

NO. 2002-13

MINUTES OF MEETING
OF
BOARD OF DIRECTORS
October 14, 2002

THE STATE OF TEXAS §

COUNTY OF HARRIS §

BRIDGESTONE MUNICIPAL UTILITY DISTRICT §

The Board of Directors (the "Board") of Bridgestone Municipal Utility District (the "District") met in regular session, open to the public, at the Bridgestone Baptist Church, 21825 Bridgestone Lane, Spring, Texas, its regular meeting place within the boundaries of the District, on Monday, October 14, 2002, at 6:00 p.m.; whereupon, the roll was called of the members of the Board, to-wit:

Adrian E. Steffes	-	President/Investment Officer
Brad Dill	-	Vice President
Robert J. Joyce	-	Secretary
Jim Marks	-	Assistant Secretary
Skip Warren	-	Treasurer

All members of the Board were present, thus constituting a quorum. Also attending the meeting were Ms. Pat Hall of Equi-Tax, Inc., tax assessor/collector for the District; Ms. Mary Jarmon of Myrtle Cruz, Inc., bookkeeper for the District; Messrs. Pat Hogan, P.E. and Erich Peterson of Jones & Carter, Inc. ("Jones & Carter"), engineers for the District; Messrs. Tom Dunn and Joe Almaguer of AquaSource, Inc. ("AquaSource"), operators for the District; Mr. Erik Haaland of Terra Prima LTD, development manager for RH of Texas Limited Partnership, developers of the Bridgestone Ranch and Stone Forest subdivisions within the District; Mr. Robert Hudson of Texas Investment and Development Company, developer of the Bridgestone Lakes subdivision within the District; Mr. Ron Walkoviak, P.E. of Development Consultants, Inc., and Mr. Dennis Eby, P.E., of Eby Engineers, Inc., representing Mr. Sam Amber, owner of property requesting annexation into the District; Mr. Ken Adam representing the owners of the Schoessow property proposed for annexation into the District; Mr. Frank Fitzgerald, proposed purchaser and developer of a portion of the Schoessow property requesting annexation into the District; Mr. Randy P. Arbuckle, P.E. of RPA Engineering, Inc., representing Mr. Peter S. Terpstra, owner of a 5.1-acre tract requesting annexation into the District; Mr. Jim West of West/Hallbeck Investments and Mr. Fred Magee of FTM Realty, representing prospective purchasers of property proposed to be annexed into the District; Mr. Wayne Harris, Building and Grounds Committee Chairman for the Bridgestone Baptist Church (the "Church"); Mr. Gary Palmer, a resident of the District; and Ms. Robin S. Bobbitt, attorney, and Ms. Brooke T. Dold, paralegal, of Johnson Radcliffe Petrov & Bobbitt PLLC, attorneys for the District. Numerous members of the Church were also present at the meeting. Copies of the sign-in sheets for those in attendance are attached hereto.

WHEREUPON, the meeting was called to order and evidence was presented that public notice of the meeting had been given in compliance with the law. The posted notices of the meeting are attached hereto.

PUBLIC COMMENT

Director Warren introduced Mr. Harris to the Board, who explained that he and fellow members of the Church were attending the meeting to discuss an increasing problem with flooding on the Church property. Mr. Harris stated that the Church could not handle the water that has recently started coming across FM 2920 onto the Church property during periods of rainfall. Mr. Harris noted that Harris County (the "County") had stated that a representative of the County would meet him to investigate the problem, but that no one ever came.

Director Joyce then entered the meeting at 6:10 p.m.

Mr. Hogan then stated that he was surprised the Church seemed to be receiving more water since the two (2) developments north of the Church property have been required to construct detention ponds with pumps sized to pump water into the existing roadside ditches at no faster rate than prior to developing the land. Mr. Hogan explained that the proposed improvements to the Bonds Gully drainage ditch in conjunction with the development of Bridgestone Lakes will greatly improve drainage in the area. Mr. Harris then explained that the water that has caused the flooding problem is being pumped into the ditch along FM 2920 and is coming from the Rhodes Landing development after the rains stop. Mr. Hogan stated that the developer may be pumping water at a higher rate than the design rate to get the area dry for construction. Mr. Hogan stated that his office will contact Sowell & Company ("Sowell"), developer of Rhodes Landing, about the problem. Mr. Harris also expressed concern about the drainage from the Bridgestone Lakes development. Mr. Hudson explained that his drainage was not flowing towards the Church property. Director Steffes asked Mr. Hogan to prepare a letter to Sowell regarding the drainage problem and advising them not to exceed the design flow for the roadside drainage ditches.

