

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 3

Minutes of Board of Directors Meeting April 24, 2017

The Board of Directors of Harris-Fort Bend Counties Municipal Utility District No. 3 met in regular session at the Board's regular meeting place on April 24, 2017, in accordance with the duly posted Notice of Public Meeting, and the roll was called of the duly constituted officers and members of said Board of Directors, as follows:

Ron Welch, President
Cyndal Porter, Vice President
Derrell Witt, Secretary
Robert L. White, Assistant Secretary
Frank Anzalotti, Assistant Secretary

and all of said persons were present, except for Director White and Director Anzalotti, thus constituting a quorum.

Also present were Kayla Crigger of Municipal Accounts & Consulting, L.P. ("MA&C"); Ray Arce of Wheeler & Associates, Inc. ("Wheeler"); Cathleen Falke of Environmental Development Partners, LLC ("EDP"); Tom Laseter of Van De Wiele & Vogler Incorporated ("Van De Wiele"); Mike Baker of Katy ABC Properties ("Katy ABC"); Richard Fletcher of Sales Tax Assurance, LLC ("STA"); Ron Dagley of The Betz Companies, on behalf of I-10/Katy, Ltd. ("I-10/Katy"); Juanita Orsak of Pulte/Centex Homes ("Centex"), who entered later in the meeting as noted herein; Debbie Shelton of FirstSouthwest, a Division of Hilltop Securities Inc. ("FirstSouthwest"); Tayo Ilori of McGrath & Co., PLLC ("McGrath"); and Abraham Rubinsky and Rachel Hollywood of Schwartz, Page & Harding, L.L.P. ("SPH").

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

APPROVAL OF MINUTES

The Board deferred approval of the minutes of the Board of Directors meetings held on January 23, 2017, February 27, 2017, and March 27, 2017, until its next meeting

APPOINTMENT OF NEW DIRECTOR

Mr. Rubinsky advised that James Barbarino will be appointed as a new Director to fill the vacancy on the Board at the Board's next meeting. After discussion, the Board deferred consideration of the appointment of Mr. Barbarino.

TAX ASSESSOR-COLLECTOR'S REPORT

Mr. Arce presented and reviewed with the Board the Tax Assessor-Collector's Report dated as of March 31, 2017, a copy of which is attached hereto as **Exhibit A**, including the

disbursements presented for payment from the Tax Account. Mr. Arce also presented a Delinquent Tax Roll as of March 31, 2017, a copy of which is included in the Tax Assessor-Collector's Report. After discussion, Director Witt moved that the Tax Assessor-Collector's Report be approved as presented, and that the disbursements identified in said Report from the District's Tax Account be authorized. Director Welch seconded said motion, which carried unanimously.

Ms. Orsak entered the meeting at this time.

DELINQUENT TAX COLLECTIONS REPORT

Mr. Rubinsky presented and reviewed with the Board the Delinquent Tax Report prepared by the District's Delinquent Tax Collections Attorneys, Perdue, Brandon, Fielder, Collins & Mott, L.L.P. ("Perdue Brandon"), dated April 24, 2017, a copy of which is attached hereto as **Exhibit B**. After discussion, the Board concurred that action was necessary on its part at this time.

RESOLUTION AUTHORIZING AN ADDITIONAL PENALTY ON DELINQUENT REAL PROPERTY TAXES

The Board next considered the adoption of a Resolution Authorizing an Additional Penalty on Delinquent Real Property Taxes. Mr. Rubinsky advised that the Board is authorized pursuant to Section 33.07 of the Texas Tax Code, as amended, to impose, under certain conditions on July 1, an additional penalty not to exceed twenty percent (20%) of the total taxes, penalty and interest due the District on taxes that remain delinquent as of July 1 of the year in which they became delinquent. He noted that the additional penalty to be imposed by this Resolution will not apply to delinquent personal property taxes which have incurred an additional penalty pursuant to that certain Resolution Authorizing an Additional Penalty on Delinquent Personal Property Taxes, which was passed and approved by the District on January 23, 2017. After further discussion, it was moved by Director Witt, seconded by Director Porter, and unanimously carried, that the Resolution Authorizing an Additional Penalty on Delinquent Real Property Taxes, which is attached hereto as **Exhibit C**, be adopted by the Board, and that Perdue Brandon be authorized to proceed with the collection of the District's 2016 delinquent real property tax accounts beginning on July 1, 2017, including the filing of lawsuits as necessary, subject to proper notice having been given as provided in said Resolution.

