

MINUTES OF MEETING OF BOARD OF DIRECTORS
January 16, 2007

THE STATE OF TEXAS
COUNTY OF HARRIS
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 186

The Board of Directors (the "Board") of Harris County Municipal Utility District No. 186 (the "District") met in regular session, open to the public, at the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Suite 5100, Houston, Texas, at 12:00 p.m. on January 16, 2007; whereupon the roll was called of the members of the Board, to wit:

Gary Henderson, President
Mark Day, Vice President
Carol Barnes, Secretary
Leonard Fojt, Treasurer
Charles Bumpass, Assistant Secretary

All members of the Board were present. Also attending all or parts of the meeting were Mr. Mike McCall of McCall, Gibson & Company, PLLC, auditors for the District, Mr. Bob Leared of Bob Leared Interests ("BLI"), tax assessor and collector for the District; Mr. Charles Eastland of TCB, Inc. ("TCB"), engineer for the District; Mr. Chris Hoffman of H2O Consulting ("H2O"), operator for the District; Ms. Lori Hogue of Myrtle Cruz, Inc., bookkeeper for the District; and Ms. Jana Cogburn and Ms. Nancy Green of Fulbright & Jaworski L.L.P. ("F&J"), attorneys for the District.

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

1. **Minutes.** Consideration was given to the approval of the minutes of the meeting of December 19, 2006, previously distributed to the Board. Director Bumpass noted that the title of item nine of the minutes should read: "consider electronic document recording." Upon motion by Director Bumpass, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of the meeting of December 19, 2006, as revised.

2. **Tax Assessor and Collector's Report.** Mr. Leared presented to and reviewed with the Board the Tax Assessor and Collector's Report, a copy of which is attached hereto as Exhibit "B." Mr. Leared reported that the District has collected 51.748% of the District's 2006 taxes. Upon motion by Director Bumpass, seconded by Director Fojt, 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 checks nos. 1282 through 1288 from the Tax Account in the amounts, to the persons, and for the purposes described in the Tax Assessor and Collector's Report.

3. **Consider property tax exemptions.** Upon motion by Director Day, seconded by Director Bumpass, after full discussion and the question being put to the Board, the Board voted to adopt the Order Adopting Exemption From Taxation for Individuals Who Are 65 Years or Older or Disabled and the Order Adopting Residential Homestead Exemption from Taxation, thereby approving (1) a \$10,000 homestead exemption for residents who are 65 years or older or who are disabled and (2) a homestead exemption of 20% of the appraised value of residential homesteads, copies of which Orders are attached hereto as Exhibit "C."

4. **Operations Report.** Mr. Hoffman presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "D." Mr. Hoffman reported that H2O accounted for 97.8% of the water pumped in the District in December, 2006.

Mr. Hoffman reported that the District pumped 5,060,000 gallons of water during the last period and that the District has 234,940,000 gallons and 11 months remaining on its Harris-Galveston Coastal Subsidence District Permit. Mr. Hoffman noted that invoices to EP Brady for builder damages in the amount of \$2,175.63 have been outstanding for over 90 days and that H2O will aggressively request EP Brady's payment of the past due amount.

Mr. Hoffman presented to and reviewed with the Board the Maintenance Summary, a copy of which is attached to the Operations Report. Mr. Hoffman reported that booster pump no. 3 has been installed and is operational and that H2O is still waiting on the invoice from the supplier.

Mr. Hoffman reported that a chemical adjustment was made to the balanced chemical feed after the surface water start up.

Mr. Hoffman stated that H2O repaired the operating nut for the fire hydrant damaged by a contractor. Mr. Hoffman stated that a new traffic lid was fabricated and installed to replace a meter vault lid behind Randall's that was stolen.

Mr. Hoffman reported that the walls of the meter vault that serves the Ross store are collapsing and the that entire vault needs to be repaired at an estimated cost of \$2,150. Upon motion by Director Day, seconded by Director Barnes, after full discussion and the question being put to the Board, the Board voted unanimously to approve the vault meter repair at an estimated cost of \$2,150.

Mr. Hoffman reported that the fire hydrant along Ridge Park was relocated because of the construction for the new office buildings and that the cost was paid by the contract or as part of the tap fees.

Mr. Hoffman reported that the sewer line repair work is continuing on phase seven and nine, priority two repairs, a summary copy of which is attached to the Operations Report.

Mr. Hoffman stated that H2O is working with TCB on the water conservation plan required by the WHCRWA.

