

MINUTES OF MEETING OF BOARD OF DIRECTORS

September 12, 2006

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 12, 2006, at 4:00 p.m.; whereupon the roll was called of the members of the Board, to-wit:

Jerry Folmar, President  
John Parrish, Vice President  
Penny Johnson, Secretary  
Dan Bonner, Treasurer  
Emmanuel DePau, Assistant Secretary

All of the members of the Board were present except Director Bonner. 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. Charles Eastland of Turner Collie & Braden, Inc. ("TC&B"), engineers for the District; Mr. John Barganski of First Southwest Company, financial advisor to the District; Mr. Steve Rickelman, a resident of the District; and Ms. Jana Cogburn and Ms. Shailaja Singh 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:

1. **Receive public comments.** There were no comments from the public.
2. **Minutes.** Consideration was given to the approval of the minutes of the meeting of August 8, 2006, a copy of which were previously distributed to the Board. President Folmar noted that Director DePau should be shown as the Assistant Secretary in the first paragraph of such minutes. 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 approve the minutes of the meeting of August 8, 2006, as revised.
3. **Accept Resignation of Director Bonner.** The Board noted that Director Bonner has submitted his resignation because he is moving to Florida. Upon motion by Director Johnson, seconded by Director DePau, after full discussion and the question being put to the Board, the Board voted unanimously to accept the resignation of Director Bonner.

4. **Appoint New Director and Accept Qualifications.** The Board noted that they had interviewed Mr. Rickelman in February 2006 at the time they appointed Mr. DePau as a Board member. Discussion ensued regarding the proper procedures for appointing a new director. Upon motion by Director Johnson, seconded by Director DePau, after full discussion and the question being put to the Board, the Board voted unanimously to appoint Steve Rickelman as director and to accept the qualifications of Mr. Rickelman.

5. **Election of Officers.** Director Parrish nominated himself as President. Director Folmar also nominated himself as President. Director Johnson seconded both nominations. Discussion ensued. By a vote of four in favor of Director Folmar, Director Folmar was elected President. Additional discussion ensued regarding the remaining slate, including the need to have a Treasurer. Upon motion by Director Johnson, seconded by Director DePau, after full discussion and the question being put to the Board, the Board voted unanimously to elect the following slate of officers:

John Parrish, Vice President  
Penny Johnson, Secretary  
Emmanuel DePau, Treasurer  
Steve Rickelman, Assistant Secretary

6. **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 and a list of delinquent tax payers, a copy of which is attached hereto as Exhibit "B." Ms. Rodriguez reported that the District has collected 97.3% of its 2005 taxes.

Ms. Rodriguez noted that the delinquent tax attorney recommends shutting off the water to the Copperfield Athletic Corp. because that have not responded to any of the demand letters for payment of their delinquent taxes. Extensive discussion ensued. 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 have the District's delinquent tax attorney send a letter to the Copperfield Athletic Corp. notifying them that the Board will consider termination of their water service at its October 10, 2006 meeting if the delinquent taxes have not been paid by such date. Director Folmar asked that a draft of such letter be sent to the Board for review prior to such letter being sent to the Copperfield Athletic Corp. 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 accept the Tax Assessor and Collector's Report and to authorize payment of check nos. 1218 through 1222 from the Tax Account in the amounts, to the persons, and for the purposes described in the Tax Assessor and Collector's Report.

7. **Adopt Order Designating Officer to Calculate and Publish Tax Rate.** Mr. Barganski presented to and reviewed with the Board his recommendation for the District's 2006 Tax Levy, a copy of which is attached hereto as Exhibit "C." Mr. Barganski recommended that the Board levy \$0.46 per \$100 of assessed valuation for debt service. 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 adopt the Order Designating Officer to Calculate and Publish Tax Rate, a copy of which is attached hereto as Exhibit "D," thereby indicating its

intent to set a tax rate of \$0.59 per \$100 assessed valuation (\$0.46 per \$100 assessed valuation to pay principal and interest to service the District's debts and \$0.13 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.