BOOKKEEPER'S REPORT

Ms. Crigger presented and reviewed with the Board the Bookkeeper's Report dated April 24, 2017, a copy of which is attached hereto as **Exhibit D**, including the checks presented for payment from the District's various accounts. Ms. Crigger noted that check nos. 5471, 5472, and 5496 on the General Operating Fund would be voided. After discussion, Director Porter moved that the Board approve the Bookkeeper's Report, including the checks presented for payment, except check nos. 5471, 5472, and 5496 on the General Operating Fund, which were voided. Director Witt seconded said motion, which unanimously carried.

In response to an inquiry from the Districts auditors, Ms. Crigger advised the Board that Mark Burton, a principal of Municipal Accounts & Consulting, L.P. ("MA&C"), serves as an advisory board member to the Texas Cooperative Liquid Assets Security System ("Texas CLASS"), but owns no interest therein, has no voting rights, nor derives any pecuniary interest therefrom. Therefore, neither Mr. Burton nor MA&C believes there is any conflict of interest associated with the District investing funds in Texas CLASS.

Ms. Crigger then presented to and reviewed with the Board a handout from Acclaim Energy Advisors, a copy of which is included under **Exhibit D**, advising that Acclaim completing the contracting process for the MA&C Pool participants. She noted that the contract rate for the Pool participants will be \$0.04278 per kWh hour for the extended contract term of April 2020 to April 2023, which amount results in a savings to the District of 8.1% versus the contract rate for the term of April 2017 to April 2020.

ANNUAL AUDIT REPORT FOR THE DISTRICT'S FISCAL YEAR ENDED DECEMBER 31, 2016

Mr. Ilori presented to and reviewed in detail with the Board a draft of the District's audit report prepared for the fiscal year ended December 31, 2016, a copy of which report is attached hereto as **Exhibit E**. After a thorough review of the audit report presented, Director Welch moved that the audit report for the District's fiscal year ended December 31, 2016, be approved, subject to SPH's final review and approval, that the President be authorized to execute the Annual Filing Affidavit on behalf of the Board and the District, and that such audit report and Annual Filing Affidavit be filed with the Texas Commission on Environmental Quality ("TCEQ") by the applicable deadline. Director Porter seconded said motion, which unanimously carried.

ANNUAL CONTINUING DISCLOSURE REPORT

The Board next considered the approval of its annual continuing disclosure report due June 30, 2017, relative to the District's outstanding bonds pursuant to United States Securities and Exchange Commission Rule 15c2-12. Mr. Rubinsky presented and reviewed with the Board an Annual Financial and Operating Report prepared by the District's Disclosure Counsel, Norton Rose Fulbright US L.L.P. ("Norton Rose"), together with a Resolution of the Board approving said Report and authorizing the filing of same, in compliance with U.S. Securities and Exchange Commission Rule 15c2-12, which Resolution and Report are attached hereto as **Exhibit F**. Mr. Rubinsky then advised that, upon receipt of the final audit report for the District's fiscal year ended December 31, 2016, from McGrath, Norton Rose will file on behalf of the District the required Annual Financial and Operating Report.

Mr. Rubinsky queried Mr. Arce regarding the Principal Taxpayers List included in the Annual Financial and Operating Report and noted that there appear to be several high value accounts, including those related to the Katy Ranch Crossing development, that are missing from said list. Mr. Arce stated that he would investigate the situation and confirm that the appropriate information concerning the District's Principal Taxpayers was provided to Norton Rose for the subject Report.

After further discussion, Director Welch moved that (i) the Annual Financial and Operating Report be approved by the Board, subject to correction of the Principal Taxpayers List by Wheeler and Norton Rose, and final review and approval by SPH, (ii) the Resolution be adopted by the Board and that the President be authorized to execute same on behalf of the Board and District, and (iii) Norton Rose be authorized to file same with the appropriate repositories prior to June 30, 2017. Director Porter seconded said motion, which unanimously carried.

Mr. Arce exited the meeting at this time.

