

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 Floyd's on the Water, formerly Harborwalk Yacht Club, 1301 Harborwalk Boulevard, Hitchcock, Texas, on February 7, 2014 at 1:00 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
Jane O. McKenzie, Assistant Secretary

All members of the Board were present, except Directors Holley and 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. Hunter Fendley of Legend Communities, Inc. ("Legends"), developer for the District; Mr. Mark McGrath of McGrath & Co., PLLC, auditor for the District; Mr. John Howell of The GMS Group, financial advisor for the District; Ms. Kathleen Ellison, attorney, and Ms. Emerald Lagow, paralegal, of Fulbright & Jaworski LLP ("F&J"), a member of Norton Rose Fulbright, attorneys for the District; and Ms. Marian Cross, Ms. Cheryl Steller, and Mr. Wally Holmes, District residents.

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 1:05 p.m. and the following business was transacted:

1. **Approval of Minutes of October 25, 2013.** Proposed minutes of the meeting of October 25, 2013, previously distributed to the Board, were presented for review and approval. Upon motion by Director McKenzie, seconded by Director Andries, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes, as presented.

2. **Discussion regarding Public Comments from prior meetings.** The were no comments for discussion at this time.

3. **Public Comments.** The President recognized Ms. Steller, who stated she that she was in favor of the District granting tax exemptions for individuals who are over 65 or disabled. It was noted that the exemption was on the agenda for today's meeting and would be addressed under item 9.

4. **Engage auditor for fiscal year ending March 31, 2014.** The President recognized Mr. McGrath, who asked to be engaged as the District's auditor for the fiscal year ended March 31, 2014. Mr. McGrath stated that the estimated auditing fees for fiscal year ending March 31, 2014 will be approximately \$9,100, and noted that the auditing fees have remained the same over the previous four years. 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 retention of McGrath & Co., PLLC to perform the District's audit for fiscal year ending March 31, 2014 and to authorize the President to execute the auditor engagement letter.

5. **Renew District Insurance with Harco Insurance Services (expires on March 4, 2014).** The Board reviewed the insurance proposal from Harco Insurance Services, a copy of which is attached hereto as Exhibit "B." Ms. Ellison said the insurance agent had recommended that the Board increase its general liability coverage from \$1,000,000 to \$2,000,000 because the additional fee was nominal, in the amount of \$13.00. Discussion ensued regarding the amount of general liability coverage for the renewal. It was the consensus of the Board to increase the general liability coverage to \$3,000,000. 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 accept the renewal proposal from Harco Insurance Services, with an increase in the general liability coverage to \$3,000,000.

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 "C." Ms. Bryant noted that the District had collected 69.42% of its 2013 taxes as of January 31, 2014. Ms. Bryant noted that as of today the District had collected 96% of its 2013 taxes. Discussion ensued regarding whether to file a challenge to any property values. It was the consensus of the Board to request an estimate of value as of February 1, 2014. 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 direct the tax assessor to request an estimate of value from Galveston County Appraisal District as of February 1, 2014.

7. **Review delinquent tax attorney's report and take necessary action in connection with same.** There was no delinquent tax attorney's report at this time.

8. **Adopt Resolution Authorizing Additional Penalty on Delinquent Taxes.** The President explained that this resolution is considered by the Board annually and authorizes a penalty of 20% of the delinquent tax, penalty and interest which remains delinquent on July 1, 2014 in order to defray the cost of collection. Upon motion by Director McKenzie, seconded by Director Andries, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Resolution, a copy of which is attached hereto as Exhibit "D."

9. **Consider Property Tax Exemptions (homestead, disabled, elderly).** The President explained that the Board considers granting a general homestead exemption or an exemption from taxation for persons 65 years of age or older or disabled on an annual basis. It was noted that the District's financial advisor did not recommend any exemptions be granted at this time. It was the consensus of the Board not to adopt either exemption at this time but to review the exemptions again next year.

10. **Bookkeeper's report and payment of bills.** The President recognized Ms. McCoy, who reviewed with the Board the Bookkeeper's Report dated February 7, 2014, the budget comparison, and the quarterly investment reports for the periods ending September 30, 2013 and December 31, 2013, copies of which are attached hereto as Exhibit "E." Ms. McCoy noted that she would use the proceeds of a maturing certificate of deposit to make the District's Debt Service Payment on March 1, 2014. 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 Bookkeeper's Report, to authorize payment of the checks identified therein, and to approve the Investment Reports.

11. **Adopt budget for fiscal year ending March 31, 2015.** Ms. McCoy reviewed the proposed budget with the Board, a copy of which is attached to the Bookkeeper's Report. Discussion ensued regarding the forecasted amount for Dredging and Channel Markers.

The President asked why engineering costs were projected to increase, and Mr. Michna said it was because building activity in the District was expected to increase in fiscal year ending March 31, 2015. The Board then discussed the best way to protect the District's bulkhead facilities during construction of a new home in the District and to recover damages from a builder who damages the facilities. It was determined that there should be three engineering inspections of the lot: (1) a District financed, pre-construction inspection to identify and repair any existing damage to the District's facilities on the lot; (2) an inspection approximately two days before pile driving to verify the location of each pile before it is installed and covered; and (3) an inspection after pile driving but before the slab is laid to confirm that no District facilities have been damaged. The Board discussed instituting the same inspections for construction of a swimming pool.

