

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 regular session, open to the public, at Floyd's on the Water, 1301 Harborwalk Boulevard, Hitchcock, Texas, on July 10, 2015 at 10:00 a.m.; whereupon the roll was called of the directors, to-wit:

Jane O. McKenzie, President  
Ronald Ray Holley, Vice President  
Arnold J. Cross, Jr., Secretary  
Michael L. Andries, Treasurer  
Mac DeLaup, Assistant Secretary

All members of the Board were present, except for Director Holley who entered the meeting in progress. Also attending all or portions of the meeting were Mr. Tommy Lee 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. Cindy Grimes of Municipal Accounts & Consulting, LP ("Municipal Accounts"), bookkeepers for the District; Mr. Jack Baber and Mr. Corey Howell of The GMS Group, financial advisor for the District; Mr. Mark McGrath of McGrath & Co., PLLC, auditor for the District; Mr. Hunter Fendley of Legend Communities, Inc., developer for the District (the "Developer"); Ms. Cheryl Steller, District resident; and Ms. Kathleen Ellison, attorney, and Ms. Emerald Lagow, paralegal, of Norton Rose Fulbright US LLP ("NRF"), 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 10:20 a.m. and the following business was transacted.

1. **Discussion regarding public comments from prior meetings.** The President referred to the comments made by Ms. Catania at the previous meeting regarding homestead tax exemptions. She noted that League City instituted a plan in which the amount of tax exemption offered by the City increased with incremental increases in its valuation.

Mr. Lee stated that the Property Tax Code mandates a minimum homestead exemption of \$5,000, and that offering such exemption to the 30 qualifying individuals currently residing in the District would cost \$150,000 in lost tax revenue. Director Cross noted that there are no commercial properties in the District on which to shift this tax burden. Mr. Baber noted that the District can review the issue each spring.

2. **Public Comments.** There were no comments from members of the public.

3. **Minutes.** Proposed minutes of the meeting of May 8, 2015, previously distributed to the Board, were presented for review and approval. Discussion ensued regarding the second paragraph on page four. Director Cross asked that the sentence be revised to “Director DeLaup proposed that the Board take action to indemnify the District against losses relating to maintenance of its facilities adjacent to the Harborwalk canals and channels.” Upon motion by Director DeLaup, seconded by Director Cross, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of May 8, 2015 as revised.

4. **Approve audit for fiscal year ended March 31, 2015.** The President recognized Mr. McGrath, who presented to and reviewed with the Board a draft of the audit for fiscal year ending March 31, 2015 and related management, representation, and material weakness letters, copies of which are attached hereto as Exhibit “B.”

Director Cross reminded consultants to submit invoices prior to the close of each fiscal year.

In response to a question from Director Cross, Mr. McGrath stated that the management letter explains that the auditor prepares financial statements based on the records of the bookkeeper, which, by auditing standards, constitutes a weakness in internal controls. He indicated that virtually all water districts receive similar letters. Upon motion by Director Andries, seconded by Director DeLaup, after full discussion and the question being put to the Board, the Board voted unanimously to approve the audit for fiscal year ending March 31, 2015.

5. **Developer's Report.** The President recognized Mr. Fendley, who updated the Board on the status of development in the District. Mr. Fendley reported that the refinancing of Harborwalk had been completed. Mr. Fendley reviewed a schedule of events that Trendmaker has scheduled. Mr. Fendley noted that four gates were added to the Trendmaker development, with punch-code locks.

a. Approval of Project Engineer under Finance Agreement. The Board requested that the Developer keep it updated on all development plans and expenses. Mr. Fendley noted that he had requested an agenda item for the Board to approve the Developer’s selection of Edminster Hinshaw Russ & Associates as the engineer for the new bungalow project. The Board discussed the engineer’s qualifications. Upon motion by Director DeLaup, seconded by Director Andries, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Developer’s selection of Edminster Hinshaw Russ & Associates as the engineer for the Harborwalk construction project.

b. Responsibility for No-Wake Buoys. Mr. Fendley reported that the Developer purchased and placed no-wake buoys throughout the main channel. Upon motion by Director Cross, seconded by Director DeLaup, after full discussion and the question being put to the Board, the Board voted unanimously to reimburse the Developer for purchase and installation of the signs, at a cost not to exceed \$1,000.

