



not release the advertisement for the construction project until the account is paid in full or they are advised otherwise by Mr. Conner. Mr. Peterson went on to explain that Jones & Carter is asking for the authorization to advertise for bids so that when MHI pays their account in full, the project can be advertised expeditiously. Upon motion by Director Marks, seconded by Director Warren, after full consideration and the question being put to the Board, the Board voted unanimously to authorize the advertising for bids for the water, sewer and drainage facilities for Spring Terrace, Section 6 upon payment of all outstanding engineering/inspection invoices by MHI/Centex.

#### DISCUSS SCHEDULING OF BOND ISSUES AND AUTHORIZE PREPARATION OF FUTURE BOND APPLICATION REPORTS

Director Marks began the discussion by stating that he was under the impression that, with Bond Application Report ("BAR") No. 8 already filed and under review by the Texas Commission on Environmental Quality (the "TCEQ") and BAR No. 9 in the process of being prepared by Jones & Carter for submission to the TCEQ later this year, the District would not issue any other bonds for awhile. Director Marks then stated that he thinks the Board should schedule a special meeting to review the consultant contracts due to the fact that he believes the costs for the District to issue bonds is too high.

Mr. Conner then reminded the Board that the District had taken on many developer reimbursement obligations in recent years, and that the District has agreed to issue bonds on a timely basis to make the reimbursement to the developers. Director Marks then stated that he feels that the District needs to develop specific criteria triggers for when developers will be reimbursed. Director Marks also stated that it is his understanding that the District has no obligation to reimburse any of the District's developers until such time as a development has adequate assessed valuation to independently support the reimbursement.

Mr. Short then addressed the Board and explained his reasoning for breaking down the District's obligations in the manner presented. Mr. Short explained that under the provisions of the Internal Revenue Code, there are some advantages to keeping the annual amount of debt issued by a governmental entity below \$10,000,000. Mr. Short further explained that if the District issues less than \$10,000,000 of annual debt, banks and other financial institutions are authorized to purchase the District's bonds, which translates into a lower interest rate on the bonds and, therefore, lower cost to the District. Mr. Short explained that some of the projects for which the District must reimburse in the near future will make the \$10,000,000 limit unfeasible, but that with the assistance of Jones & Carter, he had developed a proposed financing plan that would minimize the number of years where the District's bond issuances would exceed \$10,000,000.

Director Marks then stated that the District should just roll all of the items together and have one (1) large bond issue to minimize the issuance costs incurred by the District. Mr. Short responded that the District could go that route, but that he felt the District would save more money in the long-run by breaking out the reimbursements as reflected on the proposed financing timeline, a copy of which is attached hereto. Mr. Short then reminded the Board that the projected values in the District, upon which the financing timeline was based, were considerably lower compared to the values actually certified by the Harris County Appraisal

District (the "HCAD") over the past few years, and that the District needed to be vigilant in keeping the reimbursement schedule in sync with the values in the District.

Mr. Short next reminded the Board that, if the value within the District gets too high and the District is not reimbursing the obligations already incurred on a timely basis, there is usually pressure to lower the debt service tax rate, because the current collections exceed the current debt obligations. Mr. Short added that allowing the tax rate to get low when the District has outstanding reimbursement obligations impacts the District's ability to make such reimbursements and can lead to difficult decisions to meet such obligations. Director Steffes then stated that he thought the District had previously discussed this matter and decided that the yearly debt obligations should be kept under \$5,000,000. Mr. Conner stated that the Board had, in fact, previously discussed keeping the annual debt issuances to under \$5,000,000, but that such decision was made prior to the explosive development activity within the District and is no longer feasible, given the amount of reimbursement obligations the District has undertaken. Mr. Short added that the discussion of issuing \$5,000,000 of debt on an annual basis was based on growth projections of 300 home sales per year, and that is not practical anymore since development activity is currently exceeding 1,000 home sales per year.

A discussion then ensued regarding the current need for going forward with the design and construction of Water Plant No. 4 ("WP No. 4") and the Sewage Treatment Plant (the "STP") expansion project. Mr. Shackelford stated that the master plan presented to the Board on April 11, 2006 had discussed the timing of future bond issues, including the bond issue to fund the WP No. 4 and STP expansion project, and the necessity to be planning ahead. Director Steffes then stated that he thought the District had a little more time to complete the STP expansion project based on the current flows in the existing STP facilities.