Director Warren further noted that water from Bridgestone Ranch was sheet flowing from north to south across Water Plant No. 2 and onto the Church property. Mr. Hogan explained that the new Bonds Gully drainage ditch is designed to handle the Church's outfall drainage and will greatly improve drainage in the area. Mr. Hogan also explained that the rules and regulations regarding detention ponds and drainage outfall are County rules and not the District's or the Texas Commission on Environmental Quality. Mr. Harris noted that he operates \$10,000 worth of pumps on the Church's property to try to control the flooding problems, but that the drainage of water after periods of rain is too much for the pumps to handle. Director Dill stated that the Board had been working on the Bonds Gully drainage issue for several years, and suggested the members of the Church contact Mr. Grundmeyer and ask him to proceed with granting the necessary easements so the Bonds Gully drainage ditch improvements can go forward.

Mr. Haaland then entered the meeting at 6:35 p.m.

Mr. Hudson then asked Mr. Harris if the Church would want some of the dirt from his development to use on the Church property. Mr. Harris responded that he could use the dirt to fill in low areas on the Church property.

Mr. Giles, a member of the Church, noted that if there is a tropical storm or hurricane similar to Allison last year, the Church building will surely flood.

Mr. Harris thanked the Board and exited the meeting with the other Church members at 6:42 p.m.

APPROVAL OF MINUTES

The Board next considered approval of the minutes of the regular meeting of September 9, 2002, previously distributed to the Board. Director Steffes noted a correction to page 3 and Mr. Almaguer noted a correction on page 5 of such minutes. Ms. Bobbitt stated that the minutes would be corrected as noted. Upon motion by Director Dill, seconded by Director Warren, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of September 9, 2002, as corrected.

Approval of the minutes of September 25, 2001, April 16, 2002 and July 17, 2002 was deferred.

Director Marks then entered the meeting at 6:45 p.m.

REVISION TO INSURANCE RENEWAL PROPOSALS

Ms. Bobbitt next explained that following the September meeting, Mr. Peterson had reviewed the property value of the District's facilities and increased the value from \$1,800,000 to \$1,900,000. Ms. Bobbitt then presented revised Property and Boiler and Machinery proposals from Brown & Brown of Texas, Inc. for the Board's execution. Ms. Bobbitt noted that with the revision, the renewal proposal total had increased from \$30,382 to \$31,492. Upon motion by Director Warren, seconded by Director Dill, after full discussion and the question being put to the Board, the Board voted unanimously to authorize execution of the revised insurance proposals outlined above.

REQUEST FOR SERVICE - WEST/MAGEE DEVELOPMENT

The Board next recognized Mr. West, who explained that he and Mr. Magee represented Mr. Jim Field of Austin, Texas, who had purchased 10 acres of the Peter S. Terpstra's 23+ acre tract that was recently annexed into the District. Mr. West then briefly reviewed the plans for commercial development on the tract, noting that there would be a two (2) or three (3) story office building constructed on the tract. A copy of a map showing the location of the 10-acre tract is attached hereto. Mr. Hogan explained that a service feasibility study for the tract needs to be prepared now that the land use has been determined. Mr. West then presented a check in the amount of \$3,000 to the District for the service feasibility study. Upon motion by Director Dill, seconded by Director Joyce, after full discussion and the question being put the Board, the Board voted unanimously to authorize Jones & Carter to prepare the service feasibility for the 10-acre tract.

