

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 3
Minutes of Board of Directors Meeting
December 18, 2017

The Board of Directors of Harris-Fort Bend Counties Municipal Utility District No. 3 met in special session at the Board's regular meeting place on December 18, 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 Directors Welch and Witt, thus constituting a quorum. Director Welch entered later in the meeting, as noted herein.

Also present were Kayla Crigger of Municipal Accounts & Consulting, L.P. ("MA&C"); Sara Ahlschlager-Caulde of Wheeler & Associates, Inc. ("Wheeler"); Cathy Falke of Environmental Development Partners, LLC ("EDP"); Tom Laseter of Van De Wiele & Vogler Incorporated ("Van De Wiele"); Colette Garcia of McGrath & Co., PLLC ("McGrath"); Brad Seaback of Seaback Maintenance, Inc. ("Seaback"), who entered later in the meeting, as noted herein; and Matthew Reed and Rachel Hollywood of Schwartz, Page & Harding, L.L.P. ("SPH").

The Vice 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 November 27, 2017. Following discussion, Director Porter moved that the minutes of the Board of Directors meeting held on November 27, 2017, be approved as written. Director Anzalotti 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 November 30, 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 November 30, 2017, a copy of which is included in the Tax Assessor-Collector's Report. After discussion, Director Anzalotti 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 Porter 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.

APPROVE AMENDMENT TO DISTRICT INFORMATION FORM

Mr. Reed informed the board that, effective December 1, 2017, Senate Bill 6, as passed during the first called session of the 85th Legislature, has altered the required procedures for certain cities to annex property located within their extra-territorial jurisdiction for full purposes. Mr. Reed reviewed the changes with the Board and noted that, as a result of same, SPH recommends that the District amend its District Information Form ("DIF") and the form of Notice to Purchasers attached thereto as it relates to municipal annexation. Following discussion, Director Anzalotti moved that the amended DIF be approved and that the Board members present be authorized to execute same on behalf of the Board and the District. Director Porter seconded said motion, which unanimously carried.

BOOKKEEPER'S REPORT

Ms. Crigger presented and reviewed with the Board the Bookkeeper's Report dated December 18, 2017, a copy of which is attached hereto as **Exhibit B**, including the checks presented for payment from the District's various accounts. Ms. Crigger noted that check no. 5691 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 from the District's various accounts, except check no. 5691 on the General Operating Fund, which was voided. Director Anzalotti seconded said motion, which unanimously carried.

OPERATING BUDGET FOR FISCAL YEAR ENDING DECEMBER 31, 2018

Ms. Crigger presented to and reviewed with the Board a proposed draft operating budget for the District's fiscal year ending December 31, 2018, a copy of which is attached to the Bookkeeper's Report. After discussion, Director Anzalotti moved that the operating budget for the District's fiscal year ending December 31, 2018, be approved as presented. Director Porter seconded the motion, which carried unanimously.

ENGAGEMENT OF AUDITOR

The Board next considered engagement of an auditor to audit the District's financial statements and prepare the audit report for the fiscal year ending December 31, 2017. Ms. Garcia presented to and reviewed with the Board a proposed engagement letter with McGrath relative to the preparation of the District's audit report for the fiscal year ending December 31, 2017, a copy of which engagement letter is attached hereto as **Exhibit C**. She reported that the estimated fee for conducting the required audit and preparing the report is \$11,000. After discussion on the matter, Director Porter moved that the Board approve the engagement of McGrath to conduct the required audit and prepare the annual audit report for the fiscal year ending December 31, 2017, and authorize the President to execute the engagement letter on

behalf of the Board and District. Director Anzalotti seconded said motion, which carried unanimously.

PRODUCTION AND FILING OF DISTRICT FINANCIAL REPORTS

Mr. Reed reminded the Board that Section 140.008, Texas Local Government Code, requires the District to file certain financial information with the Texas Comptroller of Public Accounts (the "Comptroller") within 180 days of the District's fiscal year end. This financial information may be submitted as a separate report, or alternatively, the District may submit its annual audit or annual financial report to the Comptroller. Mr. Reed further explained that, should the District maintain a website, it must also make the financial information available on such website or provide a link to the information on the Comptroller's website. Upon a motion made by Director Porter seconded by Director Anzalotti, and carried unanimously, the Board authorized SPH to file the District's audit report for the fiscal year ending on December 31, 2017, with the Comptroller and provide a link to the information on the Comptroller's website on the District's website by the appropriate deadline.

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 December 18, 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 November 2017, Wastewater Plant Discharge Report, Customer Service Report, Delinquent Notice/Service Disconnect Report, and the Delinquent Accounts Report, as set forth therein.

Ms. Falke advised the Board that the inspection of storm sewer manholes located in Harbor Shores, Section One, and Towns at Seville has been completed.

Ms. Falke reminded the Board that an internal error had occurred with EDP's billing system and the Board had authorized for all service bills and delinquent collection due dates for the current billing period be further extended to December 11th for all customers. Ms. Falke advised that EDP will continue to delay charging delinquent accounts late fees and/or turning off water service to customers until the end of the year, and will begin sending delinquent collection notices and authorize turn offs again as normal in January 2018, to which the Board concurred.

