

MINUTES OF MEETING OF BOARD OF DIRECTORS
October 27, 2010

THE STATE OF TEXAS
COUNTY OF HARRIS
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 163

The Board of Directors (the "Board") of Harris County Municipal Utility District No. 163 (the "District") met in regular session, open to the public, at the offices of Severn Trent Services, 16337 Park Row, Houston, Texas, at 11:00 a.m., on Wednesday, October 27, 2010; whereupon the roll was called of the members of the Board, to wit:

Thomas I. Jackson, President
Shannon Birdwell, Vice President & Treasurer
Janet Meaux, Secretary
Sandra Musgrove, Assistant Secretary
David C. Tamm, Assistant Secretary

All members of the Board were present. Also attending all or parts of the meeting were Mr. Ben Agee and Mr. Bill Richmond of Severn Trent Services ("ST"), operators of the District's facilities; Ms. Beulah Kelly of Myrtle Cruz, Inc. ("MCI"), bookkeeper for the District; Ms. Julia McCain of McCall Gibson Swedlund Barfoot, PLLC ("MGSB"), auditors for the District; and Ms. Nancy Green of Fulbright & Jaworski L.L.P. ("F&J"), attorneys for the District.

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

1. **Review Tax Assessor and Collector's Report and authorize payment of bills.** The Board reviewed the Tax Assessor and Collector's Report, a copy of which is attached hereto as Exhibit "D." Upon motion by Director Birdwell, seconded by Director Musgrove, 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. 2531 through 2533 from the Tax Account in the amounts, to the persons, and for the purposes described in the Tax Assessor and Collector's Report.

2. **Bookkeeper's Report and Monthly Investment Report.** Ms. Kelly reviewed with the Board the Bookkeeper's Report, the Energy Report, the Director meeting attendance report, the Operating Budget Comparison and the Investment Report, copies of which are attached hereto as Exhibit "E."

Upon motion by Director Meaux, seconded by Director Birdwell, 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. 6213 through 6231 from the General Operating Fund and check no. 4234 from the Impressed Account, each in the amounts, to the

persons, and for the purposes described in the Bookkeeper's Report, to approve the Investment Report and to authorize Director Jackson to execute the Investment Report.

3. **Minutes.** Consideration was given to the minutes of the regular meeting of September 22, 2010, previously distributed to the Board. Upon motion by Director Tamm, seconded by Director Birdwell, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of the regular meeting of September 22, 2010, as presented.

4. **Approve audit for the fiscal year ending June 30, 2010.** Ms. McCain reviewed the audit for the fiscal year ending June 30, 2010 and the Management Letter, copies of which are attached hereto as Exhibit "F." Director Jackson reported that the Management Discussion and Analysis of earnings on page three needs to be modified for next year. Director Jackson noted that he and Director Birdwell reviewed the audit and requested certain changes. Ms. McCain reviewed the notes. Ms. McCain reported that the bookkeeper will receive a copy of the adjusted entries to the Debt Service Fund this week. Upon motion by Director Birdwell, seconded by Director Tamm, after full discussion and the question being put to the Board, the Board voted unanimously to approve the audit for the fiscal year ending June 30, 2010 and to authorize each Director to sign the management letter.

5. **Review Operations Report and authorize repairs.** Mr. Agee presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "G."

Mr. Agee reported that an irrigation tap was installed at Longenbaugh and River Gardens. Mr. Agee reported that the cost of the repairs at Maple Manor and the cost of the line televising are included in the September invoices.

Mr. Agee reported that the Third Coast damage receivables total \$12,249.63. In response to a question from Director Musgrove, Ms. Green stated that she spoke with Steve Maize and telephoned Scottsdale Insurance to obtain information about the insurance claim but has not received any information. Director Musgrove requested that the District prepare a letter to Harris County requesting all contract documents, bonds, insurance and any and all contracts related to Harris County Job No. 09/0431 for the traffic signal installation work in the District. Upon motion by Director Tamm, seconded by Director Birdwell, after full discussion and the question being put to the Board, the Board voted unanimously to authorize Ms. Green to prepare a letter to Harris County and to sign the letter on behalf Jackson requesting the public records related to all contract documents, bonds, insurance and any and all contracts related to Harris County Job No. 09/0431.

Mr. Agee reported that the District pumped 231,000 gallons of water and purchased 18,125,000 gallons of water from the West Harris County Regional Water Authority ("WHCRWA") in the month of September. Mr. Agee stated that ST performed testing on six bacteriological samples in September, all of which were negative. Mr. Agee reported that two months of water usage remain on the District's aggregate Harris-Galveston Subsidence District Permit with the WHCRWA.

Mr. Agee reported that ST accounted for 96.73% of the water pumped in the District during the last period.

Mr. Agee reviewed the peak daily flow chart, a copy of which is attached to the Operations Report. Mr. Agee reviewed the monochloramine residuals for September. Director Tamm requested that Mr. Agee update the chart. Mr. Agee noted that the numbers on the right of the chart reflect the change in residual and the numbers on the left of the chart reflect the residual numbers. Director Jackson noted that his water has a lake odor. Mr. Agee stated that the dead end lines are flushed at least once per month.

Mr. Agee reviewed the fluoride residual chart for September.