Director Marks then asked why the design of WP No. 4 takes so long since the basic structure is the same as Water Plant No. 2. Director Marks next stated that he does not understand why the District needs to be issuing bonds now for projects that will take 18 months to design and complete. Mr. Shackelford next stated that he is not asking the District to sell bonds now, but rather for authorization from the Board to complete the necessary paperwork and bond application reports to file with the TCEQ so that, when the District needs to sell bonds, the TCEQ approval has been received. Mr. Shackelford reminded the Board that review and approval of a bond application report by the TCEQ can take six (6) to nine (9) months or possibly more.

Mr. Peterson then stated that the current STP has an average daily flow that utilizes approximately 55% of the existing capacity. Director Marks commented that based on such flow, the District should be fine for another 2,500 to 3,000 connections before the STP expansion becomes critical. Mr. Shackelford then reminded the Board that the TCEQ requires that the STP be sized according to their design criteria and will not allow the District to justify not proceeding with an expansion based on average daily flow. With respect to the need for WP No. 4, Mr. Shackelford reminded the Board that water plants are designed to provide redundancy to meet water supply needs and for operation for approximately ten (10) hours per day. Director Marks asked if anyone monitors the run-time of the wells. Mr. Conner responded that the District's operator, Aqua Services, LP ("Aqua Services"), monitors the run-time of the wells on a daily basis. Director Marks then commented that he does not recall the Board authorizing the

preparation of BAR No. 9 and asked that the meeting minutes be reviewed regarding such authorization. Mr. Kasner stated he would review the prior meeting minutes concerning such authorization and get back with the Board.

Director Warren then asked for clarification concerning the BARs. Director Warren stated that it is his understanding that BAR No. 8 is currently pending at the TCEQ for review and approval. Mr. Shackelford responded that Director Warren was correct, and that Bar No. 8 was filed with the TCEQ several months ago. Director Warren then asked for the timeframe for BAR No. 9. Mr. Shackelford responded that the goal is to submit BAR No. 9 to the TCEQ for expedited review by September, 2006. Mr. Shackelford stated that he anticipates BAR No. 9 receiving approval within the 60-day expedited review period due to the fact that all of the items included in BAR No. 9 are District projects. Mr. Shackelford then stated that with this timeline, both BAR No. 8 and BAR No. 9 would be approved approximately at the same time, and, while not required, the District could combine the bond issues to minimize the issuance costs.

Mr. Short then reminded the Board that the whole purpose for this planning discussion was to make sure the District has as many options as possible with respect to financing its obligations. Director Steffes then asked Mr. Short for his recommendation with respect to what the District should be focusing on over the next few years with respect to meeting the District's reimbursement obligations.

Mr. Short responded that his advice would be to continue working on or, in the very near future, begin working on both BAR No. 9 and BAR No. 10. Mr. Short recommended that the Board authorize Jones & Carter to begin design of WP No. 4 and the STP expansion and pay for the engineering and design costs with the District's operating reserves and reimburse such costs out of a future bond issue. Mr. Short added that the District should request from the HCAD an estimate of value of property within the District as of January 1, 2006 and an estimate of the current taxable value to prepare for the upcoming bond issues. Director Steffes then asked if the accounts previously found to be omitted from the HCAD tax rolls had been addressed. Mr. Kasner responded that the District's tax assessor, Equi-Tax, Inc. ("Equi-Tax"), has provided the HCAD with all the necessary information to correct the problem, but that it is his understanding that the HCAD has not yet updated the tax rolls. Mr. Kasner added that HCAD is moving very slowly with addressing this problem, and that Equi-Tax is working to try and resolve the matter as soon as possible. Mr. Short then stated that the matter would have to be resolved prior to the District selling bonds. Mr. Short then continued his recommendation, stating that he felt the District should have one (1) bond issue that is entirely District-related expenses to help expedite review, and then break up the various developer reimbursements over the next several bond issues.

Director Steffes then stated that he understands the logic of having a District-only bond issue, but asked about the possibility of combining the District items with some of the developer reimbursement items. Mr. Shackelford responded that the Seals Gully drainage improvement project needs to go forward now in order for the developer to avoid construction delays. Additionally, Mr. Shackelford stated that the additional capacity to be provided by WP No. 4 and the STP expansion are needed for the developments currently in process.

Director Schkade then entered the meeting at 7:41 p.m.

Mr. Shackelford next discussed the need for the District to develop some standards for timing the bond issues so that the developers know when they can expect reimbursement from the District. Mr. Shackelford also reminded the Board that no project would be reimbursed until the value of the development is sufficient to independently support the debt service requirement for the portion of bonds issued to fund such reimbursement.