FEASIBILITY STUDY FOR TERPSTRA 5.1 -ACRE TRACT

Mr. Hogan then reviewed the engineer's feasibility study for the annexation of a 5.1-acre tract owned by Peter S. Terpstra, located east of Kuykendahl Road at Rhodes Road, a copy of which is attached hereto. Mr. Hogan reported that the District does not currently have adequate water capacity in the existing Water Plant facilities to serve the tract, but noted that the District intends to purchase additional water from the North Harris County Regional Water Authority to meet the future water demands of the District. Mr. Hogan stated that the District's existing 12-inch waterline will extend northward along Kuykendahl Road and under Kuykendahl Road to the tract. Mr. Hogan also explained that the District does have sufficient sewer capacity to serve the tract based on the requested flow of 17,850 gallons per day. Mr. Hogan added that the tract will require a grinder-pump lift station and force main that will run south along the east side of Kuykendahl Road to Bridgeview Lane and continue eastward along Bridgeview to an existing manhole. Mr. Hogan went on to explain that the wastewater flow will then continue through the District's existing 10-inch and 24-inch gravity sanitary sewer lines to the District's Sewage Treatment Plant (the "STP"). Mr. Hogan noted that the proposed use of the tract is commercial/retail development. Director Dill then requested that Mr. Hogan revise page 2 of the feasibility study to clarify that the \$0.80 per \$100 assessed valuation was a debt service rate. In summary, Mr. Hogan stated that the annexation is feasible, that the estimated assessed value of the tract is \$5 million and noted that a reimbursement calculation worksheet is included in the feasibility study pursuant to the District's Reimbursement Policy. Mr. Hogan added that based on the reimbursement analysis, the proposed development would financially support itself at 98% developer reimbursement based on the District's existing reimbursement tax rate.

Upon motion by Director Dill, seconded by Director Joyce, after full discussion and the question being put to the Board, the Board voted unanimously to accept the feasibility study, to move forward with the annexation of the 5.1-acre Peter S. Terpstra tract upon receipt of an annexation deposit in the amount of \$5,000, and to authorize the District's engineer and attorney to prepare the necessary annexation documents and agreements.

DEVELOPER REPORTS

Mr. Haaland first reported that he had prepared a calculation of reimbursement costs for the Stone Forest development at build-out and provided copies of such information to the engineer, attorney and financial advisor. Mr. Haaland added that he is working with Jones & Carter on the design of the utilities for Stone Forest, Section 4, which will go forward next Spring.

Mr. Hudson then reported that in addition to the 86-acre and 11.5-acre tracts that he now owns and is going to annex into the District, he is also trying to purchase five (5) director lots located adjacent to such property. Mr. Hudson further reported that he has also purchased an additional 25 acres that will be developed as Bridgestone Lakes, Section 3.

Ms. Hall then entered the meeting at 7:04 p.m.

Mr. Hudson went on to report that he had met with Mr. Grundmeyer last week and obtained a letter consenting to the installation of a 54-inch storm sewer pipe in the proposed

30-foot drainage easement across the southeast corner of Mr. Grundmeyer's property. A copy of such letter agreement is attached hereto. Mr. Hudson noted that Mr. Grundmeyer was still waiting for Mr. Joe B. Allen of Vinson & Elkins L.L.P. to advise him concerning the easement acquisitions that Mr. Hudson and Ms. Bobbitt have been trying to acquire for months from Mr. Grundmeyer. Further discussion of the matter then ensued. Ms. Bobbitt then recommended that the District proceed with eminent domain proceedings if Mr. Grundmeyer does not agree to the easement acquisition within the next 10 to 14 day period. Upon motion by Director Dill, seconded by Director Marks, after full discussion and the question being put to the Board, the Board voted unanimously to authorize Ms. Bobbitt to prepare a final letter to Mr. Grundmeyer to notify him that the District will begin eminent domain (condemnation) proceedings to acquire the necessary easements under Section 49.222, Texas Water Code, as amended, and Chapter 21, Texas Property Code, as amended, if an executed agreement is not received from him concerning the acquisition of the easements by October 23, 2002.

Mr. Adam then reported that he had returned the executed annexation petitions and documentation for the Schoessow tracts to Ms. Dold.

Mr. Fitzgerald reported that he had submitted all of the annexation information and documents to Ms. Dold concerning the 53 acres that he is purchasing from the Schoessow family.

TAX ASSESSOR/COLLECTOR'S REPORT

Ms. Hall next reviewed the Tax Assessor/Collector's Report for the month of September with the Board, a copy of which is attached hereto. Ms. Hall reported that 96.4% of the District's 2001 taxes had been collected as of the date of the Report. Ms. Hall further noted that the District's 2002 tax statements were mailed the previous Friday.

Ms. Hall then reviewed the Delinquent Tax Report with the Board, a copy of which is attached hereto. Ms. Hall noted that the second group of delinquent accounts reflected on the Report (comprised of four (4) accounts) did not have service terminated because either a tenant occupies the property or the property is vacant. Ms. Hall stated that the delinquent tax attorney had ordered title work on such accounts. Ms. Hall stated that she would continue to work with the delinquent tax attorney to monitor the installment payment agreements.

