

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 §

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 Floyd’s on the Water, formerly Harborwalk Yacht Club, 1301 Harborwalk Boulevard, Hitchcock, Texas, on August 26, 2014 at 2:30 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  
Jane O. McKenzie, Assistant Secretary

All members of the Board were present, except Director Couch. Also attending all or portions of the meeting were Ms. Donna Bryant of Assessments of the Southwest (“ASW”), tax assessor and collector for the District; Mr. Marcus Michna of Shelmark Engineering, LLC (“Shelmark”), engineer for the District; Ms. Sissy McCoy of Municipal Accounts & Consulting, LP, bookkeepers for the District; Mr. Haythem Dawlett and Mr. Hunter Fendley of Legend Communities, Inc. (“Legends”), developer for the District; Mr. John Howell of The GMS Group, financial advisor for the District; Ms. Marian Cross and Ms. Cheryl Steller, District residents; and Ms. Emerald Lagow, paralegal with Fulbright & Jaworski LLP (“F&J”), a member of Norton Rose Fulbright, attorneys for the District.

Notice of the meeting was posted in accordance with law at the locations and at the times shown on Exhibit “A” attached hereto. The meeting was called to order at 2:32 p.m. and the following business was transacted:

1. **Approval of Minutes of June 24, 2014.** Proposed minutes of the meeting of June 24, 2014, previously distributed to the Board, were presented for review and approval. The President noted he reviewed his comments on the minutes with Ms. Lagow prior to the meeting. Upon motion by Director Andries, seconded by Director McKenzie, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes, as revised.

2. **Operational Excellence: review and discuss Director attendance policy.** The President requested that the Board be notified prior to the use of a recording device at District meetings. He then reviewed with the Board a discussion he had with the District attorney regarding director attendance at meetings. He noted that the Water Code provides that the Board may remove any director who has missed more than half of District meetings scheduled for the calendar year. Discussion ensued regarding the importance of attendance at District meetings.

3. **Public Comments.** Director McKenzie noted she received many questions from residents seeking information on the November Directors Election, and requested that the

District make more of an effort at community outreach in the next election. She noted the most common questions she received were regarding registered voter qualifications, registration deadlines, and the date of the election. She proposed that an email blast be sent with this information prior to the next election, and requested an item be added to the next meeting agenda to discuss ways to improve resident notification of election procedures.

4. **Discussion regarding Public comments from prior meetings.** The President noted that the comments made by Mr. Lynn Watkins at the last meeting will be reviewed during the discussion of the Policy under the Engineer's report.

5. **Developers Report.** The President recognized Mr. Dawlett, who reviewed the status of development in the District with the Board.

Mr. Dawlett reported that Legends plans to bid the utilities construction for the bungalow lots in the near future, and noted Legends will approach the Board for reimbursement for utilities to serve the lots shortly thereafter. In response to a question from Director Holley, Mr. Dawlett estimated the size of the bungalow lots to be 50 feet wide, and between 90 and 110 feet deep. He noted the builder for the development is Legacy Development and Construction Services, headed by Mr. Cass Brewer. Discussion ensued regarding employee parking in the area.

In response to a question from Director Holley, Mr. Dawlett stated that Legends has sold seven homes in the District to date.

Discussion ensued regarding the contract and lease for Floyds on the Water.

In response to a question from the President, Mr. Dawlett stated that Mr. Mac DeLaup expressed interest in the use of a vacant lot owned by Legends to build a memorial lighthouse in honor of his late wife. Director McKenzie noted the lot will also serve as a public park and common area for surrounding residents. Discussion ensued regarding plans for the memorial.

6. **Tax Assessor and Collector report and payment of bills.** The President recognized Ms. Bryant, who reviewed with the Board the Tax Assessor and Collector's report, a copy of which is attached hereto as Exhibit "B." Ms. Bryant noted that the District had collected 99.5% of its 2013 taxes as of July 31, 2014. Ms. Bryant presented to and reviewed with the Board the certified values from Galveston County Appraisal District as of January 1, 2014, a copy of which is attached to her report. She stated that the certified taxable value is \$69,378,303, and the uncertified value is \$8,107,790. In response to a question from the Board, Ms. Bryant stated that certification of tax rolls can be delayed by protests filed with GCAD.

