

MINUTES OF MEETING OF BOARD OF DIRECTORS

SEPTEMBER 13, 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 September 13, 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. 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 of Turner Collie & Braden, Inc. ("TC&B"), engineers for the District; Ms. Julie Peak of First Southwest Company, financial advisor for the District; and Ms. Jessica Holoubek and Ms. Kelly Covey of Fulbright & Jaworski L.L.P. ("F&J"), attorney for the District.

The 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.

Minutes. Consideration was given to the approval of the minutes of the meeting of August 9, 2005, copies of which were previously distributed to the Board.

Director Gingell noted that section eight, paragraph six should be corrected to state: "Mr. Preiss updated the Board on the Reuse Water Study Meeting. Mr. Preiss reported that TC&B has reviewed the data provided and has requested additional information from the operator. Mr. Preiss reported that upon evaluating a broader range of data and attending the scheduled upcoming discussion with the other participants, TC&B will make a final recommendation regarding anticipated capacity required to serve the District." Upon motion by Director Johnson, seconded by Director Mendizabal, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of the meeting of August 9, 2005, as corrected.

Review Bookkeeper's Report and authorize payment of bills; Approve Investment Report.

The 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 "B."

Upon motion by Director Mendizabal, seconded by Director Johnson, after full discussion and the question being put to the Board, the Board voted unanimously to accept the Bookkeeper's Report, to authorize payment of check nos. 1729 through 1754 from the Operating Account, each in the amounts, to the persons, and for the purposes described in the Bookkeeper's Report, and to approve the Investment Report.

Review Report by Tax Assessor and Collector and authorize payment of certain bills. The 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 "C." Ms. Rodriguez reported that the District has collected 98.967% 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.

Ms. Rodriguez reported that as requested last month, she obtained an update from the delinquent tax attorney regarding the District's delinquent accounts, a copy of which is attached hereto as Exhibit "D." Ms. Rodriguez reviewed with the Board several accounts for the Board to consider moving to the uncollectible roll. Discussion ensued. Upon motion by Director Gingell, seconded by Director Johnson, after full discussion and the question being put to the Board, the Board voted unanimously to transfer Huan Lian Cui DBA Ru Yee Chinese Restaurant in the amount of \$169.21, Kids Kuts in the amount of \$50.67, Chuck Talley in the amount of \$13.33, and Juan Amaya DBA Amaya Shoe Repair in the amount of \$10.92, to the uncollectible roll.

Upon motion by Director Mendizabal, seconded by Director Johnson, 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. 1162 through 1166 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 Designating Officer to Calculate and Publish Tax Rate. Ms. Peak presented to and reviewed with the Board her recommendation for the District's 2004 Tax Levy, a copy of which is attached hereto as Exhibit "E." Ms. Peak recommended that the Board levy \$0.48 per \$100 of assessed valuation for debt service. Upon motion by Director Parrish, seconded by Director Mendizabal, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Order Designating Officer to Calculate and Publish Tax Rate, a copy of which is attached hereto as Exhibit "F," thereby indicating its intent to set a tax rate of \$0.60 per \$100 assessed valuation (\$0.48 per \$100 assessed valuation to pay principal and interest to service the District's debts and \$0.12 per \$100 assessed valuation to fund maintenance and operating expenditures) and to designate Bob Leared as the District's officer to publish the proposed tax rate in the Houston Chronicle.

Operations Report. The President recognized Mr. Hoffman, who presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "G." Mr. Hoffman reported that the District pumped 5,536,000 gallons of water during the last period and that H₂O accounted for 92.1% of the water pumped in the District during the last period.

Mr. Hoffman reported that the District has 55,293,000 gallons and three 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 updated the Board on the WHCRWA's surface water lines. Mr. Hoffman reported that the connection to tank no. 1 is complete and the tank will go back into service and tank no. 2 will be taken out of service. Mr. Hoffman reported that the pipe run to tank no. 1 is installed and should be connected to the pipe for the tank connection soon. Mr. Hoffman reported that the conduit bank and chemical feed lines are being dug.

Mr. Hoffman reported that the water line behind the shopping center at West Road and Highway 6 cracked. Mr. Hoffman reported that the Ground Storage Tank level dropped quickly while H₂O was isolating the valves. Mr. Hoffman reported that the main was excavated and repaired and the line was placed back into service.

Mr. Hoffman reported that the 12" water line relocation is complete and all temporary lines have been removed. Mr. Hoffman reported that the charge for the temporary relocation should be invoiced next month.