Director Marks then questioned how BAR No. 9, which as proposed to be entirely District items, would impact the District's tax rate. Mr. Short and Mr. Shackelford then reiterated that the current value in the District is more than sufficient to carry the cost for the District-related items without impacting the District's tax rate. Mr. Short also reminded the Board that, as he has continually recommended, the tax rate has remained relatively constant over the past few years in anticipation of the District's need to issue additional debt and, therefore, the current tax rate can absorb more debt without a tax increase. Mr. Short also stated that the District's operation and maintenance tax rate could be re-apportioned towards debt service if need be to prevent any needed tax rate increase.

Mr. Short then stated that he is more concerned with the District's current method of identifying and designating projects to be reimbursed in a bond issue than with the risk of increased tax rates, and that he thinks the District needs to develop some form of criteria for including developer reimbursement projects in District bond issues and for determining which developers get reimbursed out of which bond issue.

Director Marks then asked if he could get a status report on all of the current development projects within the District. Mr. Peterson stated that at the end of each monthly Engineer's Report, there is a list of all current projects with a status update.

Mr. Conner then stated that the District needs a prioritization plan because there are too many projects simultaneously under construction, and the District needs a method to determine a reimbursement schedule. The Board then asked if Mr. Short could work with Mr. Shackelford and Mr. Peterson to develop a list of criteria which the District could use to determine which items are placed in future bond issues.

Director Steffes next asked Mr. McCall if there was anything else he thought was needed to determine the order and timing for developer reimbursements. Mr. McCall stated that the developers just need to be reminded that they need to keep records for everything for which they are seeking reimbursement. Director Steffes then asked if there are any forms available with which the reimbursement process could be streamlined. Mr. McCall responded that he has an Excel spreadsheet to keep track of the reimbursements, including interest expenses, that is available to developers. Director Steffes then suggested that the District consider a policy whereby the District will not include items in a bond issue unless the items are tracked by the developer using the spreadsheet available from McCall.

Messrs. Shackelford, Peterson and Short then exited the meeting at 8:15 p.m.

## REVIEW/APPROVE AUDIT REPORT FOR FISCAL YEAR ENDING DECEMBER 31, 2005

Mr. McCall then reviewed with the Board the draft audit report for the fiscal year ending December 31, 2005 (the "Audit"), a copy of which is attached hereto. Mr. McCall pointed out that there were some differences in the Audit compared to previous audits performed by McCall and encouraged the Board to review the Audit carefully and ask any questions they may have. First, Mr. McCall reviewed with the Board the Management Discussion and Analysis (the "MDA") portion of the Audit. Mr. McCall informed the Board that the MDA is prepared by his office on behalf of the Board and mirrors the information presented in the audited financial documents. Mr. McCall requested that the Board carefully review and consider the MDA, because the MDA is the Board's representation of the status of the District even though it is prepared by McCall.

Mr. McCall then proceeded with his review of the Audit. Mr. McCall stated that the District had a very strong operating fund and debt service fund. Mr. McCall explained that while the debt service fund appears to have a deficit, this was not really the case because the tax collections run a year in arrears. Mr. McCall added that in the District's construction/surplus fund account, \$248,000 of the total balance is interest/investment earning. Mr. McCall then continued his review of the Audit with the Board.

Director Warren then asked if he could have some time to review the Audit and then schedule a special meeting to discuss it in more detail with Mr. McCall. Mr. McCall stated he would be happy to schedule a workshop meeting with the Board to review the Audit in more detail, but that the Audit needs to be approved at tonight's meeting in order to be timely filed with the TCEQ by May 15, 2006. Upon motion by Director Marks, seconded by Director Schkade, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Audit and authorize the filing of the Audit with the appropriate governmental agencies.

Mr. McCall and Mr. Barfoot then exited the meeting at 9:00 p.m.

Mr. Conner then exited the meeting at 9:05 p.m.

## INTERVIEWS FOR VACANT BOARD POSITION

The Board then recognized Ms. Theiss, who presented her resume to the Board, a copy of which is attached hereto. Director Warren first asked how Ms. Theiss had learned of the Board vacancy. Ms. Theiss informed the Board that Director Warren and former Director Thomas had encouraged her to apply for the vacant Board position. Director Warren then asked why Ms. Theiss wanted to be a member of the Board. Ms. Theiss responded that her interest in the Board was to give back to the community and because of the pride she felt for the community.

Director Steffes then asked Ms. Theiss what she thought she could bring to the Board. Ms. Theiss stated that her experience as a businesswoman could bring some new perspectives to the Board. Director Marks then asked about Ms. Theiss' previous involvement with the Bridgestone Homeowners' Association (the "HOA") and questioned if Ms. Theiss understood the difference between the District and the HOA and whether there would be any conflict of interest with her serving on the Board. Ms. Theiss replied that she understands why the District exists

and can keep HOA issues separate from District issues. Director Schkade then informed Ms. Theiss of the District's practice of having a director tour the District's facilities every month and to report back to the Board any items that may need attention and asked if Ms. Theiss would be available to participate in such tours. Ms. Theiss stated that since she works from home, she would be available to participate in the facility tours.