Mr. Agee reviewed the rainfall chart for September. Mr. Agee reported that the lack of rainfall is reaching the 20 day threshold to trigger the Drought Contingency Plan. Director Tamm reported that if the trigger is met, the District does not need to implement the stage one procedures. Upon motion made and duly seconded, after full discussion and the question being put to the Board, the Board voted unanimously to not implement the stage one procedures of the Drought Contingency Plan if the 20 day threshold is reached.

Mr. Agee reviewed the operating budget summary from July 2010 to present.

Mr. Agee reviewed the basic operations breakdown of expenditures.

Mr. Agee reviewed the delinquent list for the month of September and noted that 154 accounts are on the list. Mr. Agee requested Board approval to write off one account. Mr. Agee stated that the accounts will be disconnected on November 3 2010, if payment is not received by 5:00 p.m. on November 2, 2010. Upon motion by Director Tamm, seconded by Director Meaux, after full discussion and the question being put to the Board, the Board voted unanimously to write off one account and to terminate service to the accounts on the delinquent list on November 3, 2010, if payment is not received by 5:00 p.m. on November 2, 2010.

Mr. Agee reviewed with the Board the Usage Analysis for the Southcreek Village Home Owner's Association ("HOA"), a copy of which is attached to the Operations Report. Discussion ensued regarding District reimbursements for irrigation controllers purchased by HOAs. The Board requested that F&J prepare a letter notifying HOAs in the District of the conditions and qualifications for obtaining reimbursements for irrigation controllers and to send the letter to the operator for comments. Following receipt of the operator comments, the Board requested that Ms. Green send the letter to the Board for comments. The Board requested that the letter include the following information:

- * HOA must provide proof that no more than one controller was installed, per meter connection, along with a copy of the invoice
- * HOA must provide proof that the meter meets or exceeds the water conservation standards of the Rainbird ESP-SMT Smart Control System
- * HOA must assume responsibility for the operation and maintenance and replacement of the meter(s)

- * District will pay half of the cost or up to \$1,000 to reimburse the HOA for the meter equipment if the equipment meets the water conservation standards of the Rainbird ESP-SMT Smart Control System

Mr. Agee reported that a sanitary sewer manhole at 8646 Pine Falls caused driveway issues and the manhole may need to be sealed before the driveway is repaired. Mr. Agee reported that the estimated cost to repair the manhole is \$1,000 and the estimated cost to repair the driveway is \$2,000.

Mr. Agee reported that the manhole overflowed at Maple Manor near the lift station four times in the last four years due to a sewer stoppage. Mr. Agee reported that sewer line televising revealed that a safety cone was in the line. Director Jackson stated that he prefers the line to be jetted on an annual basis. Mr. Agee reported that the cost to jet the line once per year is less than \$1,000. Mr. Agee reported that root problems were noted during the televising with over 100 longitudinal cracks in the truss pipes. In response to a question from Director Jackson, Mr. Agee reported that there were no catastrophic problems revealed in the televised footage. Discussion ensued on the need to televise the line on an annual basis. The Board did not reach a consensus to proceed with additional preventative maintenance.

Director Birdwell left the meeting at this time.

In response to a question from Director Tamm, Mr. Agee stated that tests reveal that the well is being run an adequate amount of time.

6. **Discuss WHCRWA meeting.** Director Meaux noted that she attended the meeting and discussions did not include reimbursement requirements for the surface water connections. Director Meaux requested Board approval to attend the Texas Water Environment Horizon conference in Austin on November 4, 2010. Upon motion by Director Tamm, seconded by Director Musgrove, after full discussion and the question being put to the Board, the Board voted unanimously to authorize Director Meaux to attend the conference in Austin.

7. **Consider WHCRWA Optional Capital Advance and Reimbursement Procedure.** The Board reviewed the WHCRWA Optional Capital Advance and Reimbursement Procedure, a copy of which is attached hereto as Exhibit "G." No action was taken.

8. **Discuss CJOB meeting.** Directors Meaux and Musgrove reported that they attended the October meeting. Director Musgrove reported CJOB approved ordering a new gear drive and the cleaning of aeration basin #7. Director Meaux reported that the Spill Prevention Control and Countermeasures draft was distributed for CJOB's review and comments. Director Meaux reported the operator requested signature authority for the Republic Waste sludge disposal manifest.

9. **Amend Rate Order.** Upon motion by Director Musgrove, seconded by Director Meaux, after full discussion and the question being put to the Board, the Board authorized amending the Rate Order as discussed at the September meeting.

10. **Review District Policies (Emergency Preparedness items).** Director Meaux reported that she reviewed the District's Emergency Preparedness Plan and noted that it

is redundant to the 2005 plan. Director Meaux recommended no changes to the District Policies with respect to this matter.

11. **Review Engineer's Report.** The Board reviewed the Engineer's Report, a copy of which is attached hereto as Exhibit "H."

12. **Review of Open Items.** The Board reviewed the open items.

13. **Consider November meeting date.** Upon motion by Director Tamm, seconded by Director Musgrove, after full discussion and the question being put to the Board, the Board voted unanimously to schedule the next meeting for November 18, 2010 at 11:00 a.m.

Upon motion by Director Tamm, seconded by Director Musgrove, after full discussion and the question being put to the Board, the Board voted unanimously to adjourn the meeting.


THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, the meeting was adjourned.

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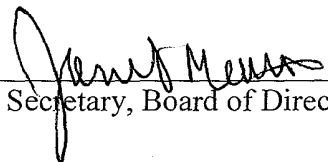
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The above and foregoing minutes were passed and approved by the Board on November 18, 2010.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)