OPERATOR'S REPORT

The Board next considered the Operator's Report. In connection therewith, Ms. Falke presented to and reviewed with the Board the Operator's Report dated April 24, 2017, a copy of which is attached hereto as **Exhibit G**. Ms. Falke discussed various matters contained in the Report and presented and reviewed the Utility Billing Summary, Utility Billing Detail Report, Connection Count, Water Quality Monitoring Report, Water Production Report, Commercial Consumption Report, Monthly Operating Report, Wastewater Plant Discharge Report, Customer Service Report, Delinquent Notice/Service Disconnect Report, and the Delinquent Accounts Report, set forth therein.

Ms. Falke noted that there were sixty-seven (67) customer accounts listed on the Delinquent Accounts Report this month, and that no customer appeals had been received.

Ms. Falke advised that EDP continues to work on the re-painting of the District's fire hydrants, the replacement of Lift Pump No. 3 located in the Wastewater Treatment Plant ("WWTP") on-site lift station, and the repair of the step screen located at the District's WWTP.

ANNUAL REPORT REGARDING IDENTITY THEFT PREVENTION PROGRAM

The Board next considered the status of the District's Identity Theft Prevention Program (the "Program"). In connection therewith, Ms. Falke presented EDP's annual report as Administrator of the Program, a copy of which is included in the Operations and Maintenance Report, and advised the Board regarding the District's experience with identity theft during the prior year, current identity theft methods, the types of accounts maintained by the District and the District's business arrangements with other entities. Ms. Falke advised that EDP is not recommending any changes be made to the District's Program at this time. After discussion on the matter, the Board concurred that no changes were necessary to the Program at this time.

CONSUMER CONFIDENCE REPORT

The Board next considered authorizing EDP to prepare a draft Consumer Confidence Report ("CCR") for review by the Board. Mr. Rubinsky advised that pursuant to the CCR requirements promulgated by the United States Environmental Protection Agency and the TCEQ, the District is required to provide a report containing various information regarding the District's water supply to all customers of the District by July 1, 2017. After discussion on the matter, it was moved by Director Witt, seconded by Director Porter and unanimously carried,

that EDP be authorized to prepare a draft of the annual CCR and SPH be authorized to review same for compliance with the TCEQ's regulatory requirements and its 2017 template.

Ms. Falke exited the meeting at this time.

SALES TAX COLLECTIONS MONITORING SERVICE

The Board next considered the Sales Tax Reports and the Developer Reconciliation Report relative to Katy Ranch Crossing prepared by STA in connection with monitoring of sales tax collections within the District by the City of Houston pursuant to the Strategic Partnership Agreement with the District. In connection therewith, Mr. Fletcher presented and reviewed with the Board a SPA STAR Report for the First Quarter - 2017, a Sales Tax Net Payment Trend report and a Sales Tax Reconciliation Summary for 2016 Quarter 4 related to Katy Ranch Development Area, copies of which are attached hereto as **Exhibit H**. Following review of said reports, Mr. Fletcher recommended the payment of \$40,024.64 to Katy ABC in accordance with the terms of the Development Agreement between the District and Katy ABC. The Board next queried Mr. Baker as to whether he was in agreement with the proposed payment, to which Mr. Baker agreed. After discussion, Director Witt moved that the Sales Tax Report for the First Quarter – 2017 and the development payment of \$40,024.64 to Katy ABC for 2016 Quarter 4 be approved, as recommended by STA. Director Porter seconded said motion, which carried unanimously.

MAINTENANCE OF THE DISTRICT'S DETENTION AND DRAINAGE FACILITIES

The Board considered the status of maintenance of the District's detention and drainage facilities by Seaback Maintenance, Inc. ("Seaback"). Mr. Laseter reported that the overseeding and fertilizing of the Harris County Flood Control District ("HCFCD") Unit No. 506-02-00 (Moore Heights Detention Pond) has been completed by Seaback and that Van De Wiele is waiting on the receipts for the seed and fertilizer before recommending payment to Seaback..

Mr. Fletcher and Mr. Ilori exited the meeting at this time.

ENGINEER'S REPORT

Mr. Laseter presented and reviewed with the Board the written Engineer's Report dated April 24, 2017, a copy of which is attached hereto as **Exhibit I**, and discussed the status of various projects within the District.

