

NO. 2002-12

MINUTES OF MEETING
OF
BOARD OF DIRECTORS
September 9, 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, September 9, 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 Mr. L. Carlin Short, financial advisor for the District; 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. Joe Calderoni representing KPC Limited Partnership ("KPC"), owner of a 7.5-acre commercial tract requesting annexation into 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. Ron Walkoviak, P.E. of Development Consultants, Inc., representing Mr. Sam Amber, purchaser of property requesting annexation into the District; Mr. David Harrison of Sowell & Company, developer of the Rhodes Landing subdivision within the District; Mr. Ronnie Matthews of H.H. Estates, LP, owner of property requesting 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 of RPA Engineering, Inc., representing Mr. Pete Terpstra, owner of a 5.1-acre tract requesting annexation into the District; 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 ("Johnson Radcliffe"), attorneys for the District.

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.

APPROVAL OF MINUTES

The Board first considered approval of the minutes of the regular meeting of August 12, 2002 and the minutes of the executive session of March 11, 2002, previously distributed to the Board. Director Dill noted a correction to page 9 of the August 12th minutes. 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 minutes of August 12, 2002, as corrected, and the minutes of the executive session of March 11, 2002, as written.

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

PUBLIC COMMENT

No public comments were received.

2002 TAX RATE

The Board then recognized Mr. Short, who presented his 2002 tax rate recommendation and debt service analysis to the Board, a copy of which is attached hereto. Mr. Short reported that the assessed valuation in the District has increased by approximately 5.5% and noted that his recommendation reduces the debt service tax from \$0.70 per \$100 assessed valuation to \$0.65 per \$100 assessed valuation. Mr. Short also explained that the tax laws may be changed in the upcoming legislative session to require tax rate calculations and tax hearings again. A discussion then ensued concerning the tax rate recommendation and the amount of debt service tax to be levied. The Board questioned the ramifications of under levying the debt service tax. Mr. Short explained that the District cannot levy a tax rate that exceeds the District's debt service requirements. Mr. Short then reminded the Board that they will need to be careful that the debt service tax is not lowered too low that would require the Board to significantly increase the tax rate at such time as additional bonds are issued by the District. Mr. Short pointed out that revenues from the maintenance tax levy could be allocated to pay debt service, if necessary, thereby enabling the District to lower the debt service tax.

Director Steffes then asked how the future capital contributions to the North Harris County Regional Water Authority (the "Authority") would impact the District's tax structure. Mr. Short responded that he has not prepared calculations concerning the District's share of capital costs for the conversion to surface water.

Mr. Short went on to explain that he had met with the District's engineers to discuss the various development projects and recommended that the Board take advantage of the prevailing low interest rates and authorize the engineers to begin work on a bond application. Mr. Hogan stated that the next bond issue could include the Water Plant No. 1 modification project, the Ditch "C" improvement project, reworking of Water Plant No. 3, Stone Forest, Sections 1, 2 and 3 and possibly some of the new developments located to the west. Mr. Hogan stated that the Water Plant projects, Ditch "C", Stone Forest, Section 1 (\$1.433 million) and Stone Forest, Sections 2 and 3 (\$475,000) would total \$3.8 million. Director Dill commented that Stone Forest, Sections 2 and 3 did not have any value on the ground yet. Ms. Bobbitt noted that there was a considerable amount of lead time required to get a bond application approved by Texas

Commission on Environmental Quality ("TCEQ") (formerly the Texas Natural Resource Conservation Commission). Director Warren asked what the District's net amount of bond funds would be after consultant fees were paid. Mr. Hogan stated that 20% has been used to calculate the costs of issuance, resulting in a total bond issue amount of approximately \$4 million that would net the District approximately \$3.8 million in bond proceeds. Director Warren commented that the District should be reducing its debt and not incurring more debt. Director Dill suggested that the District should first use up excess funds in the Operating Account before issuing additional debt and asked about the current reserve in the Operating Account. Ms. Jarmon responded that there is approximately \$300,000 in excess Operating funds.