8. **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 "D" Mr. Hoffman reported that the District pumped 6,922,000 gallons of water and purchased 7,479,000 gallons of water from the West Harris County Regional Water Authority ("WHCRWA") during the last period and that H2O accounted for 93.6% of the water pumped in the District during the last period.

Mr. Hoffman reported that the District has 48,340,000 gallons and three months remaining on its Harris-Galveston Coastal Subsidence District Permit.

Mr. Hoffman updated the Board on the builder damages and noted that he sent a letter to the homeowner regarding the water line at 8106 Town Creek that was damaged during the installation of their pool, but has not received a response yet.

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

Mr. Hoffman reported the well was retested after it was treated to address the iron bacteria issue and that Water Systems Engineering, Inc. recommends another treatment of the well with ph adjustment at a cost of approximately \$2,000. Upon motion by Director DePau, seconded by Director Rickelman, after full discussion and the question being put to the Board, the Board voted unanimously to authorize retreating the well with a ph adjustment.

Mr. Hoffman reported that the TCEQ performed the annual water plant inspection on June 28, 2006 and that H2O is waiting on the final TCEQ letter.

Mr. Hoffman noted that booster pump motor no. 4 has been replaced and is operational.

Mr. Hoffman stated that the flow meter on the well was repaired.

Mr. Hoffman reported that a sinkhole has developed at 15307 Swan Creek and that H2O dye tested the line and determined that dye entered the line. Mr. Hoffman stated that H2O will repair the line.

9. **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 "E." 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 accept the Bookkeeper's Report, to authorize payment of check nos. 2041 through 2062 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. The Board directed Ms. Garcia to hold check 2054 pending Director Johnson checking with the Texas Network on timing of the original fee.

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

Mr. Eastland stated that R&B Group has been asked to prepare a proposal to modify the chemical feed system to resolve issues of potential high chemical levels (similar to those that have been experienced at HCMUD No. 208's water plant, which has the same system design). Mr. Eastland reviewed with the Board a copy of email correspondence between TC& B and R&B Group, a copy of which is attached to the Engineer's Report and noted that R&B Group is not willing to submit a proposal unless the District agrees not to pursue liquidated damages. Extensive discussion ensued. Mr. Eastland noted that the proposed modifications include the following:

- On the surface water feed line to the GST, swap the pipe between the analyzer supply and return piping to reverse the flow of the system; therefore, taking the sample point after the ammonia injection point.
- On the two discharge headers (past the discharge pumps), rearrange the chemical piping so that the order of the taps to each header is Chlorine-Ammonia-Sample rather than the current Sample-Ammonia-Chlorine.
- Connect the 4-20mA signal on the chemical feed controls of the surface water and discharge header pumps so that the flow of chemicals is varied based on residual.

The Board directed (a) Mr. Eastland to notify the R&B Group to finalize their contract, and (b) Mr. Hoffman to have the necessary modifications made to the chemical feed system.

Mr. Eastland stated that TC&B has attached Progress Payment No. 12 from R&B Group, in the amount of \$0.00, as submitted by the Contractor for work completed to date.

Mr. Eastland stated that a letter was sent to Wayne Ahrens to request an extension of 180 days from WHCRWA in order for the contractor to complete the work and submit a final invoice, a copy of which letter is attached to the Engineer's Report.

Mr. Eastland stated that as requested in Mr. Ahrens letter dated May 31, 2006, TC&B submitted a transmittal, including copies of the HGCSA Application for Renewal of Water Well Permits for HCMUD No. 162, No. 186, and No. 208 to him on September 7, 2006 and that these applications confirm that they were completed correctly to identify that the anticipated groundwater withdraw and surface water withdrawal for the next permit term, thus giving WHCRWA its "Early Conversion Credits" from HGCSA.