In connection with the proposed acquisition of a Water Plant No. 2 Site and a Sanitary Control Easement and Water Line Easement required in connection with same, Mr. Rubinsky advised that he has a phone call scheduled with the broker for a prospective buyer of a portion of the Bing Family property, and that he hopes to have some discussion with representatives of the Bing Family regarding the District's need to acquire such property interests in connection with said matters soon.

In connection with the status of communications with representatives of the West Harris County Regional Water Authority ("WHCRWA") regarding its desire to acquire certain Water

Line Easements from the District and certain landowners within the District for the construction of a 60-inch surface water transmission line, Mr. Laseter advised that there is nothing new to report at this time.

In connection with the status of communications with representatives of the North Fort Bend Water Authority ("NFBWA") regarding its desire to acquire Water Line Easements across five (5) parcels of land owned by the District and the District's concerns regarding the proposed location of the NFBWA's 60-inch surface water transmission line through the District's Katy Gap Road Lift Station site, Mr. Rubinsky advised that the NFBWA provided a draft Letter Agreement to supplement the terms of the Water Line Easement for the NFBWA's Parcel 19.05 and that he is continuing to review the subject Water Line Easement and Letter Agreement on behalf of the District and experts to complete such review soon. Mr. Rubinsky then recommended that the Board approve and authorize the execution of the subject Water Line Easements and Letter Agreements, subject to the NFBWA's acceptance of the District's requested revisions to same. Thereafter, upon motion by Director Welch, seconded by Director Porter and unanimously carried, the Board voted to approve the five (5) Water Line Easements and the proposed Letter Agreement related to the NFBWA's Parcel 19.05, subject to incorporation of SPH's recommended reasons and its final approval, and to authorize the Board President to execute same on behalf of the Board and District.

In connection with maintenance of the detention pond constructed by Harris County on J.K. Moore Real Estate Limited Partnership, Ltd.'s ("J.K. Moore") property, now known as HCFCD Unit No. T506-02-00 (the "Moore Heights Detention Pond"), Mr. Laseter reported that the District received a letter from HCFCD offering to enter into a Mowing Reimbursement Agreement ("Mowing Agreement") with the District for both the Moore Heights Detention Pond and Unit No. T506-01-00 (the "Bing Detention Pond"). Mr. Rubinsky advised the Board that the proposed Mowing Agreement will not include provisions that require HCFCD to maintain all concrete structures associated with said ponds, despite the District's previous discussions with HCFCD requiring same as a condition to the District accepting responsibility for the mowing of HCFCD's facilities. Following a lengthy discussion on the matter, Director Welch moved to authorize SPH and Van De Wiele to proceed with initiating a Mowing Agreement with HCFCD for the Moore Heights Detention Pond only, subject to SPH's final review and approval of same. Director Porter seconded said motion, which unanimously carried. The Board concurred that it was not interested in entering into a Mowing Agreement with HCFCD for the mowing of the Bing Detention Pond at this time.

In connection with the application to the TCEQ for the renewal of the District's Wastewater Discharge Permit for the WWTP, Mr. Laseter advised that the final permit renewal advertisement has been published as required by the TCEQ, and that he expects the District to receive the new permit soon.

BOND ISSUE NO. 7

Regarding Bond Application Report No. 7 ("BAR") related to the District's proposed Series 2017 Unlimited Tax Bonds ("Series 2017 Bonds"), Mr. Rubinsky reported that said BAR was declared administratively complete by the TCEQ on March 21, 2017, and that Mr. Laseter had already responded to several inquiries from the TCEQ regarding the projects included in the

BAR. Mr. Rubinsky advised that all preliminary items related to the proposed sale of the Series 2017 Bonds will appear on the agenda for the Boards next meeting, subject to the District's receipt of a Staff Memo and draft Order from the TCEQ prior to such date.

DEVELOPERS' REPORTS

The Board next considered the Developers' Reports. In connection therewith, Mr. Baker provided a detailed update regarding various projects within Katy ABC's Katy Ranch Crossing development. Mr. Dagley next reported on the status of development of 13.5 acres, and the 18.8 acre tract owned by Dolce Bella Terra, LLC. Following discussion, the Board concurred that no action was required on its part at this time regarding said matters.