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 levy a 2002 tax rate of \$0.77 per \$100 assessed valuation, comprised of \$0.52 per \$100 assessed valuation for debt service purposes and \$0.25 per \$100 assessed valuation for operation and maintenance purposes, to adopt an Order Setting 2002 Tax Rate, a copy of which is attached hereto, and to approve and authorize the execution of the Amended District Information Form and to authorize the District's attorneys to file such Amendment in the Real Property Records of Harris County, Texas and with the TCEQ.

Mr. Short then referred to the bottom of his handout concerning the calculations for the payment of security services from the District's maintenance tax. A brief discussion regarding the matter then ensued. No action was taken by the Board.

Further discussion of the District's next bond application was deferred until the October meeting.

FEASIBILITY STUDY FOR 7.5-ACRE TRACT

Mr. Hogan then reviewed the engineer's feasibility study for the annexation of a 7.5-acre tract owned by KPC, located southeast of Kuykendahl Road and Spring-Stuebner Road and adjacent to the large tract owned by the Schoessow family, a copy of which is attached hereto. Mr. Hogan stated that the use of the tract would be commercial and that service to the 7.5-acre tract would be dependent on the other tracts in the area being annexed into the District and such tracts being developed. Mr. Hogan explained that the developer for the 7.5-acre tract will eventually participate with the other developers in the area for the extension of water and sanitary sewer lines to serve such tracts. Mr. Hogan noted that the timing of the development of the Amber and Schoessow tracts will determine how and where the sanitary sewer line will be extended to the 7.5-acre tract, noting that the existing 24" gravity line does not have capacity to serve the tract or other developments in the area. In summary, Mr. Hogan stated that the annexation is feasible, that his cost calculations were somewhat on the high side to account for the unknown factors that depend on the timing of the development of the other tracts in the area, some of which are already underway. Mr. Hogan added that the estimated assessed value for the tract is \$6 million and noted that a Reimbursement Calculation Worksheet was included in the feasibility pursuant to the District's policy. Mr. Hogan added that based on the reimbursement analysis, the proposed development would financially support itself at 100% developer reimbursement and at the District's 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 and to move forward with the annexation of the 7.5-acre KPC 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.

TAX ASSESSOR/COLLECTOR'S REPORT

Ms. Hall next reviewed the Tax Assessor/Collector's Report for the month of August with the Board, a copy of which is attached hereto. Ms. Hall reported that 96.6% of the District's 2001 taxes had been collected as of the date of the Report.

Ms. Hall then reviewed the Delinquent Tax Report with the Board, a copy of which is attached hereto. Ms. Hall noted that of the 15 accounts listed first on the Report, only Debra Anderson of 21402 Castlemont Lane had responded to the service termination notice and had requested an installment payment agreement, including payment of one-half (1/2) of the delinquent taxes in October. 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 an installment payment agreement with Ms. Anderson, contingent upon Ms. Anderson paying one-half (1/2) of the delinquent taxes in October, 2002 and the remaining balance in November, 2002.

Ms. Hall then continued reviewing the Report and noted that in the next group of 12 accounts, item nos. 2, 3, 7, 8 and 10 had requested installment payment agreements. Director Dill noted he wanted to hold off on item no. 7. 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 approve installment payment agreements with Don and Linda Sanders, Billy and Kathleen Vogel and Henry and Vilma Davila.

Director Warren then inquired when the refinance closing was scheduled for the Heath and Stacy Drummond account. Director Dill suggested that the Board wait to see if the closing takes place prior to the Board's November meeting. 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 delay termination of service to the Drummond account until the Board's November meeting.

Director Warren then exited the meeting at 6:57 p.m.

Concerning the delinquent tax account of Terry and Verleen Hopper (item no. 7, Ms. Hall explained that Ms. Hopper is disabled and can only pay \$50 per month until she receives her tax refund, and that the mortgage company will likely not pay the delinquent taxes until a suit is filed. 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 authorize the delinquent tax attorney to reject the resident's request for an installment payment agreement to pay \$50 per month and to proceed with filing suit on such account.