Director DeLaup suggested that the Developer establish better communications with residents. Mr. Fendley stated that the marketing team for Harborwalk publishes the Harborline, a website and provides e-mail blasts of updates on development.

Director Holley joined the meeting.

**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, a copy of which is attached hereto as Exhibit "C." Mr. Lee noted that the District collected 99.6% of its 2014 taxes as of June 30, 2015.

Mr. Lee presented to and reviewed with the Board a summary of the District's 2015 Preliminary Values provided by Galveston County Appraisal District, a copy of which is attached to his report, and stated that the District's preliminary estimate of taxable value for 2015 is \$90,000,000. Mr. Lee recommended adding the necessary items to approve calculation of a tax rate to the agenda for its September meeting.

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 approve the Tax Assessor and Collector's report and to authorize payment of the checks identified therein.

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

**8. Discuss issuance of refunding bonds and any necessary action.** The President recognized Mr. Baber, who presented to and reviewed with the Board a Sources and Uses of Funds Report in connection with a proposed issuance of refunding bonds, a copy of which is attached hereto as Exhibit "D."

Mr. Baber noted that the summary shows that the District can save debt service expense by refunding \$4,180,000 of its Unlimited Tax Bonds, Series 2007. He noted that the bonds were issued at an interest rate of 5.434%, and that a refunding issuance with a present interest rate of 4.451% would represent a total savings of \$494,000.33 over the term of the bonds. In response to a question from Director McKenzie, Mr. Baber stated that such savings are realized by reducing the amount paid from the District's debt service fund.

Mr. Baber reviewed the schedule of the proposed refunding bond issuance.

Ms. Ellison noted that the Board will need to meet within the month in order to review and approve refunding bond documents, should it choose to authorize proceeding with the proposed issuance of refunding bonds.

In response to a question from Director Holley, Mr. Baber stated that the consultant fees are contingent upon the sale of the bonds.

Upon motion by Director Cross, seconded by Director Andries, after full discussion and the question being put to the Board, the Board voted unanimously to approve proceeding with

issuance of the proposed Refunding Bonds, Series 2015, so long as the issuance provides a present value savings rate of 6.5%.

9. **Authorize Continuing Disclosure filing.** Ms. Ellison reviewed with the Board the proposed Annual Report on Financial Information and Operating Data for fiscal year ending March 31, 2015, a copy of which is attached hereto as Exhibit "E."

Ms. Ellison stated that the District is required to make an annual filing of its audit and certain other information with the Municipal Securities Rulemaking Board's data base so that bondholders can view current information on the District's financial status.

Upon motion by Director Cross, seconded by Director DeLaup, after full discussion and the question being put to the Board, the Board voted unanimously to authorize the filing of the Annual Report on Financial Information and Operating Data for fiscal year ending March 31, 2015.

10. **Bookkeeper's report and payment of bills.** The President recognized Ms. Grimes, who reviewed with the Board the Bookkeeper's report dated July 10, 2015, a copy of which is attached hereto as Exhibit "F."

Discussion ensued regarding the budget.

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

11. **Discuss procedure for approval of new construction within District easements.** Ms. Ellison reviewed proposed changes to the existing Policy on Construction of Improvements in the District and asked for Board input. Director Cross noted his concern that construction on the Gidneys' swimming pool began prior to today's meeting. Discussion ensued regarding what policies the Board should implement in situations where improvements are made outside the build space but not within the five foot District maintenance easement. The Board agreed that the District's engineer should review such structures to make sure they do not impede maintenance of District facilities or increase the load on the bulkhead. The Board also discussed obtaining a consent to encroachment from the property owner and requiring the property owner to obtain load calculations from a registered engineer. The Board asked to review a revised policy at the next meeting.

12. **Review engineering analysis of load due to swimming pool.** No further action was taken on this item.

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 "G."

a. **Review and discuss results of inspections.** Mr. Michna presented to and reviewed with the Board a summary of Bulkhead Inspection Procedures, a copy of which is attached to the Engineer's report.