In order to implement the inspections, the Board decided to ask the Development Review Committee in Harborwalk (the "DRC") to notify the District's engineer when it receives construction plans for review and to allow the District to recover damages from the builder deposit the DRC collects from each builder for damages to District facilities.

The Board discussed billing each builder for two of the three engineering inspections. Mr. Michna said his fee was \$300 per inspection. It was decided to add to the budget a line item for Builder Fees in the amount of \$6,000, to add an expense item for Engineering Inspections—New Construction in the amount of \$6,000, and to reduce the expense item for Engineering—Construction Administration to \$6,000.

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 adopt the budget for fiscal year ending March 31, 2015, as amended.

12. **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 "G."

a. **Review and approval of incidental repairs.** Mr. Michna reviewed with the Board a summary of incidental repairs performed by Marine, Inc., a copy of which is attached to the Engineer's Report. Mr. Michna recommended approval and payment to Marine Inc. for incidental bulkhead repairs in the amount of \$2,150.

b. Authorize annual bulkhead inspection report and authorize repairs.

Mr. Michna reviewed with the Board the results of his bulkhead inspection, a copy of which is attached to the Engineer's Report.

Mr. Michna reviewed with the Board photographs of areas in Harborwalk, Section 6 where the bulkhead is damaged. He mentioned that there had been problems in Section 6 previously because of electricity in the ground. Mr. Fendley said he would check with Centerpoint to see if their facilities were properly grounded. Mr. Michna estimated a repair cost of approximately \$800 to \$1,000.

Mr. Michna reviewed with the Board photographs of areas on the marina where the bulkhead is damaged. He noted that because of the fiberglass, the repair costs would be approximately \$250,000. Discussion ensued regarding the prioritization of repairs in the District. Director McKenzie noted that the heavily trafficked region of Long Key should be repaired.

Mr. Fendley stated that dredging the main canal would be more beneficial to the marina than making the bulkhead repairs. The President noted that the dredging would mainly benefit large boats and would provide limited benefit to the community as a whole. He noted that the District needs a place to deposit spoil from dredging. He asked if Legends Communities could provide a location. The Board discussed the need for a dredging project commencing at Harborwalk, Section 6. The Board asked Mr. Michna to work with Mr. Fendley on a scope of work for the project. The President said the District needs more notice from Legends Communities of topics it wants to discuss.

Mr. Michna reviewed with the Board photographs of other areas where the bulkhead is damaged. Upon motion by Director McKenzie, seconded by Director Andries, after full discussion and the question being put to the Board, the Board voted unanimously to contract with Marine, Inc. in an amount not to exceed \$7,500 to make repairs at the following locations: Harborwalk, Section 6, Long Key, and locations 3016, 2988, 2989, 2990, 3010, 3011 and 3012 on Exhibit 1.00A to the bulkhead inspection report.

c. Consider private dredging in canals. The Board discussed whether to allow private dredging in the canals. Mr. Michna noted that the primary expense of dredging is spoil disposal. Discussion ensued. It was the consensus of the Board to address private dredging in the canals on a case by case basis.

Upon motion by Director McKenzie, seconded by Director Andries, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Engineer's Report; to approve payment to Marine Inc. in the amount of \$2,150; to contract with Marine, Inc. in an amount not to exceed \$7,500 to make repairs at the following locations: Harborwalk, Section 6, Long Key, and locations 3016, 2988, 2989, 2990, 3010, 3011 and 3012 on Exhibit 1.00A to the bulkhead inspection report; and to authorize F&J to prepare a District policy concerning the three proposed inspections.

13. Review Long Range Planning and Financial Analysis. Director Andries said that the Developer had asked that this item be added to the agenda, and as treasurer he had also been doing some long range financial analysis. Mr. Fendley said that the Developer wants the District to increase its debt service tax rate by \$0.20 so that it can issue bonds on the schedule called for in the Developer's development plan. Discussion ensued. Mr. Howell said that the District needs a taxable value of \$80,000,000 to support its current bond

issue and to consider issuing additional bonds. He noted that the current taxable value is approximately \$67,000,000 and the District may reach \$80,000,000 in value by 2015.

The Board discussed the appropriate debt service tax rate. The President said the Board relies on the financial advisor for recommendations on its tax rate.

14. **Developer's Report.** Mr. Fendley reported on the Island at Harborwalk development currently under construction. Mr. Fendley stated that Legends plans to prepare a schedule of development plans for the Board. The President noted that future Developer's Reports should include a list of topics to address, in addition to a development schedule.

15. **Discuss and take necessary action in connection with receipt of website correspondence and emails.** There was nothing to report in connection with the District's website.

16. **Confirm next meeting date.** It was the consensus of the Board to tentatively schedule the next Board meeting for Friday, March 21, 2014 at 1:00 p.m. at 1301 Harborwalk Boulevard (Floyd's on the Water).

17. **Document Public Comments for next Board meeting discussion.** It was noted that Ms. Steller's comments had been addressed at today's meeting and there were no other public comments.

18. **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 March 21, 2014.



President, Board of Directors

ATTEST: 

Secretary, Board of Directors

(DISTRICT SEAL)