Upon motion by Director Joyce, seconded by Director Dill, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Tax Assessor/Collector's Report and authorize payment of the checks reflected therein.

REVIEW AND ACCEPT PETITIONS FOR ADDITION OF LAND AND AUTHORIZE SUBMISSION OF PETITIONS FOR CONSENT TO ANNEX LAND TO THE CITY OF HOUSTON

Ms. Bobbitt next reported that the District had received Petitions for Addition of Land from Carl Schoessow and Frank Fitzgerald for 275 acres and Petitions for Addition of Land from KPC Limited Partnership ("KPC") for 7.5 acres. Upon motion by Director Warren, seconded by Director Dill, after full discussion and the question being put to the Board, the Board voted unanimously to accept the Petitions for Addition of Land from Carl Schoessow and

Frank Fitzgerald and KPC and to authorize execution of the corresponding Petitions for Consent to Annex Land to the City of Houston. Copies of all such Petitions are attached hereto.

Ms. Jarmon then distributed copies of her updated summary of annexation costs, a copy of which is attached hereto.

ANNEXATION AND SERVICE AGREEMENT AND AGREEMENT FOR FINANCING OF FACILITIES REGARDING PROGUARD MINI STORAGE LTD.

Ms. Bobbitt next presented drafts of an Annexation and Service Agreement and Agreement for Financing of Facilities for Proguard Mini Storage LTD ("Proguard") (167-acre Amber tract) (collectively, the "Agreements") and reviewed such Agreements with the Board. Ms. Bobbitt explained that the Agreements include some of the same provisions included in the agreements that the District has with Milestone Properties, Inc. ("Milestone") since the Milestone, Amber, KB Home Lone Star LP and A-K-S-L 36 2920, L.P. tracts will all share in the costs of constructing the trunk utility lines and Lift Station No.5 to serve such tracts. Ms. Bobbitt stated that Mr. Amber's attorney had reviewed the proposed Agreements and requested several revisions, which she then reviewed with the Board. The Board concurred with such changes. Ms. Bobbitt then reminded the Board that Mr. Amber's land was not included in the cost summary for the additional bond authorization approved on August 11, 2001, and that Mr. Amber had expressed concern about the District possibly not having adequate bond authorization for his tract. Ms. Bobbitt recalled the Board's prior discussions about reallocating the bond authorization as the various developments go forward. Further discussion then ensued regarding the language to be used on page 5 of the Annexation and Service Agreement regarding the bond authorization. Director Dill reiterated and emphasized the Board's intention to allocate the bond authorization to the developers on a first-come-first-serve basis. Director Marks suggested that the language in the Annexation and Service Agreement concerning reimbursement coincide with the language in the Agreement for Financing of Facilities. Ms. Bobbitt stated she would revise the Annexation and Service Agreement as discussed.

Upon motion by Director Dill, seconded by Director Joyce, after full discussion and the question being put to the Board, the Board voted unanimously to approve and authorize the execution of the Annexation and Service Agreement and the Agreement for Financing of Facilities with Proguard, subject to Ms. Bobbitt making the necessary revisions. Copies of such agreements are attached hereto.

Mr. Eby then exited the meeting at 7:30 p.m.

BOOKKEEPER'S REPORT

Ms. Jarmon next reviewed the Bookkeeper's Report with the Board, including the revenues and expenses of the District and the checks being presented for payment, a copy of which is attached hereto. Ms. Jarmon noted that some of the surplus in the Capital Projects Fund is from unused escrowed funds from a previous bond issues. Ms. Jarmon then reviewed a summary of the surplus funds, a copy of which is attached hereto.

Director Dill then reported that he had spoken with Mr. Peterson last Thursday and with Mr. Short earlier today to discuss developer reimbursements and the timing for the issuance of

District bonds. Director Dill stated that he wanted to meet with the financial advisor to review all of the development projects the District has underway and to look at managing the future bond issues to be sure the District does not end up with tax rate problems and is able to maintain a stable tax rate. Director Dill also explained that Mr. Short has stated the District may be able to refund \$5 million of the District's outstanding bonds that could result in a savings of approximately \$500,000 to the District with no extension of the bond maturities. Director Dill stated that he was scheduled to meet with Mr. Short on Thursday to come up with a five (5) to ten (10) year recommendation for the District's future bond issues. It was then determined that a special meeting of the Board would be scheduled for Wednesday, October 23, 2002, at 7:00 p.m. at the STP to discuss the proposed refunding and a long-range plan for the District's future bond issues.