The President noted he had previously requested that a summary of total revenue for current and previous years be added to the Tax report. Mr. Howell stated that predictions of estimated value are included in the cash flow analysis charts in his report, and reviewed with the Board the financial advisor's debt service cash flow analysis and recommendation for setting the tax rate, copies of which are attached hereto as Exhibit "C." Mr. Howell reported that based on these analyses, he recommends setting the same total tax rate of \$0.5875 per \$100 assessed valuation as levied the previous year, noting that the tax dollars spent by the average homeowner will stay relatively the same. Discussion ensued regarding Legends' request to raise the debt service tax rate. Mr. Dawlett stated that his contract with the District affords priority

reimbursement for new investments made by Legends. The President requested that the Board approve the Tax report at this time, and continue this discussion under the designated agenda item.

Upon motion by Director McKenzie, seconded by Director Holley, 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. Adopt Order Designating Officer to Calculate and Publish Tax Rate.** Mr. Howell continued review of his report, and based on discussion suggested that the Board consider publishing a total tax rate of \$0.63 per \$100 assessed valuation (\$0.40 for debt service and \$0.23 for maintenance and operation) so that the District's revenue would equal expenditures during 2015. He noted that at this tax rate, the average homeowner would pay an additional \$150 in taxes in comparison to the previous tax year.

Discussion ensued regarding the homeowner valuation. The President noted that several residents have reported an increase in valuation, yet the average home value of a homestead decreased by 2.8% in the last year. Discussion ensued. In response to a question from the Board, Mr. Howell stated that a "homestead" is defined as a lot with a home which the owner claims as his primary residence. Ms. Bryant noted the increased values could be related to the District gaining approximately \$5,000,000 in land value, including undeveloped lots.

Discussion ensued regarding the tax rate for maintenance and operation. Mr. Howell suggested that the Board could consider increasing this rate to build up the District's operating fund, noting that the Board can transfer from the general fund into debt service at any time, whereas the transfer of debt service funds is not permitted. He noted that the highest maintenance and operations tax rate that would not generate rollback taxes is \$0.23254.

Discussion ensued regarding the District's debt obligation to Legends. In response to a question from the Board, Mr. Howell reported that, at a debt service tax rate of \$0.40, the District would require an additional \$48,000,000 in valuation to issue a \$2,750,000 bond.

Mr. Howell noted the existing debt service fund balance will cover the District's current debt obligations for three years. Discussion ensued. Mr. Howell stated that the Board must propose a tax rate at today's meeting, which is then published along with the date of the next meeting. He noted that the tax rate set at the next meeting may be equal to or lower than the rate published, and suggested that the Board consider publishing a maximum total tax rate of \$0.60 per \$100 assessed valuation.

The Board reviewed a draft of the Order Designating Officer to Calculate and Publish Tax Rates and Taking other actions in connection with the Levy of a Tax for 2014 (the "Order"), a copy of which is attached hereto as Exhibit "D." Upon motion by Director Andries, seconded by Director Holley, after full discussion and the question being put to the Board, the Board voted three to one, with Director Cross opposing, to adopt the Order, thereby authorizing the District's tax assessor and collector to publish the proposed tax rate of \$0.60 per \$100 assessed valuation.

8. **Approve Depository Pledge Agreement (“DPA”) with Wells Fargo Bank and authorize transfer of Custodian of Collateral to The Bank of New York Mellon Trust Company, N.A.** Ms. Bryant reported that Wells Fargo Bank, N.A. requested that the District approve a new DPA to accommodate a change in the custodial bank from the Federal Reserve Bank to The Bank of New York Mellon Trust Company, N.A. She noted the DPA was reviewed and approved by the District attorney prior to the meeting. Upon motion by Director Holley, seconded by Director McKenzie, after full discussion and the question being put to the Board, the Board voted unanimously to approve the DPA with Wells Fargo Bank, N.A. and authorize transfer of Custodian of Collateral to The Bank of New York Mellon Trust Company, N.A.

9. **Review delinquent tax attorney’s report and take necessary action in connection with same.** Ms. Bryant noted there are no recommendations from the delinquent tax attorney at this time.

