

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 3
Minutes of Board of Directors Meeting
November 27, 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 November 27, 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
W. Derrell Witt, Secretary
Frank Anzalotti, Assistant Secretary
James Barbarino, Assistant Secretary

and all of said persons were present, except Director Barbarino, thus constituting a quorum.

Also present were Kayla Crigger of Municipal Accounts & Consulting, L.P. ("MA&C"); Sara Ahlschlager-Caulde of Wheeler & Associates, Inc. ("Wheeler"); Debbie Shelton of FirstSouthwest, a Division of Hilltop Securities Inc. ("FirstSouthwest"); Cathy 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"); Brad Seaback of Seaback Maintenance, Inc. ("Seaback"); Richard Fletcher of Sales Tax Assurance, LLC ("STA"); 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 considered approval of the minutes of its Board of Directors meeting held on October 23, 2017. Following discussion, Director Anzalotti moved that the minutes of the Board of Directors meeting held on October 23, 2017, be approved as written. Director Welch seconded said motion, which unanimously carried.

TAX ASSESSOR-COLLECTOR'S REPORT

Ms. Ahlschlager-Caulde presented and reviewed with the Board the Tax Assessor-Collector's Report dated as of October 31, 2017, attached hereto as **Exhibit A**, including the disbursements presented for payment from the Tax Account. Ms. Ahlschlager-Caulde also presented a Delinquent Tax Roll as of October 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 Anzalotti seconded said motion, which carried unanimously.

DELINQUENT TAX COLLECTIONS REPORT

The Board deferred consideration of a Delinquent Tax Collections Report, as no report was received this month from Perdue, Brandon, Fielder, Collins & Mott, L.L.P. ("Perdue Brandon"), the District's Delinquent Tax Collections Attorneys.

BOOKKEEPER'S REPORT

Ms. Crigger presented and reviewed with the Board the Bookkeeper's Report dated November 27, 2017, a copy of which is attached hereto as **Exhibit B**, including the checks presented for payment from the District's various accounts, and the Quarterly Investment Report for the period ended September 30, 2017. Ms. Crigger noted that check nos. 5648 and 5665 on the General Operating Fund would be voided. After discussion, Director Welch moved that the Board approve the Bookkeeper's Report, including the checks presented for payment from the District's various accounts, except check nos. 5648 and 5665 on the General Operating Fund, which were voided, and that the District's Investment Office be authorized to sign the Quarterly Investment Report on behalf of the Board and the District. Director Anzalotti seconded said motion, which unanimously carried.

Mr. Laseter queried Ms. Crigger about the details of the Service Account Collection expense listed as no. 16420 on the Actual vs. Budget Comparison chart, a copy of which is attached to the Bookkeeping Report. Ms. Crigger advised Mr. Laseter and the Board that she would investigate the matter further and provide an update regarding same at its next meeting.

COMPLIANCE WITH TEXAS GOVERNMENT CODE CHAPTER 2265 RELATIVE TO ENERGY REPORTING

There was next a discussion regarding the District's compliance with Texas Government Code, Chapter 2265, relative to energy reporting requirements. In connection therewith, Ms. Crigger presented and reviewed with the Board an Energy Report provided by Acclaim Energy Advisors for the District for the period October 2016 through September 2017, a copy of which is attached to the Bookkeeper's Report.

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 Third Quarter - 2017, a Sales Tax Net Payment Trend report and a Sales Tax Reconciliation Summary for 2017 Quarter 2 related to Katy Ranch Development Area, copies of which are attached hereto as **Exhibit C**. Following review of said reports, it was noted that check no. 5661 from the General Operating Fund to Blue Cap, Ltd./ Katy ABC Properties in the amount of \$48,940.36 for 2017 Quarter 2 sales tax reimbursement pursuant to its Development Agreement with the District had been previously approved by the Board at its last meeting, as recommended by STA, subject to the Board's approval of the quarterly Sales Tax Reports and the Developer Reconciliation Report. 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 Anzalotti moved that the Sales Tax Report for the Third Quarter – 2017 and the development payment of \$48,940.36 to Katy ABC for 2017 Quarter 2 be approved and ratified in all respects, as recommended by STA. Director Witt seconded said motion, which carried unanimously.

Ms. Ahlschlager-Caulde and Mr. Fletcher 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 November 27, 2017, a copy of which is attached hereto as **Exhibit D**. 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 for October 2017, Wastewater Plant Discharge Report, correspondence to the TCEQ dated October 18, 2017 regarding an E. Coli permit violation at the Wastewater Treatment Plant ("WWTP") on September 13, 2017 due to the effects of Hurricane Harvey, Customer Service Report, Delinquent Notice/Service Disconnect Report, and the Delinquent Accounts Report, set forth therein.

Ms. Falke advised the Board that the repair of the step screen located at the District's WWTP has been completed. She then advised that EDP is continuing to work on the inspection of storm sewer manholes located in Harbor Shores, Section One, and Towns at Seville and will notify the Towns at Seville Community Association of any issue upon completion of same.