Ms. Jarmon went on to report that check no. 6123, in the amount of \$34,873.07, to Harris County Precinct 4, represented the reimbursement amount to the County for improvements to Ditch "C". Ms. Bobbitt stated her office will prepare a transmittal letter and forward the check to the County.

Ms. Jarmon next reviewed the budget comparison for nine (9) months ending September 30, 2002, a copy of which is attached to the Bookkeeper's Report. Ms. Jarmon stated that she would prepare a draft of the proposed budget for the fiscal year ending December 31, 2003 for review at the Board's November meeting.

Ms. Jarmon next reviewed the Investment Report with the Board, a copy of which is included in the Report. Ms. Jarmon noted that the District's investments were doing better than average, with many investments earning an interest rate near 2.5%.

Ms. Jarmon next reported that she had reviewed the unclaimed property information in the District's name that was forwarded to her from AquaSource and did not find any evidence that the property belonged to the District. Ms. Jarmon stated that she would provide the information to Ms. Hall to further investigate the matter.

Upon motion by Director Warren, seconded by Director Joyce, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Bookkeeper's Report and the payment of the checks reflected therein.

ANNUAL REVIEW OF INVESTMENT POLICY

Ms. Bobbitt then explained that the Public Funds Investment Act requires annual review of the District's Investment Policy by the Board and presented a copy of the Order Regarding Annual Review of Rules, Policies, and Code of Ethics for the Investment of District Funds for the Board's review and adoption, a copy of which is attached hereto. Upon motion by Director Marks, seconded by Director Joyce, after full discussion and the question being put to the Board, the Board voted unanimously to adopt such Order.

DIRECTOR'S INSPECTION REPORT

Director Marks then presented his Director's Inspection Report, a copy of which is attached hereto. Director Marks noted that the grass needed to be mowed at all of the plant sites.

Director Marks reported that there are 3-inch by 3-inch scrapes on the new ground storage tank at Water Plant No. 2 that appear to have occurred during the installation of the solid flashing around the top of the tank. Director Marks added that the paint is peeling off of the new pipe bollards at Water Plant No. 2. Director Marks also noted that the 10½-inch waterline in and out of the booster pump building has no flashing around it and needs to be fixed. Mr. Hogan stated that both items should be under warranty with the contractor. Director Marks then circulated several photos of the new storage tank and of sand left on the driveway after flooding at the plant site. Mr. Hogan again stated that he would contact Mr. Harrison of Sowell about the stormwater pumping rate from the Rhodes Landing development. Concerning Water Plant No. 3, Director Marks reported that the control room needed painting and commented that Senator Lindsay's trees have grown up again and need to be trimmed to prevent damage to the District's facilities.

Upon motion by Director Dill, seconded by Director Warren, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Director's Report. Ms. Bobbitt reminded Director Warren that he was scheduled to inspect the District's facilities for the months of November and December.

OPERATOR'S REPORT

Mr. Dunn then reviewed the Operator's Report with the Board, a copy of which is attached hereto. Mr. Dunn reported that the water accountability ratio for the month was 96.5%, with a year to date average of 95.1% and that there were eight (8) sludge hauls during the month. Mr. Dunn reported that there are currently 2,311 connections in the District, 37 of which are vacant. Mr. Dunn noted that there had been no excursions at the STP during the prior month.

Mr. Dunn reminded the Board that he had received and reviewed with the Board at last month's meeting a quote of \$3,900 from Southland Fence & Supply Co. ("Southland") for the installation of an automatic gate opener, key pad and pipe bollards at the STP and asked the Board to execute a check at tonight's meeting for the payment to Southland. Mr. Dunn added that the gate installation work is already underway. Upon motion by Director Dill, seconded by Director Joyce, after full discussion and the question being put to the Board, the Board voted unanimously to authorize execution of a check to Southland to be held until installation of the automatic gate at the STP is completed.

Mr. Dunn next reported that the sewer line in the 4700 block of Roserock had been jetted to remove a grease blockage. Mr. Dunn and Mr. Almaguer then reviewed information regarding the installation of check valves on residential sewer line connections to avoid sewer back-ups, a copy of which is attached hereto. An extensive discussion ensued regarding the various types of devices; however, the Board took no action on such matter.