10. **Discuss and take necessary action in connection with 2014 Directors Election.** Ms. Lagow presented to and reviewed with the Board an Order Declaring Unopposed Candidates Elected to Office and Certification of Unopposed Status, copies of which are attached hereto as Exhibit “E.” Ms. Lagow noted that the three uncontested candidates are Mr. Arnold Cross, Mr. Michael Andries, and Mr. Mac DeLaup. Upon motion by Director Holley, seconded by Director McKenzie, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Order Declaring Unopposed Candidates Elected to Office.

11. **Bookkeeper’s report and payment of bills.** The President recognized Ms. McCoy, who reviewed with the Board the Bookkeeper’s report dated August 26, 2014 and the budget comparison, copies of which are attached hereto as Exhibit “F.”

Discussion ensued regarding the budget for bulkhead repairs. Ms. McCoy reported that the Board adopted a budget of \$25,000 for annual bulkhead repairs in March, and set up a separate budget for incremental dredging. The President explained that the Board pre-authorized the engineer to spend up to \$5,000 in dredging maintenance, and asked that a line item be added to the Report to record the amounts spent in order to budget for the next year. Ms. McCoy noted that she will correct these items in future reports.

Ms. McCoy reviewed the quarterly investment report for the period ending June, 2014, a copy of which is attached to the Bookkeeper’s report.

Upon motion by Director McKenzie, seconded by Director Holley, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Bookkeeper’s report, to authorize payment of the checks identified therein, and to approve the quarterly investment report for the period ending June, 2014.

12. **Discuss procedure for receipt and processing of new build applications and engineering inspections.** Director Andries stated that he and the engineer prepared an Intent to Build Inspection Report, a copy of which is attached hereto as Exhibit “G.” The President noted that a sample invoice will be reviewed under the Engineer’s report.

13. **Engineer's report and authorization of capital improvement and maintenance actions.** 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 "H."

a. **Review and discuss results of inspections.**

1. **Annual Bulkhead Inspection.** Mr. Michna noted the contractor has taken leave due to unexpected health issues. He stated that two bulkhead repairs have been reported to date: one by a homeowner, and the second witnessed by Director McKenzie. He noted that no action is needed on this item.

2. **Pre-development Lot Inspection.** There was no action on this item.

3. **New Construction Inspection.** There was no action on this item.

4. **Dredging.** Mr. Michna reviewed with the Board a proposal from Ellis Surveying Services in the amount of \$3,670 to perform a bathometric survey of 2,000 feet of channel from Harbor Walk Main Channel Entrance to the Intracoastal Waterway Channel, a copy of which is attached to the Engineer's report. He noted that Shelmark will use the data collected in the survey to estimate the volume for dredging maintenance in the channel. He requested authorization to request an estimate for surveying an additional area at the back of the main channel. 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 and authorize the contract with Ellis Services in an amount not to exceed \$4,000, and to authorize the engineer to prepare a dredging proposal for consideration at the next meeting.

b. **Request authorization for repairs.** There was no action on this item.

c. **Review proposals/bids and award contracts.** There was no action on this item.

d. **Approve pay estimates, change orders, and final acceptance as appropriate.** There was no action on this item.

Discussion ensued regarding comments from Lynn Watkins. The President noted that the cost of inspection can be avoided altogether if the builder can provide the District with as-built plans for the lot in question. Mr. Michna presented to and reviewed a sample inspection invoice, a copy of which is attached to the Engineer's report.

14. **Discuss and take necessary action in connection with receipt of website correspondence and emails.** Ms. Lagow reviewed with the Board the Google Analytics Dashboard Report for the month of July, a copy of which is attached hereto as Exhibit "I."

15. **Confirm next meeting date.** Discussion ensued. It was the consensus of the Board to schedule the next meeting for Tuesday, October 7, 2014 at 2:30 p.m. at 1301 Harborwalk Boulevard (Floyd's on the Water).

16. **Document Public Comments for next Board meeting discussion.** The President noted that there were no public comments to discuss at the next meeting.

17. **Other Matters.** There were no other matters to come before the Board at this time.

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 October 7, 2014.

  
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President, Board of Directors

ATTEST:

  
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Secretary, Board of Directors