Ms. Falke next advised the Board that an internal error had occurred with EDP's billing system and recommended that all service bills and delinquent collection due dates for the current billing period be extended to December 11th for all customers. After discussion, Director Anzalotti moved to extend the billing due date for all customers and delinquent collections to December 11th, as recommended by EDP. Director Welch seconded said motion, which unanimously carried.

Ms. Falke next reminded the Board of a water bill adjustment given to Falcon Ridge Office Condos of \$12,004.67 off the original amount of \$24,886.32 due to an undetected leak that went unnoticed for an extended amount of time due to the immense flooding resulting from Hurricane Harvey. Ms. Falke noted that, following the Board's granting of said adjustment at its last meeting, the customer has not paid the remaining bill of \$12,881.95. She advised, however, that EDP has received a picture of the check for payment of the account in full from the customer, Shannon Coppin of SHB Development, and expects to receive same within the week. Following a lengthy discussion regarding the specific facts and circumstances, the Board agreed to grant the customer one week from today to pay the full adjusted amount of \$12,881.65 to EDP, after which, if not paid, the original total amount of \$24,886.32 shall be invoiced and the previous adjustment shall be voided.

In connection with the correspondence to the TCEQ dated October 18, 2017 regarding an E. Coli permit violation at the WWTP on September 13, 2017 due to the effects of Hurricane

Harvey, Ms. Falke reported that EDP has cleaned the basin to correct said problem on October 20, 2017. No action was required of the Board at this time.

Ms. Falke next queried Mr. Laseter and the Board as to whether The Legacy at Falcon Point independent living facility should be considered a commercial or multi-family customer under the District's Rate Order. A long discussion ensued regarding the classification of said account under the terms of the District's Rate Order, and the rates and effects on the customer in connection with same. Following a thorough discussion on the matter, the Board concurred to classify and treat The Legacy at Falcon Point independent living facility as a commercial account for all purposes under the District's Rate Order.

AMENDMENT OF RATE ORDER

Mr. Rubinsky next advised the Board that the District had received a notice from the West Harris County Regional Water Authority (the "Authority") concerning an increase of its well pumpage fees from \$2.45 to \$2.70 per 1,000 gallons of water pumped, effective January 1, 2018, and a flyer titled "The Rising Cost of Water" in connection therewith, copies of which are attached hereto as **Exhibit E**. Mr. Rubinsky advised the Board that the District is currently charging its customers an additional \$0.20 (approximately 8%) on top of the Authority's well pumpage fees to account for water loss in the District's system. Mr. Rubinsky further noted that EDP's Rate Analyst has also provided recommended adjustments to various fees and charges to be addressed in the amendment to the District's Rate Order in an email dated October 24, 2017, a copy of which is attached hereto as **Exhibit F**. After discussion, it was moved by Director Witt, seconded by Director Anzalotti and unanimously carried, that the District's Rate Order be amended to (i) increase the Groundwater Reduction Plan fee charged to the District's customers to \$2.93 per 1,000 gallons of metered water, and (ii) adjust other fees and charges recommended by EDP's Rate Analyst as set forth in the email dated October 24, 2017, and that any and all Rate Orders heretofore adopted by the Board be revoked and that the Rate Order attached hereto as **Exhibit G** be passed and adopted, effective as of January 1, 2018.

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. Mr. Seaback informed the Board that the de-silting, reseeding and fertilizing of all District-owned parts of the Drainage Outfall Channel has been completed. Ms. Crigger noted that the invoice of \$83,811.78 for said project had been received and was included in the checks presented for payment in the Bookkeeping Report, as previously mentioned. Mr. Seaback further advised the Board that Seaback is now working with Van De Wiele to prepare a proposal to clean out all of the drainage culverts in the Drainage Outfall Channel, as previously authorized by the Board once the de-silting project was completed. He then advised the Board that Seaback will present said proposal to the Board at its next meeting for consideration. Mr. Laseter informed the Board that the Service Contract with Seaback will need to be amended to include the updated rates for the aforementioned projects, and noted that Van De Wiele is currently working on updating Exhibits A and B of said Contract to be presented for approval at its next meeting.

CORRESPONDENCE FROM HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 48 ("NO. 48") REGARDING WATER SUPPLY INFORMATION FOR ISO SURVEY

Mr. Rubinsky reminded the Board of correspondence received from No. 48 regarding its undertaking of an Insurance Services Office ("ISO") rating upgrade for fire protection. Ms. Falke reported that EDP has responded to No. 48 on behalf of the District by completing its ISO Survey, a copy of which is attached hereto as **Exhibit H**. Mr. Rubinsky advised that no further action was required of the Board at this time.

