

MINUTES OF MEETING OF BOARD OF DIRECTORS
FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT
OF GALVESTON COUNTY, TEXAS

THE STATE OF TEXAS	§
COUNTY OF GALVESTON	§
FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT OF	§
GALVESTON COUNTY, TEXAS	§

The board of directors (the “Board”) of Flamingo Isles Municipal Utility District of Galveston County, Texas (the “District”) met in special session, open to the public, at Harborwalk Yacht Club, 1301 Harborwalk Boulevard, Hitchcock, Texas, on November 18, 2010, at 2:00 p.m.; whereupon the roll was called of the directors, to-wit:

Arnold J. Cross, Jr., President
Ronald Ray Holley, Vice President
Richard Couch, Secretary
Michael L. Andries, Treasurer
Donald P. Tarpey, Assistant Secretary

All members of the Board were present. Also attending all or portions of the meeting were Mr. Steve Pierce of the Midway Companies; Mr. Bob Ideus of Municipal Business Services, bookkeeper for the District; Mr. Tommy Lee and Ms. Donna Bryant of Assessments of the Southwest, tax assessor and collector for the District; Mr. Marcus Michna of Shelmark Engineering, LLC, engineer for the District; Mr. John Howell of The GMS Group, financial advisor for the District; Ms. Kathleen Ellison and Ms. Carla Christensen of Fulbright & Jaworski L.L.P. (“F&J”), attorneys for the District; and members of the public. A sign in sheet is attached hereto as Exhibit “A.”

Notice of the meeting was posted in accordance with law at the locations and at the times shown on Exhibit “B” attached hereto. The meeting was called to order and the following business was transacted:

1. **Approval of Minutes of October 14, 2010.** Director Cross noted that his suggested corrections had been made. Upon motion by Director Tarpey, seconded by Director Couch, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes as amended.

2. **Discussion regarding Public Comments from prior meetings (buoys/markers).** Director Cross noted that the District’s engineer would address the installation of permanent buoys in his report.

3. **Public Comments.** There were no comments from the public at this time at this time.

4. **Review District financial obligations.** The President recognized Mr. Howell, who presented to and reviewed with the Board a summary regarding the District’s

financial obligations and the conditions for developer reimbursement/bond issues, a copy of which is attached hereto as Exhibit "C." Mr. Howell discussed the bond issuance process and the conditions under which a district is permitted to issue bonds. He said the District needs growth in its taxable value to be able to sell bonds. In response to a question from Director Couch, Mr. Howell stated that the 2007 bonds are not currently callable so it would not be beneficial for the District to issue refunding bonds. The President asked if there was a priority for reimbursing different developers. Ms. Ellison said that usually a developer will be reimbursed based upon the taxable value his development has created in the district. Mr. Howell indicated that it was in the interest of all parties that the District maintain a reasonable tax rate and that the District should only issue bonds when the District's tax rate can support such issue. Mr. Howell said he would discuss the District's financial obligations in more detail at a later time, if the Board wishes.

5. **Bookkeeper's report and payment of bills.** The President recognized Mr. Ideus, who presented to and reviewed with the Board the Bookkeeper's Report, a copy of which is attached hereto as Exhibit "D."

The Board discussed whether it should maintain a membership in the Association of Water Board Directors ("AWBD"). Ms. Ellison said that the AWBD is holding a conference in Galveston on February 4 and 5, 2011 and the directors could attend and see if they thought it was worthwhile. She stated that the AWBD monitors the state legislature to protect the interests of water districts. It was the consensus of the Board that Director Couch and Ms. Ellison coordinate with AWBD to attempt to get changes to state law which requires the District to pay for an easement from the Texas General Land Office ("GLO") for its channels to the Intercoastal Waterway.

In response to Director Tarpey's question, Mr. Ideus stated that he has not yet transferred any District funds from TexPool to a local bank. Director Andries stated that, as Treasurer for the Board, he would like to be involved in all discussions regarding the investment of District funds. Upon motion by Director Couch, seconded by Director Holley, after full discussion and the question being put to the Board, the Board voted unanimously to authorize Director Andries and Mr. Ideus to coordinate to identify investment options and opportunities for the District's consideration at a future meeting. Director Tarpey noted that he has no personal interest in any Galveston bank but thought it appropriate for the District to invest its funds locally.

Upon motion by Director Holley, seconded by Director Andries, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Bookkeeper's Report and to authorize payment of the checks identified therein.