Mr. Hoffman reported that H2O received a letter requesting a credit on an unusually high water bill at the home of Ms. Cho on 7206 Palisades Heights, a copy of which letter is attached to the Operations Report. Mr. Hoffman stated that the owner disputes the usage amount, so H2O checked the home for a leak, but none was found. Discussion ensued on District policies and possible causes for high water bills. Upon motion by Director Bumpass, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted unanimously to deny the credit because the request does not meet the requirements of the District's policy (which require evidence that a leak has been repaired). The Board agreed to offer the owner an opportunity to pay the bill over a six month period.

5. **Bookkeeper's Report and Approve Investment Report.** The President recognized Ms. Hogue, who presented to and reviewed with the Board the Bookkeeper's Report, the monthly Investment Report, and the District's proposed budget for the year ending February 29, 2008, copies of which are attached hereto as Exhibit "E." Ms. Hogue reported that the construction account could be closed. Director Henderson requested that Ms. Hogue circulate the budget to the Board a few days before the February meeting. Upon motion by Director Barnes, seconded by Director Bumpass, 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. 5554 through 5574 (omitting check 5565) from the Operating Account, each in the amounts, to the persons, and for the purposes described in the Bookkeeper's Report, to authorize closing the construction account, and to approve the monthly Investment Report.

6. **Approve Investment Report.** This item was approved with the Bookkeeper's Report.

7. **Approve Budget for the fiscal year ending February 29, 2008.** This item was deferred until the February meeting.

8. **Engage auditor for the fiscal year ending February 28, 2007.** Mr. McCall reviewed with the Board the engagement letter for the audit of the District for the year ending February 28, 2007, a copy of which is attached hereto as Exhibit "F." Mr. McCall discussed fraud as it applies to municipal utility districts and the Board's responsibility for reporting fraud. Upon motion by Director Barnes, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted unanimously to engage McCall, Gibson & Company, PLLC as the District's auditor for the fiscal year ending February 28, 2007, and to authorize the Board President to execute the engagement letter.

9. **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 stated that TCB has prepared a draft water conservation plan for the Board to review, a copy of which is attached hereto as Exhibit "H." Discussion ensued on updating the plan in five years. Upon motion by Director Day, seconded by Director Barnes, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Order Adopting Water Conservation Plan, Providing for Implementation and Enforcement Thereof, and Containing other Provisions Related to the Subject, thereby approving the water conservation plan.

Mr. Eastland reported that TCB has prepared exhibits identifying the final 3842 feet of sanitary sewer lines that have not been televised and that the exhibits are being hand delivered to H2O today so that they can coordinate the televising of the phase 11 sanitary sewer lines. Upon motion by Director Bumpass, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted unanimously to authorize TCB to have the sanitary sewer lines televised at a cost not to exceed \$15,000.

Mr. Eastland stated that TCB is continuing to coordinate with WHCRWA to receive the shape file of the WHCRWA lines when it is complete. Mr. Eastland stated that TCB would incorporate the shape file into the Copperfield GIS mapping file.

Mr. Eastland discussed the conversion to surface water and reported that the final walkthrough was performed on December 7, 2006. Mr. Eastland reported that the R&B Group has completed all of the work for the surface water conversion. Mr. Eastland reported that TCB has prepared that WHCRWA reimbursable submittal for Board review, but that the submittal does not include H2O's reimbursement costs or TCB's costs for closing out the job. Mr. Eastland reported that TCB reviewed the O&M manuals and has requested that R&B Group revise the manuals to include electrical data and control diagrams.

Mr. Eastland reviewed progress payment no. 14, in the amount \$17,901.54, as submitted for the final payment to R&B Group for the work completed to date, a copy of which is attached to the Engineers Report. The Board requested that Ms. Hogue hold the check for progress payment no. 14 until the remaining outstanding issues are resolved.

Mr. Eastland reported that as requested at the CJOB meeting on October 4, 2006, TCB is holding any further design work on the reclaimed water system until notified to proceed.

10. **Discuss and take action in connection with conversion to surface water.** This topic was discussed in the Engineer's Report.

11. **Discuss reclaimed water system.** This topic was discussed in the Engineer's Report.

12. **Report on Copperfield Joint Operations Board meeting.** Nothing was discussed.

13. **Consider electronic document recording.** Upon motion by Director Barnes, seconded by Director Bumpass, after full discussion and the question being put to the Board, the Board voted four in favor (Director Fojt opposed) to authorize F&J to electronically record District documents and provide access for District directors and consultants at a cost of \$3,500.

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

President, Board of Directors

ATTEST:

Secretary, Board of Directors

(DISTRICT SEAL)