ENGINEER'S REPORT

Mr. Laseter presented and reviewed with the Board a written Engineer's Report dated November 27, 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 Water Distribution and Storm Drainage Improvements to serve I-10 Bella Terra Subdivision, Phase III by Harris Construction Company, Ltd. ("Harris"), Mr. Laseter presented Pay Application Nos. 4 and 5 in the amounts of \$102,414.97 and \$29,537.58, respectively, copies of which are attached to the Engineering Report, and recommended that the Board concur in the payments of same by I-10/Katy, Ltd. Upon motion by Director Welch, seconded by Director Anzalotti and unanimously carried, the Board concurred in the payments by I-10/Katy, Ltd. to Harris of Pay Application Nos. 4 and 5, respectively, as recommended by Mr. Laseter.

Mr. Rubinsky presented and reviewed with the Board a copy of correspondence from the West Harris County Regional Water Authority dated October 24, 2017, regarding the proposed timing for conversion of the District to surface water, a copy of which is attached hereto as **Exhibit J**. Mr. Laseter informed the Board that the estimated timeline for surface water conversion in the District is 2022, with the project beginning approximately in 2020. It was noted that no action was required by the Board at this time.

In connection with the review of the updated cost estimates for the design and construction of the proposed expansion of the Permanent WWTP and of Water Plant No. 2 and the status of communications with landowners regarding same, Mr. Laseter informed the Board that the revised cost estimate for the proposed WWTP Expansion ranges from \$5.43 million to as much as \$7.36 million, and that the District's current estimated share of such costs, without including the Bing Family property, is between \$1.52 million and \$2.75 million, depending upon the final proposed capacity of the WWTP Expansion. A lengthy discussion ensued regarding whether to include the Bing Family's property when analyzing the amount of additional capacity required by the District at full buildout and the ultimate size of the proposed WWTP Expansion. Following further discussion, the Board requested that SPH direct correspondence to Dr. Bing which sets forth the estimated cost for the Bing Family to buy into said project in order to ensure the availability of WWTP capacity to serve its property, while emphasizing the risk of being excluded from same should the Bing Family choose not to participate in said Expansion.

DEVELOPERS' REPORTS

The Board next considered the Developers' Reports. In connection therewith, Mr. Baker provided a detailed update regarding the status of various projects within Katy ABC's Katy Ranch Crossing development. 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")

The Board next considered 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. Anzalotti advised that the attorneys for the HOA have determined that the HOA must obtain a positive vote from no less than two-thirds of all property owners in the HOA to approve the Special Warranty Deed for the conveyance to the District of Restricted Reserve "E" in Lakes of Grand Harbor, Section Three. Mr. Rubinsky advised the Board that SPH will discuss the matter further with the HOA's attorneys and provide an update regarding same at its next meeting.

Mr. Anzalotti advised that the HOA is still working on obtaining quotes for the installation of structural shades on the HOA playground, and will provide an update regarding same at its next meeting.

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

In connection with the status of the District's Master Parks Plan, Mr. Rubinsky advised the Board that SPH is still reviewing the latest Plan and will provide final comments on same to Ms. Talley so it can be completed. Mr. Rubinsky further advised the Board that Ms. Talley is preparing a proposal for her services in connection with the implementation of Phase I of the Master Parks Plan, and will send same to Director Witt for review and comments.

HARRIS COUNTY SHERIFF'S OFFICE SECURITY REPORT

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

DISTRICT WEBSITE

Mr. Rubinsky advised that there was no update regarding the status of the District's website at this time.

EMINENT DOMAIN REPORT

Mr. Rubinsky informed the Board that, pursuant to Senate Bill 1812 enacted during the last Legislative Session, all political subdivisions with the power of eminent domain, including the District, are now required to file an annual eminent domain report by February 1 of each year with the Texas Comptroller of Public Accounts (the "Comptroller"). He explained that the report will contain the District's contact information as well as information related to the District's ability to exercise the power of eminent domain. After discussion, it was moved by Director Welch, seconded by Director Anzalotti and unanimously carried, that the Board authorize SPH to file the annual eminent domain report with the Comptroller on behalf of the District.

ATTORNEY'S REPORT

The Board next considered the Attorney's Report. Mr. Rubinsky presented and reviewed with the Board a notice from the Katy Area Economic Development Council, a copy of which had been previously emailed to the Board on October 31, 2017. After discussion, it was noted no action was required of the Board at this time.

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.

ADJOURNMENT

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


Assistant Secretary

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LIST OF EXHIBITS

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| Exhibit A | Tax Assessor/Collector's Report |
| Exhibit B | Bookkeeper's Report |
| Exhibit C | Sales Tax Report – Third Quarter 2017 and Katy Ranch Development
Area Reconciliation Report – Quarter 2 2017 |
| Exhibit D | Operator's Report |
| Exhibit E | Notice from West Harris County Regional Water Authority regarding
increase in pumpage fees |
| Exhibit F | Email from EDP Rate Analyst regarding recommended adjustment of
various fees and charges |
| Exhibit G | Amended Rate Order |
| Exhibit H | ISO Survey prepared by EDP on behalf of the District |
| Exhibit I | Engineer's Report |
| Exhibit J | Notice from West Harris County Regional Water Authority regarding
timing for conversion to surface water |
| Exhibit K | Harris County Sheriff's Office's Report |