Mr. Hoffman reported that the driveway repair at 15335 Glenwood Park is complete and should be invoiced next month.

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 reported that the repairs to the sidewalk on Club Lake and West Road are complete and should be invoiced next month.

Mr. Hoffman reported that H₂O responded to a sewer stoppage at Woodcroft and Club Lake. Mr. Hoffman reported that a manhole was overflowing. Mr. Hoffman reported that the line was cleared and the stoppage appeared to be grease. Mr. Hoffman reported that the overflow was reported to the TCEQ.

Mr. Hoffman reviewed with the Board a request from the resident at 15406 Windy Cove requesting an adjustment for her high July 2005 water bill, a copy of which is attached to the Operations Report. Mr. Hoffman reported that the resident had a pool leak repaired. Discussion ensued. Upon motion by Director Parrish, seconded by Director Gingell, after full discussion and the question being put to the Board, the Board voted unanimously to adjust her water bill with the summer rates up to her average for the past thirteen months and all of the overage would be billed at the regular rates.

Discuss water rate analysis. Mr. Hoffman presented to and reviewed with the Board a water rate comparison, so the Board could begin to think about long term water rates for the customers in the District, a copy of which is attached hereto as Exhibit "H." Mr. Hoffman reviewed with the Board the following information:

Overall water rate comparison with neighboring districts;

Water rate comparison for residential customers;

Water rate comparison for commercial customers;

Water rate comparison for park and recreation customers; and

WHCRWA proposed rates for upcoming years.

Extensive discussion ensued. The Board asked Ms. Covey to keep this item on the agenda for future discussions.

Engineer's Report. The 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 "I." Mr. Preiss updated the Board on the WHCRWA conversion. Mr. Preiss reported that TC&B has received the attached correspondence from R&B Group requesting a time extension to the contract, a copy of which is attached to the Engineer's Report. Mr. Preiss reported the contractor has mobilized and began construction on August 29, 2005 for the disinfection modifications and tank connections. Mr. Preiss reported that they are currently laying the underground utilities for the chemical lines and have initiated the tank connection. Mr. Preiss reported that TC&B is continuing to monitor the progress of construction to ensure that the work is completed as soon as possible. Discussion ensued on the Board granting R&B a time extension. The Board noted its frustration with the time it has taken to work on the project. It was the consensus of the Board not to take action on the time extension at this time.

Mr. Preiss reported that TC&B met with the engineers and operators for the Copperfield districts and the WHCRWA engineer and operators on August 11, 2005 to discuss the current schedule that the WHCRWA anticipates for activation of the surface water system. Mr. Preiss reported that the WHCRWA has stated that their main concern is to supply surface water to Harris County Municipal Utility District Nos. 162 and 188. Mr. Preiss reported that their secondary concern is to keep the water in the lines in motion to prevent stagnant water by providing a minimum of 100,000 gallon per day to Harris County Municipal Utility District Nos. 163 and 208. Mr. Preiss reported that the WHCRWA also expressed that they will not be dictating to the districts how much water to take at this time, and are merely concerned with supplying the water districts desire. Mr. Preiss reported that over the next several months, TC&B will work closely with the WHCRWA's operator to determine the full capabilities of and the most appropriate way to utilize the surface water system.

Mr. Preiss reported that a meeting was held by the WHCRWA on August 23, 2005, at which similar information was presented to a broader audience that included those districts that are interconnected with the currently converting districts.

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 updated the Board on the escrow release. Mr. Preiss reported that TC&B has contacted the TCEQ for a status of the review and acceptance of the submitted application, and is waiting for a response.

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 Reclaimed Water Agreement. Mr. Preiss reported that TC&B has collected the irrigation meter usage information from the operators for Harris County Municipal Utility District Nos. 162, 186, and 208 and has analyzed the data and

normalized it against the rainfall data for each of the last five years. Mr. Preiss reported that based on this analysis, he anticipates making recommendations for each of the participants reclaimed water system capacity at this month's Board meeting, however he is waiting on information from Harris County Municipal Utility District No. 188 to final the allocations for the agreement.

Renew District Insurance. The Board asked Ms. Covey to obtain insurance proposals from Anco-Wessendorff and AquaSurance.

Indemnification of Directors. Action on this matter was deferred.

Discuss Copperfield Joint Operations Board ("CJOB") meeting. Director Folmar reported on the CJOB meeting.

Discuss communications and consider authorizing creation of web site. Ms. Covey provided the Board with proposals to create a website, copies of which are attached hereto as Exhibit "J." Action on this item was deferred.

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

* * *

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)