

MINUTES OF MEETING OF BOARD OF DIRECTORS

OCTOBER 11, 2005

THE STATE OF TEXAS
COUNTY OF HARRIS
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 162

The Board of Directors (the "Board") of Harris County Municipal Utility District No. 162 (the "District") met in regular session, open to the public, at 1301 McKinney, Houston, Texas, on October 11, 2005, at 4:00 p.m.; whereupon the roll was called of the members of the Board, to-wit:

Jerry Folmar, President
Arthur Mendizabal, Vice President
Penny Johnson, Secretary
Ralph Gingell, Assistant Secretary
John Parrish, Treasurer

All of the members of the Board were present, except Director Folmar. Also attending all or parts of the meeting were Ms. Patty Rodriguez of Bob Leared Interests ("BLI"), tax assessor and collector for the District; Mr. Chris Hoffman of H2O Consulting ("H2O"), operator of the District's facilities; Ms. Erin Garcia of Myrtle Cruz, Inc., bookkeeper for the District; Mr. Michael Preiss and Mr. Jerry Eckert of Turner Collie & Braden, Inc. ("TC&B"), engineers for the District; and Ms. Jessica Holoubek and Ms. Kelly Covey of Fulbright & Jaworski L.L.P. ("F&J"), attorney for the District.

The Vice President called the meeting to order in accordance with notice posted pursuant to law, copies of Certificates of Posting of which are attached hereto as Exhibit "A," and the following business was transacted:

Receive public comments. There were no comments from the public.

Public Hearing on Proposed Tax Rate. The Vice President opened the hearing on the proposed 2005 tax rate. There were no comments on the tax rate from the public.

Minutes. Consideration was given to the approval of the minutes of the meeting of September 13, 2005, a copy of which was previously distributed to the Board. Upon motion by Director Gingell, seconded by Director Parrish, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of the meeting of September 13, 2005, as presented.

Review Report by Tax Assessor and Collector and authorize payment of certain bills. The Vice President recognized Ms. Rodriguez, who presented to and reviewed with the Board the Tax Assessor and Collector's Report, a copy of which is attached hereto as Exhibit "B." Ms. Rodriguez reported that the District has collected 99.152% of its 2004 taxes.

Ms. Rodriguez reviewed with the Board a list of the top delinquent taxpayers in the District, a copy of which is attached to the Tax Assessor and Collector's Report.

Upon motion by Director Johnson, seconded by Director Gingell, after full discussion and the question being put to the Board, the Board voted unanimously to accept the Tax Assessor and Collector's Report and to authorize payment of check nos. 1167 through 1169 from the Tax Account in the amounts, to the persons, and for the purposes described in the Tax Assessor and Collector's Report.

Adopt Order Setting Tax Rate and Levying Tax for 2005. Upon motion by Director Parrish, seconded by Director Johnson, after full discussion and the question being put to the Board, the Board voted by unanimously to adopt the Order Setting Tax Rate and Levying Tax for 2005, a copy of which is attached hereto as Exhibit "C," thereby levying an ad valorem tax rate of \$0.60 per \$100 assessed valuation (\$0.48 per \$100 assessed valuation to service the District's debt and \$0.12 per \$100 assessed valuation to fund operating and maintenance expenses).

In response to a question from Ms. Rodriguez, the Board asked for duplicate tax statements to be sent to residents in January of 2006.

Operations Report. The Vice President recognized Mr. Hoffman, who presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "D." Mr. Hoffman reported that the District pumped 7,397,000 gallons of water during the last period and that H2O accounted for 91.5% of the water pumped in the District during the last period.

Mr. Hoffman reported that the District has 47,896,000 gallons and two months remaining on its Harris-Galveston Coastal Subsidence District Permit.

Mr. Hoffman reviewed with the Board the Maintenance Summary, a copy of which is attached to the Operations Report.

Mr. Hoffman reported that the ammonia room door has been installed.

Mr. Hoffman reported that the inspection of Ground Storage Tank No. 1 was performed while the tank was out of service. Mr. Hoffman reported that H2O also cleaned the sand out of the tank, so the floor could be inspected.

Mr. Hoffman reported that Ground Storage Tank No. 2 was taken out of service prior to Hurricane Rita ("Rita"). Mr. Hoffman reported that with a delay in the contractor's connection, he placed the tank back into service prior to Rita. Mr. Hoffman reported that the tank is now back out of service.

Mr. Hoffman updated the Board on the WHCRWA's surface water lines. Mr. Hoffman reported that the conduit bank and chemical feed lines are being dug.