Mr. Eastland stated that in July 2004, TC&B incorporated comments from H2O into an Emergency Operations Plan for the District and HCMUDs No. 186 and No. 208;

however, the plan was not finalized. Mr. Eastland added that at this time, TC&B would like to prepare final copies at a total cost of \$2,000.00, to be divided among the three MUDs. The Board directed Mr. Eastland to prepare the final copies.

Mr. Eastland stated that TC&B gathered as built for contracts 3 and 4 of the WHCRWA surface water lines, which are located within the District and estimates that it will cost the District approximately \$2,500 to incorporate these lines into the existing GIS mapping system. Mr. Eastland stated that the tasks included in this work are:

1. Rectify the CAD files containing the waterline layouts to match the 2004 H-GAC aerial photos;
2. Digitize the waterlines from the rectify CAD drawings;
3. Attribute the waterlines to include the size;
4. Attribute the waterlines to include the hyperlink to the respective P&P sheet;
5. Compile the data in a Geodatabase; and
6. Copy the data to CD and deliver to H2O Consulting.

Discussion ensued regarding the most cost effective way to complete this task and whether the WHCRWA is utilizing a GIS Map. The Board directed Mr. Eastland to contact the engineer for the WHCRWA.

Mr. Eastland stated that TC&B is continuing with the design of the reclaim water system and has requested utility plans from SBC-ATT and Centerpoint Energy with regard to the proposed reclaim water system layout. Mr. Eastland noted that TC&B received the requested information from SBC-ATT on August 23, 2006, and from Centerpoint Energy on August 30, 2006, and that, in addition, TC&B has gathered as-builts for contracts 2, 3 and 4 and a plan set of contract 6 of the WHCRWA surface water lines in preparation of the reclaimed water system design.

Mr. Eastland stated that TC&B has updated the reclaimed water system model to address moving the trunk line to No. 188 to the west side of Highway 6, a minimum of 8 inch lines in No. 208, and addressing the known alignment issues near Shangrila and Clublake and that TC&B is preparing a layout including the utilities for the District, SBC-ATT, Centerpoint Energy, and WHCRWA along with the proposed reclaimed water system. Mr. Eastland noted that TC&B anticipates that the layout will be available for discussion at the meeting.

11. **District Insurance and Indemnification of Directors.** Action on this item was deferred.

12. **Review Ethics Policy and Director Expense Reimbursement Policy.** The Board discussed at length various provisions of the Expense Reimbursement Policy, including the need for detailed receipts, the amount of the meal allowance, and the procedures for reimbursement. The Board agreed to continue discussions and attempt to reach a conclusion prior to the January AWBD conference.



13. **Discuss Copperfield Joint Operations Board (“CJOB”) meeting.**  
Director Folmar updated the Board on the most recent meeting.

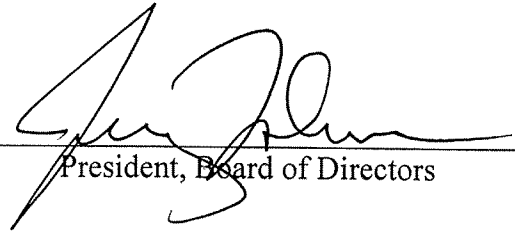
THERE BEING NO FURTHER BUSINESS to come before the Board, the meeting was adjourned.

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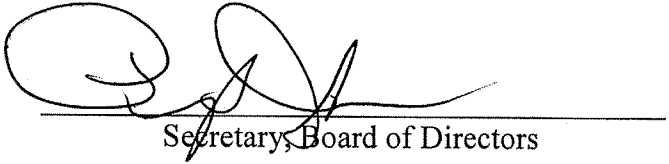
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The foregoing minutes were passed and approved by the Board of Directors on  
October 17, 2006.

  
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President, Board of Directors

**ATTEST:**

  
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Secretary, Board of Directors

(District Seal)