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 allow Ms. Virginia Pittington to pay her delinquent taxes by no later than October 31, 2002.

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.

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 further noted that a credit had been received from Jones & Carter regarding the engineering on the Ditch "C" improvement project and the Water Plant No. 2 modification project. Ms. Jarmon reported that David Klein's bookkeeper mistakenly paid twice for outstanding annexation costs but that the matter has been resolved. Ms. Jarmon reminded Director Steffes that he was enrolled for the investment officer's training session on September 14th.

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 Bookkeeper's Report and the payment of the checks therein.

Director Marks then entered the meeting at 7:05 p.m.

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 92.6%, with a six (6) month average of 93.9% 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 Sewage Treatment Plant (the "STP") during the prior month.

At the August meeting, Mr. Almaguer was requested to obtain two (2) additional proposals, in addition to the proposal in the amount of \$1,570 previously obtained from NTS, for the replacement of the roller wheels on the two (2) gates at the STP, the replacement of the pipe on the north gate at the STP and for installation of a gate keypad system. The Board then reviewed the additional proposals received from EMS/Electrical Mechanical Service Inc. ("EMS") in the amount of \$1,927 to provide and install an electrical feeder for the gate keypad operator and a proposal from Southland Fence & Supply Co. ("Southland") in the amount of \$3,175 to install a gate operator/receiver and keypad and a 4" pipe bollard to protect the keypad and a proposal in the amount of \$1,000 to replace the lower rollers on both STP gates. Copies of such proposals are attached hereto. Mr. Almaguer noted that neither the EMS nor the Southland proposals include providing a power supply to the keypad. Mr. Almaguer added that he had an estimate of \$1,900 to get power to the keypad. 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 Southland proposal and to authorize the expenditure of an amount up to \$5,100 for a gate keypad system and repair of the gate rollers at the STP.

Mr. Dunn next reported a sewer line backup in the 4700 block of Roserock. Mr. Dunn stated that AquaSource found a large grease blockage in the sewer line at 4723 Roserock and later received a call from the resident of 4727 Roserock that sewage was backing up into his house. A copy of the Unauthorized Discharge Notice received from the TCEQ is attached hereto. Mr. Dunn recommended that the Board authorize jetting out the sewer line along that portion of Roserock and monitoring the line on a monthly basis. Mr. Dunn further suggested that the Board might want to put a notice in the subdivision newsletters and on the Web site recommending residents install check valves on their sewer line connections to avoid future sewer backups. Director Steffes stated that it might be best for the District to install the check valves, and the Board should also consider requiring the check valves on new homes in the District. The Board then requested that Mr. Dunn provide cost information for District installation of check valves in homes in the District.

Mr. Almaguer then reviewed the well performance test reports from GM Services, copies of which are attached to the Operator's Report. Mr. Almaguer noted that the Water Plant No. 2 performance test indicated a high vibration in the lower motor bearing and recommended having the matter investigated. Mr. Almaguer reported that Alsay, Inc. ("Alsay") will provide a cost estimate for the necessary repair. Mr. Hogan agreed that the well motor needed to be repaired. Mr. Almaguer noted that residents continued to complain about the color, smell and softness of the water pumped from the new well at Water Plant No. 2. Mr. Almaguer added that there is nothing wrong with the water, but it is different and some residents do not like the change. Director Steffes questioned the anticipated cost to repair the motor. Mr. Almaguer estimated a repair cost of \$2,000. 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 authorize the repair of the motor bearing at a cost not to exceed \$2,000 and to obtain additional cost estimates should Alsay's estimate exceed \$2,000.

Mr. Dunn then reviewed the well performance test for Water Well No. 3 and Water Well No. 4 and stated that based on the test results, the wells are in good condition.

Upon motion by Director Marks, seconded by Director Dill, after full discussion and the question being put to the Board, the Board voted to approve the Operator's Report and service terminations to the delinquent accounts.