6. **Tax Assessor and Collector report and payment of bills.** The President recognized Mr. Lee, who reviewed with the Board the Tax Assessor and Collector's Report and the Delinquent Tax Attorney's Report, copies of which are attached hereto as Exhibit "E." Mr. Lee noted that 98% of the District's 2009 taxes had been collected as of October 31, 2010.

The Board reviewed the Delinquent Tax Attorney's Report. Mr. Lee explained the process for the collection of delinquent taxes. Mr. Lee stated that delinquent accounts are

turned over to the Delinquent Tax Attorney on July 1st of every year. Director Couch stated that he would like to see a standard procedure for the collection of delinquent taxes adopted by the Board to insure all taxpayers are treated equally. Mr. Lee stated that he will coordinate with the District's Delinquent Tax Attorney to develop a standard policy in connection with the collection of delinquent tax accounts.

The Board discussed the ownership of the roads in Harborwalk and the payment of taxes in connection with same. Mr. Pierce reported that Harborwalk L.P. deeded the roads to the property owner's association in Harborwalk ("POA"). Director Tarpey requested that the Tax Assessor and Collector provide ownership information for the roads in the District and whether such roads are taxable. Mr. Lee stated that he will investigate this matter further with Galveston Central Appraisal District, which produces the tax roll.

Director Tarpey inquired about the types of values reflected on the Tax Assessor and Collector's Report and requested that the market values always be included in Assessment Summary Reports.

Upon motion by Director Holley, seconded by Director Couch, after full discussion and the question being put to the Board, the Board voted unanimously to approve the tax assessor and collector's report and to authorize payment of the checks identified therein.

7. Delinquent Tax Attorney's report on the status of delinquent collections. There was no further discussion on this item at this time.

8. Engineer's report and any necessary action regarding bulkhead system repairs, bulkhead cap work and fill, and maintenance dredging project. The President recognized Mr. Michna, who presented to and reviewed with the Board the Engineer's Report, a copy of which is attached hereto as Exhibit "F."

Mr. Michna reported that there is no action necessary in connection with the design of facilities.

Mr. Michna reported that the bulkhead cap work and fill project is complete. Mr. Michna presented to and reviewed with the Board Pay Estimate No. One from Craftmaster Renovations in the amount of \$13,230.00 in connection with the bulkhead cap work and fill, a copy of which is attached to the Engineer's Report. Mr. Michna also reported that Pay Estimate No. Two (which is the 10% retainage) is in the amount of \$1,470.00.

Mr. Michna reported that the bulkhead system repairs project is approximately 36.6% complete. Mr. Michna presented to and reviewed with the Board Pay Estimate No. One from Shirley & Sons Construction Company in the amount of \$16,200.00 in connection with the bulkhead system repairs, a copy of which is attached to the Engineer's Report. Mr. Michna said that Shirley & Sons should be done with all repairs in the near future.

Upon motion by Director Tarpey, seconded by Director Couch, after full discussion and the question being put to the Board, the Board voted unanimously to approve and authorize payment of Pay Estimate Nos. 1 and 2 from Craftmaster Renovations in the amounts of \$13,230 and \$1,470 in connection with the bulkhead cap work and fill project, to approve and

authorize payment of Pay Estimate No. 1 Shirley & Sons Construction Company in the amount of \$16,200.00 in connection with the bulkhead system repairs project, and to approve and authorize payment to Shirley & Sons Construction Company for the balance of the contract for bulkhead system repairs, subject to a visual inspection by the President and approval of the engineer when the project is complete.

Mr. Michna reported on the condition of the bulkhead bolts in Harborwalk, Section 6. He said they do not appear to be stainless steel. The Board asked Mr. Michna to investigate the situation further and report to the Board.

Mr. Michna reported that he is in the process of obtaining a cost estimate for the paint to coat the bulkhead caps.

9. Review bids and award contract for maintenance dredging project.

Mr. Michna presented to and reviewed with the Board the two bids received for the maintenance dredging project (cost not to exceed \$50,000). Mr. Michna reported that both bids received are in excess of \$50,000. The Board discussed whether it was appropriate to undertake a large dredging project at this time. Upon motion by Director Holley, seconded by Director Andries, after full discussion and the question being put to the Board, the Board voted unanimously to authorize the engineer to advertise for bids for the maintenance dredging and installation of floating day markers, with an alternate item for replacement of the floating markers with permanent markers at two entrances.

10. Discuss long-term maintenance program and take necessary action in connection with same. Mr. Michna said he had changed the long term maintenance program based on updated information. The Board reviewed the proposed 20-year maintenance plan, copies of which are attached to the Engineer's Report. Mr. Michna said he would ask John Howell to look at the impact on the District's maintenance tax rate and budget.