Mr. Hoffman updated the Board on H2O's preparation for and actions during Rita. Mr. Hoffman reported that he arranged for chemical deliveries, tested all engines and covered the booster pump engine at the water plant to keep the engine dry during the storm. Mr. Hoffman reported that H2O purchased a small generator to operate the chemical feed equipment. Mr. Hoffman reported that H2O monitored the water plant prior, during, and after the storm and that H2O backed up and secured the District's records.

Mr. Hoffman reported that an air line leak developed on the galvanized piping to hydrotank no. 1 and that H2O isolated the line and excavated to the leak. Mr. Hoffman reported that an inspection of the airline indicates that the line needs to be replaced at an estimated cost of \$2,400. Mr. Hoffman reported that due to the leak, he had to manually add air to the hydrotank and during that process he added too much air causing milky water and air in the system. The Board discussed adding a conduit to the line. Upon motion by Director Parrish, seconded by Director Johnson, after full discussion and the question being put to the Board, the Board voted unanimously to authorize H2O to replace the line and install a conduit for the line.

Mr. Hoffman updated the Board on the waterline main repairs in the District.

Mr. Hoffman updated the Board on the tapline repair at 15810 Longenbaugh. Mr. Hoffman reported that he monitored a leak at the Montessori School on Longenbaugh during the summer and that there apparently were two leaks in the area, a tapline leak that went to the meter 70 feet away and a leak in the customer's line. Mr. Hoffman reported that H2O had to excavate and remove the pavement to locate the tap. Mr. Hoffman reported that he re-tapped the main closer to the meter and re-poured the sidewalk, as well as the driveway. Mr. Hoffman reported that Mr. Webb is meeting with the manager of the Montessori School to resolve this issue, and is trying to determine the location of the leak.

Mr. Hoffman reported that the 12" waterline relocation is complete and all temporary lines have been removed.

Mr. Hoffman reported that the repair for the driveway and sidewalk at 15335 Glenwood Park is complete.

Mr. Hoffman reported that the work to the phase 7, priority one sewer line repairs are complete with the exception of a few repairs.

Mr. Hoffman reviewed with the Board a request from the resident at 8507 Heather Bank, a copy of which is attached to the Operations Report. Mr. Hoffman reported that the resident had a hose under his kitchen sink break, which caused his home to flood. Mr. Hoffman reported that the resident is requesting an adjustment for the anticipated high water bill he will be receiving. Discussion ensued. Upon motion by Director Parrish, seconded by Director Johnson, after full discussion and the question being put to the Board, the Board voted unanimously to adjust the resident's September water bill to a bill based on the District's regular rates. The Board also discussed offering the resident a ninety day payment plan to pay their water bill. Upon motion by Director Parrish, seconded by Director Johnson, after full discussion and the question being put to the Board, the Board voted unanimously to offer the resident a ninety day payment plan.

Mr. Hoffman reviewed with the Board a request from the resident at 15506 Glenwood Park, a copy of which is attached to the Operations Report. Mr. Hoffman reported that the resident had an extremely high water bill and sent in a payment of \$50, which is all she could afford at this time. Mr. Hoffman reported that she is not requesting an adjustment to her water bill. The Board discussed offering the resident a ninety day payment plan. Upon motion by Director Johnson, seconded by Director Parrish, after full discussion and the question being

put to the Board, the Board voted unanimously to offer the resident a ninety day payment plan. The Board asked Mr. Hoffman to ask the resident if she had any repairs done to her home that would have caused the large water bill and if so, to present a reimbursement request for her water bill to the Board.

Review Bookkeeper's Report and authorize payment of bills. The Vice President recognized Ms. Garcia, who presented to and reviewed with the Board the Bookkeeper's Report and Investment Report, copies of which are attached hereto as Exhibit "E."

Ms. Garcia reported that the District has two certificates of deposits that will be coming due in November. Ms. Garcia suggested moving the funds to Tex Pool to have additional funds available to pay for the surface water conversion project.

Upon motion by Director Johnson, seconded by Director Gingell, after full discussion and the question being put to the Board, the Board voted unanimously to accept the Bookkeeper's Report, and to authorize payment of check nos. 1757 through 1779 from the Operating Account, each in the amounts, to the persons, and for the purposes described in the Bookkeeper's Report.

Approve Investment Report. Upon motion by Director Parrish, seconded by Director Johnson, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Investment Report.

Engineer's Report. The Vice President recognized Mr. Preiss, who presented to and reviewed with the Board the Engineer's Report, a copy of which is attached hereto as Exhibit "F."