DIRECTOR'S INSPECTION REPORT

Director Marks then presented his Director's Inspection Report, a copy of which is attached hereto. Director Marks asked whether there will be a handrail on top of the new ground storage tank at Water Plant No. 1. Mr. Peterson responded that the tank will have connections for a safety harness system.

REQUEST TO ANNEX 5.1-ACRE KPC TRACT

Mr. Hogan introduced Mr. Arbuckle to the Board and reported that Peter Terpstra has submitted a written request for the Board to consider annexing a 5.1-acre tract of land located on

Kuykendahl Road at Rhodes Road. Mr. Hogan stated that Mr. Terpstra has submitted his Annexation/Service Application and a check in the amount of \$3,000. Mr. Hogan explained that the property would be a retail development. 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 authorize Jones & Carter to proceed with the preparation of an annexation feasibility study for the 5.1-acre tract for the Board's review at the October meeting.

Mr. Arbuckle then exited the meeting at 7:35 p.m.

REQUEST FROM MILESTONE PROPERTIES, INC. REGARDING ANNEXATION OF 28-ACRE TRACT

Mr. Hogan then reported that Milestone Properties, Inc. ("Milestone") was returning to the Board to proceed with annexation of the remaining 28 acres adjacent to their 20-acre tract where they are constructing the new Kroger store. Mr. Hogan reminded the Board that the feasibility study prepared last year for Milestone included the feasibility of the 28-acre tract.

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 the District's consultants to proceed with the preparation of an Annexation and Service Agreement and the necessary annexation documents upon receipt of a \$5,000 annexation deposit from Milestone.

DEVELOPER REPORTS

Mr. Haaland first reported that the utilities in Stone Forest, Sections 2 and 3 were complete and they were ready to begin paving in Stone Forest, Section 3. Mr. Haaland reported that Ryland Homes had closed on 41 homes and are scheduled to close on the sale of 12 more homes this month.

Mr. Walkoviak next reviewed with the Board the proposed land plan for the development of Mr. Amber's 165-acre tract. Mr. Walkoviak stated that they had recently met with Harris County representatives concerning the Grand Parkway alignment and its potential impact on the development of the property.

Mr. Harrison then reported that the paving in Rhodes Landing was complete and that lots would be ready for builders within the next several weeks. Mr. Harrison also reported that the final plat for the development had been submitted for recording.

The Board then reviewed an updated list of proposed annexations and requests for service, a copy of which is attached hereto. Ms. Bobbitt noted that Ms. Dold will be sending an annexation package to the City of Houston within the next week that would try to include the first seven (7) tracts reflected on the list.

ENGINEER'S REPORT

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

Mr. Hogan first reported that the solid flashing had been added to the ground storage tank at Water Plant No. 2 and that the modification project is now complete. Mr. Hogan presented the Certificate of Acceptance for the Board's approval.

Concerning Water Plant No. 1, Mr. Hogan reported that the foundation for the new ground storage tank is complete and that the tank materials have been delivered. Mr. Hogan noted that the contractor should start erecting the tank within the next several weeks. Mr. Hogan presented Pay Estimate No. 2 in the amount of \$161,811 for the Board's approval.

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 Certificate of Acceptance for Water Plant No. 2 and authorize payment of Pay Estimate No. 2 for the Water Plant No. 1 project.

Mr. Hogan next reported that Ms. Jarmon had wired the \$21,575 to American Title Company for the purchase of the site for Lift Station No. 5 from KPC. Mr. Hogan noted that as soon as the deed is recorded and a title report is prepared the plat can be submitted for recording.

Mr. Hogan then explained that the District would be required by the new GASB 34 requirements to prepare an electronic facilities map. Mr. Hogan stated that he would prepare a cost estimate for the creation of the facilities map.

Mr. Hogan reported that they received a request from the developer of Walgreen's for a capacity commitment letter written to Whitney Bank and presented such letter for the Board's approval. 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 the capacity commitment letter to Whitney Bank, a copy of which is attached hereto.

