

2006-17  
MINUTES OF MEETING  
OF  
BOARD OF DIRECTORS  
November 7, 2006

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 special session, open to the public, at the offices of Jones & Carter, Inc., 8701 New Trails, Suite 200, The Woodlands, Texas, an official meeting place of the Board outside the boundaries of the District, on Tuesday, November 7, 2006, at 7:00 p.m.; whereupon, the roll was called of the members of the Board, to-wit:

Adrian E. Steffes	President/Investment Officer
Jim Marks	Vice President
Linda D. Theiss	Secretary
Ronald W. Schkade	Assistant Secretary
Skip Warren	Treasurer

All members of the Board were present, except Director Schkade, thus constituting a quorum. Director Schkade monitored the meeting by conference call. Also attending the meeting were Mr. Gene Conner, General Manager of the District; Messrs. Ed Shackelford, P.E. and Erich Peterson, P.E. and Ms. Dedra Ecklund of Jones & Carter, Inc. ("Jones & Carter"), engineers for the District; Mr. Tom Rolen, P.E. of Turner Collie & Braden Inc., Program Manager for the North Harris County Regional Water Authority (the "NHCRWA"); Mr. Kyle Lippman of A-K-S-L 36 2920, L.P. ("AKSL"), developer of the proposed Lowes tract; and Ms. Robin S. Bobbitt and Mr. Lewis S. Kasner of Johnson Radcliffe Petrov & Bobbitt PLLC ("JRPB"), 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.

Ms. Bobbitt then explained to the Board that, pursuant to the provisions of the Texas Open Meetings Act which prohibit the conduct of meetings by telephonic conference call in most circumstances, Director Schkade would be unable to participate in any votes made by the Board or considered present at the meeting for the purposes of maintaining a quorum. Ms. Bobbitt next clarified that Director Schkade was authorized to monitor the meeting and to ask questions for purposes of staying informed regarding the business of the District so long as he did not participate in the voting.

## CONSENT AGENDA

Ms. Bobbitt then explained to the Board that, pursuant to the provisions of the Texas Open Meetings Act which prohibits the conduct of meetings by telephonic conference call in most circumstances, Director Schkade is unable to participate in any vote of the Board or considered present at the meeting for the purposes of maintaining a quorum. Ms. Bobbitt next clarified that Director Schkade is able to monitor the meeting on a conference call and can ask questions regarding the business of the District, but cannot participate in any vote that occurs.

Director Steffes then reviewed with the Board the items reflected on the Consent Agenda. Director Steffes explained that this portion of the agenda deals with routine matters of the Board, and that no separate discussion of such items will occur unless a Board member or a member of the public requests that an item be moved to the regular portion of the agenda. Mr. Peterson first explained that the Gulf South Pipeline Company, LP Permit No. 2269 and the consent to encroach for the pipeline owned by Copano Pipelines/Upper Gulf Coast, L.P. were necessary in order for the District to extend the water and sanitary sewer lines necessary to provide service to the Klein Independent School District tract that the District has agreed to serve. Mr. Peterson next explained that the District is abandoning a 25-foot easement that KPC Limited Partnership ("KPC") had conveyed to the District, because the form used by KPC did not conform to the District's form of easement, and that a new correct form of easement would be prepared for conveyance to the District.

Mr. Shackelford then informed the Board that the Local Transportation Project Advance Funding Agreement by and between the State of Texas, acting by and through the Texas Department of Transportation ("TxDOT"), and the District (the "Agreement") was for the purpose of obtaining TxDOT's pro rata participation in the installation of the box culverts under FM 2920 needed for the Upper Seals Gully project. Mr. Shackelford explained that TxDOT has a participation percentage of approximately six percent (6%) in the Upper Seals Gully project and would fund around \$170,000.00 of the project costs. Mr. Shackelford further explained that the Agreement provides that TxDOT would manage the construction associated with the installation of the box culverts, and that the project would be advertised for bids in February 2007.

Further discussion then ensued regarding the Upper Seals Gully project. Mr. Shackelford reviewed with the Board the potential participants in the Upper Seals Gully project and their estimated participant percentages and reminded the Board that the purpose of the Upper Seals Gully project was to convert the District's pumped detention ponds to a gravity flow system.

Upon motion by Director Marks, seconded by Director Theiss, after full discussion and the question being put to the Board, the Board voted three (3) in favor and one (1) vote against, with Director Warren voting in opposition, to approve the following Consent Agenda items: 1) authorize execution of the Gulf South Pipeline Company, LP Permit No. 2269; 2) authorize execution of the Consent to Encroachment in connection with the pipeline owned by Copano Pipelines/Upper Gulf Coast, L.P.; 3) authorize execution of the abandonment of a 25-foot easement for water and storm sewer conveyed by KPC to the District; and 4) authorize execution of the Agreement.