Mr. Preiss introduced Mr. Eckert and noted that Mr. Eckert will be replacing him as TC&B's representative to the District, since he will no longer be working for TC&B.

Mr. Preiss updated the Board on the WHCRWA conversion project. Mr. Preiss reported that TC&B has received correspondence from R&B Group explaining that the proper air gap separation cannot be attained and he is proposing that the tie-in be extended, a copy of which is attached to the Engineer's Report. Mr. Preiss reported that the contractor has requested a Change Order and Time Extension for this additional effort and that he recommends awarding the Change Order and Time Extension for this additional effort. Mr. Preiss reviewed with the Board the extra cost breakdown, a copy of which is attached to the Engineer's Report. Mr. Preiss reported that TC&B is working with the contractor to ensure that the air gap separation required by the City of Houston is achieved. Extensive discussion ensued.

Mr. Preiss reported that R&B Group is currently laying the underground chemical lines and the conduits for the electrical lines. Mr. Preiss reported that TC&B is continuing to monitor the progress of construction to ensure that the work is complete as soon as possible.

Mr. Preiss reviewed with the Board information that was requested from the District by the WHCRWA, a copy of which is attached to the Engineer's Report.

Mr. Preiss reported that TC&B is recommending payment for progress payment no. 2 as submitted by R&B Group, a copy of which is attached to the Engineer's Report.

Mr. Preiss reviewed with the Board correspondence from the TCEQ confirming that they have approved the District's Escrow Release Application, a copy of which is attached to the Engineer's Report.

Mr. Preiss reported that TC&B is coordinating with the District's operator to update the maintenance database utilizing the GIS database.

Mr. Preiss updated the Board on the status of the Reclaimed Water Agreement. Mr. Preiss reviewed with the Board the analysis of the irrigation meter usage information for the District, a copy of which is attached to the Engineer's Report. Mr. Preiss reported that he anticipated making capacity recommendations for each of the participants of the reclaimed water system at last month's Board meetings; however, he is waiting on information from Harris County Municipal Utility District No. 188 to final the allocations for the agreement. Mr. Preiss reported that after reviewing this information and comparing it to the reclaimed water system capacities in the previous study, it has been determined that further analysis will be required.

Upon motion by Director Parrish, seconded by Director Johnson, after full discussion and the question being put to the Board, the Board voted unanimously to award the Change Order and Time Extension for the additional work that will need to be done and to approve progress payment no. 2 from R&B Group.

Consider update to Engineering Consultant Agreement. Mr. Preiss reviewed with the Board the update to the Engineering Consultant Agreement, a copy of which is attached to the Engineer's Report. Upon motion by Director Johnson, seconded by Director Gingell, after full discussion and the question being put to the Board, the Board voted unanimously to authorize Vice President Mendizabal to execute the update to the Engineering Consultant Agreement.

Discuss water rate analysis. Action on this matter was deferred.

Renew District Insurance. The Board reviewed the insurance proposal from Harco Insurance Services, a copy of which is attached hereto as Exhibit "G." Discussion ensued.

The Board reviewed the insurance proposal from Anco Wesendorff, a copy of which is attached hereto as Exhibit "H."

Upon motion by Director Gingell, seconded by Director Parrish, after full discussion and the question being put to the Board, the Board voted unanimously to accept the insurance proposal from Harco Insurance Services.

Indemnification of Directors. Ms. Holoubek stated that to the extent that the directors and officer's insurance policy does not cover losses of directors carrying out the lawful business and duties of the District in good faith, then the District can indemnify the directors for losses. Upon motion by Director Gingell, seconded by Director Parrish, after full discussion and the question being put to the Board, the Board voted unanimously to approve the District's indemnification of directors for costs and losses arising from the directors carrying out their lawful duty, to the extent that such losses are not otherwise covered by insurance.

Discuss Copperfield Joint Operations Board ("CJOB") meeting. Mr. Preiss reported on the CJOB meeting.

Discuss communications and consider authorizing creation of web site. Ms. Covey noted that at last month's Board meeting she provided the Board with proposals to create a website.

Discussion ensued. The Board discussed having one Board member head up the creation of the District's website. Upon motion by Director Johnson, seconded by Director Gingell, after full discussion and the question being put to the Board, the Board voted unanimously to hire www.waterdistricts.com to assist the District with the creation of a District website and to designate Director Johnson to coordinate the set-up of the website.

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

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President, Board of Directors

ATTEST:

Secretary, Board of Directors

(District Seal)