UTILITY COMMITMENTS

The Board considered utility commitment requests and deferred action on the matter after noting that no new requests had been received.

THE GRAND HARBOR HOMEOWNERS' ASSOCIATION ("HOA")

In connection with the status of communications between the District and the HOA regarding the proposed improvement of park and recreational facilities and other common areas within the boundaries of the District, Mr. Rubinsky advised that SPH is in the process of preparing the Special Warranty Deed required in order to acquire Restricted Reserve "E" in Lakes of Grand Harbor, Section Three from the HOA. Mr. Rubinsky advised that SPH will send such Deed to the HOA for execution once it is advised that the HOA Board has agreed to convey said parcel of land to the District.

STATUS OF MASTER PARKS PLAN PREPARED BY TALLEY LANDSCAPE ARCHITECTS, INC. ("TALLEY")

In connection with the status of the District's Master Parks Plan, Director Witt reported that Merrie Talley will present an update on the status of the Master Parks Plan for the District at the next Board meeting.

HARRIS COUNTY SHERIFF'S OFFICE CONTRACT REPORT

The Board next reviewed the Harris County Sheriff's Office's ("HCSO") Contract Report for March 2017, a copy of which is attached hereto as **Exhibit J**. No action was required of the Board at this time.

DISTRICT WEBSITE

In connection with the status of creation of the District's proposed website, Mr. Rubinsky informed the Board that SPH is currently reviewing the proposed Service Agreement with Off Cinco discussed at the last meeting and will provide its comments to Off Cinco upon completion.

ATTORNEY'S REPORT

Mr. Rubinsky next advised the Board that the District had received a request from the United States Department of Commerce to participate in a voluntary 2017 Census of Governments, Survey of Public Employment and Payroll. Following discussion, it was the consensus of the Board that the District's consultants not respond to said request.

REVIEW OF DISTRICT CONSULTANTS' CONTRACTS

The Board deferred discussion regarding review of the District's consultants' contracts.

EXECUTIVE SESSION

The Board concurred that a Closed Session would not be required in connection with the matters discussed at today's meeting.

RESIGNATION OF DIRECTOR WHITE

There was next presented to the Board a letter of resignation submitted by Director Robert White, dated to be effective as of April 20, 2017, a copy of which is attached hereto as **Exhibit K**. Upon motion duly made by Director Welch, seconded by Director Porter and unanimously carried, the resignation of Robert White was accepted. The Board expressed its gratitude to Director White for his years of dedication and service to the District.

DISTRICT REGISTRATION FORM

The Board next considered authorizing SPH to prepare and file an updated District Registration Form concerning the resignation of Director White from the Board with the TCEQ. Mr. Rubinsky explained that, in accordance with the Texas Water Code, municipal utility districts are required to file a District Registration Form identifying the names, mailing addresses, officer positions and terms of new or resigned directors with the TCEQ within thirty days (30) after an election, appointment, or resignation. He advised that, with the Board's approval, SPH will prepare an updated District Registration Form to include such information with respect to the term of office of Director White and file same with the TCEQ. Director Welch moved that the Board authorize SPH to complete an updated District Registration Form as discussed and to file same with the TCEQ. Director Witt seconded said motion, which unanimously carried.

ADJOURNMENT

There being no further business to come before the Board, upon motion made by Director Welch, seconded by Director Porter and unanimously carried, the meeting was adjourned.

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W. Donald Witt
Secretary

LIST OF EXHIBITS

Exhibit A	Tax Assessor/Collector's Report
Exhibit B	Delinquent Tax Report
Exhibit C	Resolution Authorizing an Additional Penalty on Delinquent Real Property Taxes
Exhibit D	Bookkeeper's Report
Exhibit E	Draft Audit Report for Fiscal Year Ended December 31, 2016
Exhibit F	Annual Continuing Disclosure Report and Resolution related thereto
Exhibit G	Operator's Report
Exhibit H	Sales Tax Report – First Quarter 2017 and Katy Ranch Development Area Reconciliation Report
Exhibit I	Engineer's Report
Exhibit J	Harris County Sheriff's Office's Contract Report- March 2017
Exhibit K	Resignation letter from Robert White