MAINTENANCE OF THE DISTRICT'S DETENTION AND DRAINAGE FACILITIES

The Board next considered the approval of a Second Amendment to the Amended and Restated Service Contract with Seaback Maintenance, Inc. ("Seaback"), a copy of said contract is attached hereto as **Exhibit E**, in connection with the maintenance by Seaback of the District's various drainage and storm water detention facilities. In connection therewith, Mr. Laseter reported that "Exhibit B" of the Contract has been revised to update the rates and schedule for de-silting, reseeding and fertilizing of all District-owned parts of the Drainage Outfall Channel, and cleaning out all of the drainage culverts in the Drainage Outfall Channel. Following

discussion, Director Anzalotti moved to approve the Second Amendment to the Amended and Restated Service Contract with Seaback. Director Porter seconded said motion, which carried unanimously.

ENGINEER'S REPORT

Mr. Laseter presented and reviewed with the Board a written Engineer's Report dated December 18, 2017, a copy of which is attached hereto as **Exhibit F**, and discussed the status of various projects within the District.

In connection with the review of proposals for the purchase and installation of a 40 KW natural gas generator to serve the Katy Gap Lift Station, Mr. Laseter advised that upon approval of plans for said project, Van De Wiele will proceed with advertising for bids for same. No action was necessary of the Board at this time.

Mr. Seaback entered the meeting 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 reminded the Board that the latest 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. Mr. Reed advised the Board that Mr. Rubinsky, as authorized at the prior Board meeting, is in the process of preparing 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.

Mr. Laseter advised the Board that, as the Board authorized him to do so last month, he has inquired of the engineer for Cimarron Municipal Utility District ("Cimarron") whether Cimarron has any additional water capacity that it might be willing to sell to the District. He reminded the Board that it had authorized him to make such a request in light of the West Harris County Regional Water Authority's report that it will be able to deliver surface water to the District by 2022, and potentially accessing more water from Cimarron until such time may be a possible cost-effective alternative to constructing a second water well.

DEVELOPERS' REPORTS

The Board deferred consideration of the Developer's Report after noting that no developers were present at the meeting.

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. In connection with the Special Warranty Deed for the conveyance to the District of Restricted Reserve "E" in Lakes of Grand Harbor, Section Three, Mr. Reed advised the Board that, after reviewing the Declaration of Covenants, Conditions and Restrictions of the HOA and discussing same with the attorney for the HOA, either the HOA must obtain a positive vote from no less than two-thirds of all property owners in the HOA to approve the deed, or the District can condemn the tract of land using its eminent domain powers. Director Anzalotti advised the Board that he will discuss this matter further with the Board of Directors of the HOA and report back to the Board as to a plan of action moving forward.

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. Reed 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. Reed also reminded 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.

Director Welch entered the meeting at this time.

LAW ENFORCEMENT SERVICES

Mr. Reed next presented to and reviewed with the Board a renewal Interlocal Agreement for Law Enforcement Services between Harris County and the District for the period March 1, 2018 through February 28, 2019, a copy of which is attached as **Exhibit G**. Director Anzalotti requested that SPH request that the Sheriff change the afternoon-evening shift from 2:00 p.m. to 10:00 p.m. to 3:00 p.m. to 11:00 p.m., to which Mr. Reed agreed. Following discussion, Director Porter moved that (i) said Interlocal Agreement for Law Enforcement Services by and between Harris County and the District be approved, and (ii) that the President be authorized to execute and the Secretary be authorized to attest same on behalf of the Board and District. Director Anzalotti seconded the motion, which unanimously carried.

HARRIS COUNTY SHERIFF'S OFFICE SECURITY REPORT

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

DISTRICT WEBSITE

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

MATTERS RELATED TO MAY 2018 DIRECTORS ELECTION

Mr. Reed reported on issues related to the District's Directors Election (the "Election") to be held on May 5, 2018. Mr. Reed noted that Section 49.111 of the Texas Water Code provides the District an exemption from the requirement to provide certain electronic voting systems at the Election if: (1) the Election is a confirmation election or is held jointly in connection with a confirmation election and no federal office appears on the ballot, (2) the District's previous Directors Election was canceled in accordance with the provisions of the Texas Election Code, or (3) fewer than 250 voters voted in the District's previous Directors Election. Mr. Reed noted that the District is exempt because the District's previous Directors Election was canceled in accordance with the provisions of the Texas Election Code. Mr. Reed advised that the District must provide public notice if it determines not to provide electronic voting systems at the Election. Mr. Reed discussed the options for providing such notice and noted that such notice must be given prior to the date for the possible cancellation of an uncontested Directors Election. After discussion, Director Anzalotti moved that the District authorize SPH to provide notice of the District's intent not to provide electronic voting systems for said Election by publication in a newspaper of general circulation in an area that includes the District. Director Porter seconded the motion, which unanimously carried.

Mr. Reed advised the Board that the Texas Water Code and the Texas Election Code require that the District provide public notice of the period for filing an application to appear on the ballot as a candidate for Director in the Election to be held on May 5, 2018. Mr. Reed noted that SPH posted said notice by the applicable deadline on behalf of the District. Following discussion, Director Anzalotti moved that the posting of the candidate filing period be ratified and approved in all respects. Director Porter seconded the motion, which unanimously carried.

ATTORNEY'S REPORT

The Board next considered the Attorney's Report. Mr. Reed reported that he had nothing further to report to the Board other than the items previously discussed.

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.


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 | Engagement Letter |
| Exhibit D | Operator's Report |
| Exhibit E | Second Amendment to the Amended and Restated Service Contract
with Seaback Maintenance, Inc. |
| Exhibit F | Engineer's Report |
| Exhibit G | Interlocal Agreement for Law Enforcement Services between Harris
County and the District |
| Exhibit H | Harris County Sheriff's Office's Report |