He then presented to and reviewed with the Board a bulkhead repair schedule and a new construction inspections schedule, copies of which are attached to the Engineer's report.

b. **Marina Bulkhead Repairs.** Mr. Michna said there was nothing to report on this item.

c. **Review proposals/bids and award contracts.** Mr. Michna presented to and reviewed with the Board a proposal from Green Light to remove and replace deteriorated bulkhead cap boards throughout Harborwalk for \$1,500, a copy of which is attached to the Engineer's report. Director Andrews inquired as to whether unused boards from construction in the District could be stockpiled for the contractor to use during repairs. Mr. Michna confirmed that Shelmark will coordinate a location for stockpiling relevant materials. The Board discussed providing the engineer with authorization to expend funds up to a specified maximum for inspections and repairs. The Board reviewed the budget and decided there should be monthly inspections for six months and then semi-monthly inspections. 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 authorize the engineer to spend up to the budgeted amount for inspecting and repairing bulkhead caps on the schedule discussed.

d. **Approve pay estimates, change orders, and final acceptance, as appropriate.** Mr. Michna presented to and reviewed with the Board an invoice from Marine, Inc. in the amount of \$7,546 for bulkhead repairs, a copy of which is attached to the Engineer's report. Upon motion by Director Andries, seconded by Director DeLaup, after full discussion and the question being put to the Board, the Board voted unanimously to authorize payment to Marine Inc. for bulkhead repairs, as listed in the Engineer's report.

Discussion ensued regarding the budget for bulkhead repairs. Upon motion by Director Cross, seconded by Director Holley, after full discussion and the question being put to the Board, the Board voted unanimously to authorize the engineer to use an additional \$8,000 from the bulkhead budget item for bulkhead repairs in the District.

Mr. Michna noted that the Board previously awarded the contract for dredging of the Harborwalk Main Channel to Rodriguez Brothers Dredging ("RBD") for \$114,800. Mr. Michna reported that RBD could not use hydraulic dredging as planned because of the lack of an Army Corps permit. He said RBD will have to dredge mechanically with the spoil going to an upland site.

Mr. Michna estimated that the project will now cost \$150,000, and discussion ensued regarding the increased contract amount. Mr. Michna noted that the contractor is not legally obligated to hold the initial bid amount due to the Notice to Proceed not being issued within the given time period. He estimated the project will take four weeks to complete.

Upon motion by Director Andries, seconded by Director DeLaup, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Engineer's report and to authorize a change order in the amount of \$35,200 to the contract with RBD to dredge the Harborwalk Main Channel for a total cost not to exceed \$150,000.

14. **Discuss procedure for notice to residents.** Director Andries proposed instituting a method to notify residents when their repairs are scheduled. Mr. Michna stated that Shelmark has a procedure to notify residents prior to construction, and that they will work to improve such communications.

15. **Discuss and take necessary action in connection with receipt of website correspondence and emails.** The Board reviewed the website summary report, a copy of which is attached hereto as Exhibit "H." Discussion ensued regarding response to messages posted on the District's website. Ms. Lagow reported that the District website has been updated and includes message submissions under either (1) Report Damage to Facilities, which is received by the engineer and board members, (2) Tax Assessor/Collector, (3) Attorney, and (4) Public comments, which is received by herself, Ms. Ellison, and the Board. Director Cross said he would be responsible for responding to the emails, with a copy to Mr. Michna. The Board asked Mr. Michna to follow up with a call to the person sending the email.

16. **Confirm next meeting date.** It was the consensus of the Board to tentatively schedule the next regular meeting for Friday, August 14, 2015, at 10 a.m.

17. **Document Public Comments for next Board meeting discussion.** There were no comments.

18. **Other matters.** Ms. Grimes noted that Municipal Accounts would like to present a contract amendment for the Board's consideration at the next meeting. It was the consensus of the Board to add this item to the agenda for the next Board meeting.

THERE BEING NO FURTHER BUSINESS to come before the Board, the meeting was adjourned at 1:05 p.m.

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The foregoing minutes were passed and approved by the Board of Directors on September 4, 2015.

  
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President, Board of Directors

ATTEST:

  
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Secretary, Board of Directors

