

MINUTES OF MEETING OF BOARD OF DIRECTORS

JUNE 13, 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 June 13, 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, Director

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. Charles Eastland of Turner Collie & Braden, Inc. ("TC&B"), engineers for the District; and Ms. Jana Cogburn and Ms. Kelly Russell 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 meetings of April 24, 2006 and May 9, 2006, copies of which were previously distributed to the Board.

Director Parrish asked that both the May 9, 2006 minutes and the April 11, 2006 minutes be revised to reflect that the referenced training was "Open Meetings and Open Records Training" and to delete the references to Ethics Training and Open Government Training.

Upon motion by Director Johnson, seconded by Director Bonner, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of the meetings of April 24, 2006, as presented and May 9, 2006, as corrected.

3. **Engage auditor for fiscal year ending July 31, 2006.** 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 authorize the President to execute the auditor

engagement letter, thereby engaging David L. Merritt, P.C. to perform the District's audit for the fiscal year ending July 31, 2006.

4. **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 95.911% of its 2005 taxes.

Ms. Rodriguez presented to and reviewed with the Board a summary of the tax rates for the districts that surround the District, a copy of which is attached hereto as Exhibit "D."

Upon motion by Director DePau, seconded by Director Bonner, 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. 1205 through 1208 from the Tax Account in the amounts, to the persons, and for the purposes described in the Tax Assessor and Collector's Report.

5. **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 "E." Mr. Hoffman reported that the District pumped 5,703,000 gallons of water and purchased 8,767,000 gallons of water from the West Harris County Regional Water Authority ("WHCRWA") during the last period and that H2O accounted for 90.2% of the water pumped in the District during the last period.

Mr. Hoffman reported that the District has 67,255, 000 gallons and six months remaining on its Harris-Galveston Coastal Subsidence District Permit.

Mr. Hoffman updated the Board on the builder damages. Mr. Hoffman reported that he will need President Folmar to sign a release for the damages caused by GSG, the contractor that went bankrupt, since the damages will be paid by the bonding company for such contractor. Upon motion by Director Bonner, seconded by Director DePau, after full discussion and the question being put to the Board, the Board voted unanimously to authorize President Folmar to execute the release.

Mr. Hoffman reviewed with the Board the Maintenance Summary, a copy of which is attached to the Operations Report. Mr. Hoffman updated the Board on the WHCRWA construction. Mr. Hoffman reported that the chemical feed equipment is installed, but is still not automated for WHCRWA flow. Mr. Hoffman reported that he is still waiting on the final inspection of the electrical control panel. Mr. Hoffman reported that he connected the well control to the WHCRWA transducer to make sure the WHCRWA feed comes on first.

Mr. Hoffman reported that he is working with the WHCRWA and TC&B to resolve the pipe support issue. The Board directed Mr. Eastland to work on the pipe support issue and to bill the cost back to the WHCRWA.

Mr. Hoffman reported that the right angle drive on the booster pump was repaired and reinstalled. Mr. Hoffman reported that an invoice should be submitted for payment next month.

Mr. Hoffman reported that H2O has been experiencing problems with the balancing of chemicals in the water system. Mr. Hoffman reported that the chlorine and ammonia levels in the water from the City of Houston has not been constant and he has had to begin feeding chlorine and ammonia to the incoming lines. Mr. Hoffman reported that he has also had to increase the chlorine feed to the water coming out of the well.

Mr. Hoffman reported that the annual water well test was completed and reviewed with the Board the GM Services report, a copy of which is attached to the Operations Report.

Mr. Hoffman updated the Board on the four tapline leak repairs in the District.

Mr. Hoffman reported that H2O repaired a manhole and repoured the sidewalk at 15503 Swan Creek.

Mr. Hoffman reported that a sinkhole developed at 7622 Rivergarden. Mr. Hoffman reported that there is a problem on the main line and/or the manhole. Mr. Hoffman reported that he is scheduled to televise the manhole today. Mr. Hoffman reported that he may need to excavate to the main and repair the line, which is approximately 10 feet deep. Mr. Hoffman requested authorization to proceed with the repair at a cost not to exceed \$6,500. Upon motion by Director Johnson, seconded by Director Bonner, after full discussion and the question being put to the Board, the Board voted unanimously to authorize H2O to proceed with the needed repairs, at a cost not to exceed \$6,500.

6. 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 "F."

Discussion ensued on the District's Ethics' Policy, including payment of per diems and reimbursable expenses.

Upon motion by Director Johnson, seconded by Director De Pau, 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. 1957 through 1989 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.

7. Approve budget for fiscal year ending July 31, 2007. Action on this item was deferred until the special meeting on June 16, 2006.

8. 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 "G."