Mr. Almaguer went on to report that the well motor on Well No. 1 at Water Plant No. 2 had failed during the month and that Director Steffes had authorized AquaSource to repair the motor at a cost of \$4,057. A copy of the pay estimate for such work is attached hereto.

Mr. Dunn then reported that AquaSource had obtained an estimate from Houston Services Industries, Inc. ("HSI") for repairs to the check valves on the blowers at the STP in the total amount of \$1,890, a copy of which is attached hereto. Director Dill inquired if there had

been a problem with the blowers. Mr. Almaguer stated that HSI found the problems during the semi-annual maintenance inspection of such equipment. Mr. Almaguer stated that the check valves on blower nos. 1, 2 and 3 had been repaired and that the check valves on blower nos. 4 and 5 remain to be done at the same price reflected on the cost estimate. Upon motion by Director Dill, seconded by Director Joyce, after full discussion and the question being put to the Board, the Board voted unanimously to approve the cost estimate and authorize the blower repairs as outlined.

Upon motion by Director Joyce, seconded by Director Marks, after full discussion and the question being put to the Board, the Board voted to approve the Operator's Report and the service terminations to the delinquent accounts. A copy of the service termination list is attached hereto.

Director Steffes then reported that the garbage crew had thrown a garbage can on his daughter's car earlier in the day and that his daughter had observed the crew's action. Ms. Bobbitt stated that her office would contact Republic Waste Services, Inc. regarding the matter.

ENGINEER'S REPORT

Mr. Hogan then presented the Engineer's Report to the Board, a copy of which is attached hereto.

Concerning Water Plant No. 1, Mr. Hogan reported that the foundation for the new ground storage tank is complete and that the first ring of the tank and a portion of the roof are in place. Mr. Hogan then presented Pay Estimate No. 3 for such project in the amount of \$29,484 for the Board's approval. Director Marks asked if the residents near Water Plant No. 1 were notified about the construction work. Mr. Hogan responded that the residents were not notified of the project and stated that notification is typically only given when the contractor is going to be drilling or working on a 24-hour schedule.

Messrs. Adam and Fitzgerald then exited the meeting at 8:35 p.m.

Mr. Hogan next explained that GASB 34 requires an inventory of the District's above and underground assets in the form of an electronic facilities map. Mr. Hogan explained that the District's facilities are currently not in an electronic form. Mr. Hogan estimated a cost of \$20,000 to prepare the electronic facilities map. A discussion ensued concerning the facilities map. The Board then determined that no action would be taken on the matter at tonight's meeting.

Mr. Hogan then reported that Northwoods Catholic School would be bypass pumping sewage through December 28, 2002 or until completion of Lift Station No. 4.

Mr. Hogan went on to report that bids for the construction of the Kuykendahl Road/FM 2920 trunk lines were received on September 17, 2002 and that the low bidder for such project was Triple B Services, L.L.P. in the amount of \$1,118,616.65. A copy of the bid tabulation is attached hereto. Mr. Hogan added that bids for the construction of Lift Station No. 5 were also received on September 17, 2002 and the low bidder for such project was

Conn's Construction, Inc., with a bid in the amount of \$443,000. A copy of such bid tabulation is attached hereto. Director Dill asked what the engineer's estimate for the two (2) projects had been. Mr. Hogan responded that the total cost estimate had been \$1.5 million.

Mr. Hogan then explained that the construction contracts for Lift Station No. 5 and the Kuykendahl Road/FM 2920 trunk lines would be in the District's name, but that the District would look to the four (4) developers who will utilize the facilities to pay their pro rata share of the contracts to the District. Ms. Bobbitt noted that each of the participating developers, including KB Home Lone Star LP, A-K-S-L 36 2920, L.P., Proguard and Milestone, will be required to execute guaranties for the payment of their pro rata share of the construction costs, related engineering costs and contingencies. Ms. Bobbitt also reminded the Board that the District had agreed to pay \$200,000 of the construction costs for Lift Station No. 5. Director Marks inquired how the \$200,000 would be paid out by the District. Ms. Jarmon recommended that the District's payment to be applied to the pay estimates for such contract as they are received. The Board concurred. Ms. Bobbitt then explained that the Notice to Proceed for the construction contracts would not be issued until all of the guaranties are executed by the developers.