Mr. Hogan then reported that the water line and force main for the Northwoods Catholic School are complete and that today was the first day of classes at the new school. Mr. Hogan further reported that the contractor will wet haul the sewage to the STP through September 13th, at which time Lift Station No. 4 should be operational.

Mr. Hogan then reviewed the updated Construction Project Timeline with the Board, a copy of which is attached hereto.

Mr. Hogan next reported that a pre-bid conference had recently been held regarding the bids to be received on September 17th for the Milestone trunk utilities and Lift Station No. 5. Mr. Hogan stated that the contract for the on-site utilities was being bid separately and that the low bidder on such contract was SER Construction Partners, Ltd.

Concerning the Bueker commercial development, Mr. Hogan noted that he recently had a meeting with Mr. Bueker on September 10th to review the plumbing layouts for each of his proposed tenants. Director Marks stated that he noticed that during the most recent rains, there was sheet flow drainage moving from the back of the Bueker property into the roadside ditch. Mr. Hogan stated that the south side of the property is supposed to drain from the south side into the 66" drainage pipe. Director Marks also reported that during the recent rains, water flooded

out into the second lane of Bridgeview. Mr. Hogan stated that Jones & Carter will look at the drainage plans and discuss the matter with Mr. Bueker.

Mr. Hogan noted 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 the updated annexation map, a copy of which is attached hereto. Director Dill noted that the map needs to be revised to include the costs for the KB Home tract. Mr. Hogan stated that he would review the numbers, revise the map and forward revised copies of the map to the Board. Mr. Peterson noted that they would also add KPC's 7.5-acre tract.

Mr. Hogan reported that KB Home has bid the contract for the construction of utilities for Springbrook, Section 1 and that the low bidder was JAH0, Inc., with a bid in the amount of \$582,000. Mr. Hogan stated that KB Home is negotiating with Northwest Harris County Municipal Utility District No. 30 ("NW 30") regarding the drainage of the Springbrook detention pond into NW 30's drainage system. Mr. Hogan noted that NW 30 was now asking KB Home for funds for downstream improvements to such drainage system.

Mr. Hogan next reported that it was time to do the annual tank inspections at the Water Plants. Mr. Hogan noted that one (1) of the Water Plants was also due for an electrical inspection.

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 Engineer's Report and to authorize Jones & Carter to proceed with the tank inspections at the Water Plants and with the necessary electrical inspection.

Director Steffes then requested that Mr. Hogan try to obtain the financial model disks from the Authority for use by the Board and consultants concerning the funding options for the District's share of the capital costs for surface water conversion.

The Board then requested that Ms. Bobbitt prepare a letter to Mr. Robert Sanchez of 4306 Pineville to inform him that it is his responsibility to have the water leak repaired on his property and that if the necessary repairs are not made by September 25, 2002, the District will proceed with the repairs and backcharge his account accordingly with the repair costs.

RENEWAL OF INSURANCE POLICIES

Ms. Bobbitt then reported that since the Board's last meeting, Floyd Mechler and Harry Peyton had left Brown & Brown of Texas, Inc. ("Brown & Brown") and were in the process of forming a new insurance company. Ms. Bobbitt further reported that the new insurance company could not submit a proposal to the District due to a non-compete clause in their agreement with Brown & Brown. Director Marks then reported that he had reviewed the insurance comparison prepared by Johnson Radcliffe, a copy of which is attached hereto, and recommended that the Board renew the District's insurance policies with Brown & Brown. Upon motion by Director Marks, seconded by Director Dill, after full discussion and the question being

put to the Board, the Board voted unanimously to renew the District's insurance coverages with Brown & Brown. A copy of the executed proposal is attached hereto. Ms. Bobbitt mentioned that the value of the District's facilities on the renewal proposal was the same as last year's value and asked Mr. Peterson to confirm such value with Ms. Dold.

There being no further business to come before the Board, the meeting was adjourned at 8:30 p.m.

PASSED, APPROVED AND ADOPTED this 14th day of October, 2002.

Secretary, Board of Directors

(DISTRICT SEAL)

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