Director Steffes next informed Ms. Theiss of the Association of Water Board Directors – Texas (the "AWBD") conferences that directors attend in order to learn about water district issues and asked if Ms. Theiss would be available to attend such conferences. Ms. Theiss stated that with enough notice, she could plan her work schedule to accommodate her attendance at the AWBD conferences. The Board then thanked Ms. Theiss for her interest in the Board and informed her they will let her know of their decision.

Ms. Theiss then exited the meeting at 9:30 p.m.

Mr. Palmer then entered the meeting at 9:35 p.m.

The Board next proceeded to interview Mr. Palmer concerning the vacancy on the Board. The Board first reviewed Mr. Palmer's resume, a copy of which is attached hereto. Director Warren then asked Mr. Palmer how he learned of the Board vacancy and why he wanted to become a member of the Board. Mr. Palmer stated that he learned of the vacancy because his employer, Hays Utility South Corporation ("Hays"), worked with the White Oak Water Supply Corporation ("White Oak WSC") and former Director Thomas had applied to be on the White Oak WSC board of directors. Mr. Palmer then stated that his interest in joining the Board stemmed from his work over the past several years in the utility district operation business. Director Schkade then asked Mr. Palmer about his job responsibilities at Hays. Mr. Palmer responded that he attends some utility district meetings as an operator representative, but that his primary responsibilities were related to handling facility insurance claims for Hays. Mr. Palmer stated that he currently does not oversee or administer day-to-day repair or operation matters in any utility districts, but that he had previously administered day-to-day utility district operations for Hays.

Director Schkade then asked if Hays represents any districts located near the District. Mr. Palmer responded that Hays provides operation services to several districts in the area, but that he is not the operator representative or directly involved with any of those districts. Director Steffes then asked Mr. Palmer what he could bring to the Board. Mr. Palmer replied that his experience as an operator of utility districts uniquely qualifies him to serve as a Board member, since he is already familiar with how utility districts operate. Mr. Palmer also stated that his attendance at District meetings over the past several years gives him some insight and knowledge of the District's history.

Director Schkade then asked if Mr. Palmer had any previous dealings with the District's General Manager, Mr. Gene Conner. Mr. Palmer responded he has never professionally worked with Mr. Conner, and his only knowledge of Mr. Conner was through his attendance at District meetings as a resident of the District. Director Schkade then asked if Mr. Palmer had any professional relationships with any of the District's other consultants. Mr. Palmer replied that he

does have some experience working with Mr. Erich Peterson of Jones & Carter, and has also had dealings with Ms. Mary Jarmon of Myrtle Cruz, Inc.

Director Marks then asked if Mr. Palmer sees any conflict with the District being operated by Aqua Services, a competitor of Hays. Mr. Palmer stated that he does not see any conflicts and could provide some insight into the District's operation matters because of his work experience. Mr. Kasner then interjected that it is common for consultants to utility districts to serve as board members in the district where they reside, and that several attorneys and paralegals in his office are board members for the district in which they live.

Director Schkade then asked about Mr. Palmer's experience with the AWBD. Mr. Palmer responded that he has attended several of the AWBD conferences and finds the seminars very educational and informative.

Director Steffes then stated that there could be an issue if the District decided to look for a new operator while Mr. Palmer was a Board member. Mr. Palmer stated that he was aware of such issue and that if the matter arose, he would address it appropriately. Director Marks then asked Mr. Palmer how he would rate the management of the District as a taxpayer. Mr. Palmer stated that he has been happy with the lowering of the District's tax rate and is satisfied with the quality of water in the District.

The Board then asked if Mr. Palmer had any questions for them. Mr. Palmer asked how long each Board member had served on the Board. Director Marks responded since 1993, Director Warren since 1994, Director Steffes since 1994, and Director Schkade since 2004.

Mr. Palmer then exited the meeting at 9:55 p.m.

Mr. Kasner then exited the meeting at 10:05 p.m.

Discussion then ensued regarding the qualifications of each candidate to fill the vacant Board position. Upon motion by Director Warren, seconded by Director Marks, after full discussion and the question being put to the Board, the Board voted unanimously to appoint Ms. Theiss to fill the unexpired term of former Director Thomas.

There being no further business to come before the Board, the meeting was adjourned.

PASSED, APPROVED AND ADOPTED this 15<sup>th</sup> day of August, 2006.

/s/Linda D. Theiss

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Secretary, Board of Directors

(DISTRICT SEAL)