Mr. Eastland reported that he has spoken with the Mr. Troy Anthony, the WHCRWA representative. Mr. Eastland reported that the WHCRWA has agreed to coordinate the installation of a pipe stand in place of the wood blocking that is currently in place on the WHCRWA line near the construction to the plant piping.

Mr. Eastland reported that R&B Group is on site installing the control panel for the automation of the chemical feed system for the water plant. Mr. Eastland reported that the system should be ready to go on line by June 15, 2006.

Mr. Eastland reviewed with the Board Progress Payment No. 9, in the amount of \$0.00, as submitted by the contractor for work on the surface water conversion project completed to date. Mr. Eastland reported that the as of the April meeting, payment for Progress Payment No. 7 was being held due to lack of progress on the project. Mr. Eastland reported that upon installation of the control panel, payment may be authorized.

The Board directed TC&B and H2O to prepare a task list and the number of hours they have spent on the issues with the surface water conversion issues, and the amount of water that had to be purchased from Harris County Municipal Utility District No. 208. The Board agreed that a reimbursement request needs to be submitted to the WHCRWA as soon as possible, since reimbursement is supposed to be requested within six months of receiving water. The Board directed Mr. Eastland to prepare a letter to the WHCRWA requesting an extension of the six month time period.

Mr. Eastland reported that TC&B received a letter from the WHCRWA regarding renewal of the Harris Galveston Coastal Subsidence District well permits. Mr. Eastland reported that the information requested will be submitted to the WHCRWA for processing.

Mr. Eastland updated the Board on the District's facilities maps. Mr. Eastland reported that TC&B has completed all work associated with the GIS map, with the exception of any additional comments the operator may have, as well as the overlay of the WHCRWA lines upon receipt of the as-built drawings.

Mr. Eastland updated the Board on a utilities inquiry for the Sears Pad Site at 8300 Hwy 6 North. Mr. Eastland reported that TC&B has sent utility drawings to Millennium Venture Group in Denver, Colorado in connection with their development of a "double drive thru coffee shop" at The Town Square in Copperfield.

9. **Authorize engineer to design reclaimed water system.** Mr. Eastland reported that TC&B is evaluating the use of reclaimed water in conjunction with other districts for presentation to the WHCRWA to illustrate potential credits available to delay required implementations of mandated surface water conversion for 2020. Mr. Eastland reported that TC&B findings will be submitted to the WHCRWA as justification for their consideration for participating in the funding of these conversions.

Mr. Eastland reported that TC&B has met with Mr. Wayne Ahrens of the WHCRWA to discuss methodology and the collection of information from him to use in developing the present worth value of avoiding a portion of a future cost of surface water conversion. Mr. Eastland reported that Mr. Ahrens was receptive to the approach and looks

forward to receiving the completed analysis. Mr. Eastland reported that Mr. Ahrens is interested in providing incentives to use reclaimed water and this analysis would be helpful to them in deciding what value is appropriate.

Mr. Eastland reported that Mr. Ahrens provided some information to TC&B on the day of the meeting, and has provided additional information over the three weeks following. Mr. Eastland reported that some of the data that was requested was in the process of being revised and it was appropriate to wait for the most up to date numbers to do the analysis. Mr. Eastland reported that the information requested includes studies of reclaimed water that were paid for or partially funded by the WHCRWA, the proposed conversion amounts in 2020, the cost of the proposed conversion, and the layout of the lines that are needed to accomplish that conversion.

Mr. Eastland reported that TC&B currently has all of the information requested, with the exception of the 2020 layout. Mr. Eastland reported that TC&B is reviewing the information that was submitted and anticipates receiving the line layout next week.

10. **Review ethics policy.** This matter was discussed during the Bookkeeper's Report.

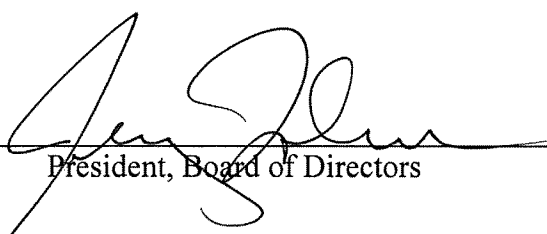
11. **Approve Interlocal Agreement with the Subsidence District.** Action on this matter was deferred.

12. **Discuss Copperfield Joint Operations Board ("CJOB") meeting.** Director Folmar updated the Board on the most recent meeting.

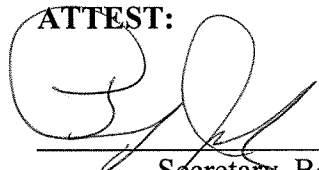
THERE BEING NO FURTHER BUSINESS to come before the Board, the meeting was adjourned.

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The foregoing minutes were passed and approved by the Board of Directors on July 11, 2006.



President, Board of Directors

ATTEST:


Secretary, Board of Directors

(District Seal)