered an assignment of the tax assessor contract. The law had previously required that the contract be with an individual, but the law has changed and the

contract can now be with a company. Therefore, the proposed assignment would transfer contract responsibilities from Tommy Lee to Assessments of the Southwest. Upon unanimous vote, the Board consented to such assignment.

15. The Board tabled review of the draft budget for the fiscal year ending December 31, 2018 because additional information is needed from directors and consultants.

16. The Board considered engagement of an auditor for the fiscal year ending December 31, 2017 and future years. McCall Gibson Swedlund Barfoot, PLLC confirmed their prior engagement but requested that the District enter into an evergreen contract. Upon unanimous vote, the Board approved the proposal of McCall Gibson Swedlund Barfoot, PLLC for an evergreen contract for audit of the District's books and records.

17. The Board discussed operations and engineering matters. The operator met with CenterPoint onsite to discuss extension of a gas service line, and anticipated costs are less than \$2,000. The engineer stated that the advantages of using a gas generator would be that all of the District's eggs would not be in one basket. Diesel requires special handling and is sometimes difficult to obtain during storms. A diesel generator is also cheaper at about \$126,000 versus a gas generator which costs about \$198,000. The District needs to make a decision by the end of the year in order to have the generator in place before the next hurricane season.

The leak at the ground storage tank is being repaired. The District received a general inquiry from LJA on its interest in annexing the Medico tract. The tract is north of the Union tract and is approximately 300 acres. The engineer has asked them to come before the Board with the request.

The Board discussed payment of the new meters from the capital projects fund. The District issued bonds for the meter replacement program, but the operator has been purchasing the new electronic meters and changing them out according to the District's meter change out schedule. The new meters have also been used on new taps. The attorney advised that meters could be paid for from capital projects, as the meter replacement project was approved in the 2016 bond issue.

Delilah Arolfo stated that she is submitting the District's well permit renewal. The District has had site inspections from FEMA and the Texas Water Development Board. They are currently discussing mitigation possibilities with FEMA.

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

18. Lori Aylett presented an attorney's report. There were no groundwater reduction contracts for the Board's consideration. With regard to the new garbage collection days, she suggested placing an item on the bill. The Board will also use bandit signs in the neighborhood on the street rights-of-way to inform customers.

19. The Board reviewed a proposal from Environmental Allies for detention pond maintenance. The Board expressed a desire that Rich Harcrow have control on when

Environmental Allies is called to perform cuts. Upon unanimous vote, the Board approved the proposal as presented and authorized the attorney to review the contract.

20. The Board discussed FEMA relief related to Hurricane Harvey. The Board approved a contract between the District and the Department of Public Safety/Texas Division of Emergency Management providing for grant terms and conditions under FEMA regulations.

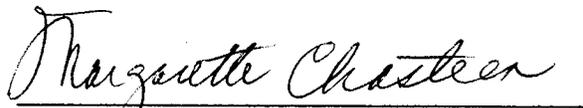
21. The Board discussed the FEMA mitigation process. Delilah Arolfo reviewed the FEMA projects in some detail with the Board. The state also has a mitigation program, and Delilah Arolfo is pursuing that. She will need accurate surveys of the berm around the plant site. One suggestion has been to make to the berm smaller, but the engineer has stated that if the berm is made smaller, it could adversely affect the District's ability to expand in the future. Delilah Arolfo stated that her mitigation estimates needed to be accurate, and she needed timely input from the District's engineer to make sure this happened. The attorney stated her belief that the District needs to speak with one voice with regard to mitigation projects. The District should make sure that all estimates presented are properly reviewed and vetted. Richard Morrison of her firm is the primary contact with FEMA, and Delilah Arolfo is the secondary. Delilah Arolfo requested that the District engineer provide detailed information regarding estimates directly to her, and she will be the point person for all FEMA projects and mitigation projects. There was discussion regarding the matter, and the Board confirmed that this procedure was the correct one to follow.

22. The Board considered amendment to the Order for Adoption of Schedule of Water and Waste Collection and Disposal Service Fees and Rates. The attorney noted that it would be appropriate for the District to amend the Order to reflect the new garbage collection days. Upon unanimous vote, the Board approved the Order as presented.

23. There was presented the attached Order Designating Office for Conducting Business of District and Maintaining Records of the District and Designating Additional Meeting Place Outside District. Upon unanimous vote, the Order was adopted as presented, and the Board authorized publication of such notice of additional meeting place as required by law.

24. There was presented an Order Authorizing Filing Amended Application for Approval of Texas Commission on Environmental Quality of District's Engineering Project and Issuance of Bonds in an amount not to exceed \$4,330,000. Upon unanimous vote, the Board approved the attached Order Authorizing Filing Amended Application for Approval of Texas Commission on Environmental Quality of District's Engineering Project and Issuance of Bonds in an amount not to exceed \$4,330,000 as presented.

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


Secretary