The President asked about the location of all District facilities, including deadmen located on residential lots. Mr. Michna said he would check with Dale Hardy, the surveyor, to see if he had that information. Mr. Michna said he is worked with the HOA's design review committee to approve plans for new home construction so there is no conflict with District facilities.

The Board discussed the need for a dredge disposal site. Mr. Michna stated that he would ask if any other municipal utility districts in the area are interested in sharing the costs for a dredge disposal site. Mr. Michna said he would explore the feasibility of using a sand pit off Highway 6.

The President thanked Mr. Michna for his efforts.

11. Adopt Order Authorizing Application and approve Application to TCEQ for Approval of Use of Surplus Construction Funds. Ms. Ellison noted that the District has \$88,762.44 in surplus construction funds available for District projects such as bulkhead repairs and dredging. Ms. Ellison noted that the District can utilize Operating Funds for the projects now and then reimburse the Operating Fund with the surplus Construction Fund moneys once TCEQ approval is obtained. Ms. Ellison said she had talked to the TCEQ reviewer

about the District and he did not have any concerns about the kinds of projects the District was proposing to fund with construction funds. She then presented to and reviewed with the Board a draft of the Order Authorizing Application and approve Application to TCEQ for Approval of Use of Surplus Construction Funds, draft copies of which are attached hereto as Exhibit "G." Upon motion by Director Andries, seconded by Director Holley, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Order Authorizing Application and approve Application to TCEQ for Approval of Use of Surplus Construction Funds to pay for either bulkhead repairs or dredging, to evidence its intent to use the surplus constructions funds for such projects upon TCEQ approval, and to authorize reimbursement of the District's Operating Fund from the surplus Construction Fund moneys upon receipt of TCEQ approval of the project.

12. **Discuss and take necessary action in connection with development of District website.** It was noted that Mr. Ideus received an invoice from the Texas Network for the initial one-time design fee (\$1,480) and the quarterly hosting/management fee (\$190). It was also noted that Ms. Christensen and Director Couch are coordinating with The Texas Network regarding the initial set up of the District's website.

13. **Adopt Resolution Amending Code of Ethics, Fees and Expense Policy, Policies and Procedures for Selection and Review of Consultants, Policies Concerning the Use of Management Information, Including the Formation of an Audit Committee and Certain Other Matters.** Ms. Ellison presented to and reviewed with the Board a draft of the Resolution Amending Code of Ethics, Fees and Expense Policy, Policies and Procedures for Selection and Review of Consultants, Policies Concerning the Use of Management Information, Including the Formation of an Audit Committee and Certain Other Matters, a copy of which is attached hereto as Exhibit "H." She explained that the Code of Ethics was amended pursuant to the Board's decisions concerning fees of office and reimbursement for expenses. Upon motion by Director Holley, seconded by Director Andries, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Resolution Amending Code of Ethics, Fees and Expense Policy, Policies and Procedures for Selection and Review of Consultants, Policies Concerning the Use of Management Information, Including the Formation of an Audit Committee and Certain Other Matters and to approve reimbursement of director mileage to Board meetings.

14. **Report on easements with General Land Office.** Ms. Ellison reported that the District previously agreed to assume the Developer's duties under the Commercial Coastal Easements between the General Land Office ("GLO") and Harborwalk, L.P. and agreed to pay the annual fees for such easements. Mr. Michna reported that the District's engineer is working to obtain GLO assignment of the easements to the District.

15. **Attorney's report.** Upon inquiry from Director Tarpey, Ms. Ellison explained the history and functions of the Hitchcock, Texas Tax Reinvestment Zone Number One.

16. **Developer's Report.** The President recognized Mr. Pierce, who reported that there has been a settlement in connection with Harborwalk Boulevard.

Mr. Pierce asked that the engineer's report on the bolts in Harborwalk, Section Six, be forwarded to the bank.

17. **Set next meeting date.** It was the consensus of the Board to tentatively schedule the next Board meeting for Thursday, January 20, 2011 at 1:00 p.m. at 1301 Harborwalk Boulevard (Yacht Club).

18. **Other Matters.** No other matters came before the Board.

19. **Document Public Comments for next Board meeting discussion.** The President noted that there were no public comments for inclusion on the next Board agenda.

THERE BEING NO FURTHER BUSINESS to come before the Board, the meeting was adjourned.

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The foregoing minutes were passed and approved by the Board of Directors on January 20, 2011.

President, Board of Directors

ATTEST:

Secretary, Board of Directors

(DISTRICT SEAL)