Upon motion by Director Dill, seconded by Director Joyce, after full discussion and the question being put to the Board, the Board voted unanimously to award the construction contracts for Lift Station No. 5 and the Kuykendahl Road/FM 2920 trunk lines to the respective low bidders for such projects as outlined above and to authorize execution of the construction contracts.

Mr. Hogan then reviewed the updated Construction Project Timeline with the Board, a copy of which is attached hereto. Director Dill noted that the Water Plant No. 1 ground storage tank contractor had 139 days to complete the contract and that it appears the project will not be completed on time. Mr. Hogan stated that the contractor was slightly behind schedule, but had not yet taken any rain days that are allowed under the terms of the construction contract.

Mr. Hogan next reviewed a preliminary diagram of proposed modifications to convert the room at the STP into a meeting facility. Mr. Hogan reviewed the diagram with the Board that included a kitchenette, office furniture, meeting table and chairs, a locked storage closet, handicapped accessible restroom, modifications to the air conditioning and a pitched roof. Mr. Hogan stated that the current air conditioner is located on the roof of the building and has leaked into the building at times. The Board agreed it would be best to relocate the air conditioning unit to ground level. Mr. Hogan noted that the proposed modifications would cost an estimated \$40,000 to \$50,000 and, therefore, the project must be publicly bid. Director Steffes commented that the proposed layout did not allow much room for an office for a general manager. Director Dill suggested the District construct a new building near the old lift station on the STP site. Director Steffes suggested the District consider a 40-foot by 40-foot metal building, with a 12-foot pitched roof, restroom facilities, kitchen, acoustical tile ceiling, carpeted meeting area, vinyl flooring in kitchen and locked storage closet. Mr. Hogan asked the Board if they intend to allow other organizations to use the building. The Board stated that no other organizations would be allowed to use the proposed facility, but that the District's elections would be held at the meeting facility. Director Steffes stated he will continue to work with Jones & Carter on the proposed meeting facility.

Mr. Hogan next reported that the Stone Forest drainage issues had not yet been resolved, and that the inlets may need to be extended to accommodate the stormwater runoff. Mr. Hogan added that Jones & Carter will continue to work with Mr. Haaland on the matter.

Mr. Hogan then reviewed with the Board the updated annexation map, a copy of which is attached hereto.

Mr. Hogan next reported that Mr. Peterson was working on obtaining revised security equipment proposals to present at a future meeting of the Board.

Upon motion by Director Dill, seconded by Director Joyce, after full discussion and the question being put to the Board, the Board voted unanimously to approve Pay Estimate No. 3 in connection with the ground storage tank project at Water Plant No. 1 and to approve the Engineer's Report.

DEFERRAL OF ITEMS

Director Steffes then suggested that if there is no objection, agenda items 17, 18 and 19 would be deferred.

ATTORNEY'S REPORT

Ms. Bobbitt then reported that the Web site design information will be forwarded to the Board upon receipt from Ms. Payne.

Mr. Hudson then exited the meeting at 9:12 p.m.

PURCHASE OF AQUASOURCE BY SOUTHWEST WATER COMPANY

Director Warren then voiced his concern over the sale of AquaSource to Southwest Water Company ("Southwest") and commented that Southwest also owns ECO Resources, Inc. Mr. Dunn stated that although Southwest owns both companies, the two (2) companies will compete with each other in the utility district operations business. Director Marks asked Mr. Dunn how the sale will impact what he does for the District. Mr. Dunn stated that he would continue to represent the District and added that he communicates on a daily basis with Mr. Almaguer about District operation matters. Director Marks stated that if Messrs. Dunn and Almaguer continue to operate the District, he would be okay with the new situation. Director Warren stressed the need for the Board to make employing a general manager a top priority. Director Dill suggested that the District advertise for a general manager immediately. Director Marks pointed out that the Board had not yet discussed a salary range for the general manager position. Ms. Bobbitt asked the Board how they wished to proceed and if they would offer benefits for the general manager position. Director Dill stated that he did not want to offer benefits for the position. Director Steffes suggested that the Board further discuss the general manager position at the special meeting on October 23, 2002. The Board concurred with such suggestion.

Mr. Walkoviak then exited the meeting at 9:20 p.m.

There being no further business to come before the Board, the meeting was adjourned at 9:30 p.m.

PASSED, APPROVED AND ADOPTED this 11th day of November, 2002.

/s/Robert J. Joyce

Secretary, Board of Directors

(DISTRICT SEAL)

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