## REGULAR AGENDA

### APPROVE AGREEMENT FOR FINANCING OF FACILITIES FOR PROPOSED LOWES CENTER ("AKSL FINANCING AGREEMENT")

Ms. Bobbitt then explained that the AKSL Financing Agreement was being presented in connection with the proposed Lowes development. Ms. Bobbitt informed the Board that the land where the Lowes is being developed was previously annexed into the District, and several different Financing Agreements were previously put into place for the various tracts that will now be a part of the Lowes development, and now that it is being developed by one (1) developer and the development plan is known, it makes sense to put a new Financing Agreement in place that addresses all the land that will be included in the development. Ms. Bobbitt then introduced Mr. Kyle Lippman of AKSL to discuss with the Board the plans for development.

Mr. Lippman then reviewed with the Board the proposed site plan for the Lowes development, a copy of which is attached hereto, and explained that the development is on approximately 40 acres and will include a Lowes store, as well as several other commercial pad sites. Mr. Lippman stated that the anticipated assessed valuation of the development is around \$30 to \$40 million.

Director Marks then asked about the advantages/disadvantages of one (1) financing agreement versus several different financing agreements. Ms. Bobbitt explained that there are no real disadvantages to having one (1) agreement, and that the main advantage is ease of administration and that, since the entire 40 acres is being developed as one (1) project by one (1) developer, rather than several projects by more than one (1) developer, it is in the District's best interest to have one (1) Financing Agreement for the entire project. Mr. Conner then added that the inclusion of a Lowes in the District will also provide significant revenue through the District's proposed Strategic Partnership Agreement with the City of Houston. Upon motion by Director Marks, seconded by Director Theiss, after full discussion and the question being put to the Board the Board voted unanimously to approve the AKSL Financing Agreement, a copy of which is attached hereto.

Mr. Lippman then exited the meeting at 8:15 p.m.

### DISCUSSION ON WATER SYSTEM ANALYSIS

Mr. Peterson next presented to the Board Jones & Carter's analysis of the District's water system and necessary infrastructure requirements through build-out of the District, a copy of which is attached hereto. Mr. Peterson reminded the Board that the District has received a waiver from the Texas Commission on Environmental Quality's (the "TCEQ") requirement that public water systems serving more than 2,500 connections have an elevated storage tank ("EST"). Mr. Peterson stated that the District's current EST waiver is for up to 4,460 connections. Mr. Peterson went on to explain that recently, due to a change in circumstances, Jones & Carter had changed their view about the usage of construction of an EST in the District. Mr. Peterson explained that once they learned that the NHCRWA was willing to construct a dedicated line to provide water to the EST, resulting in a significant cost savings to the District and, thereby, enabling the District to locate an EST in a strategically beneficial location in the

District, the use of an EST in the District made sense and became a very viable option. Mr. Shackelford explained that Jones & Carter and Mr. Conner were never opposed to an EST but, rather, were opposed to a state mandate that the District construct an EST that would provide little or no additional or significant benefit to the District. Mr. Shackelford added that if the District can build an EST and eliminate the need for the two (2) wells proposed at Water Plant No. 4, then the economics and benefits of an EST make sense.

Director Theiss then asked where the NHCRWA water will come from. Mr. Shackelford explained that prior to 2010, the NHCRWA will be providing water to districts through the purchase of water from other districts that have excess capacity. Mr. Shackelford went on to explain that after 2010, the NHCRWA will be providing surface water to districts in accordance with the mandate and requirements of the Harris-Galveston Subsidence District. Director Theiss next asked why the District needs to construct Water Plant No. 4 if the NHCRWA will be providing the District with surface water in four (4) years. Mr. Shackelford explained that the ground storage booster pump and hydropneumatic capacities proposed to be included at Water Plant No. 4 will still be needed after surface water is provided.

Mr. Peterson then reviewed with the Board the costs to the District with an EST and the costs to the District without an EST, including infrastructure costs and estimated operating costs. Mr. Peterson explained that with the EST, the District would save approximately \$278,000 a year in electricity costs, because the District would only need to operate its water plant facilities during peak flow time such as the summer months. Director Steffes then asked if the EST would be considered in calculating the District's non-depreciated asset credits from the NHCRWA. Mr. Shackelford responded affirmatively that the EST costs would be included by the NHCRWA when calculating the District's non-depreciated asset credit.

Discussion then ensued regarding the costs and benefits associated with constructing an EST within the District. Director Marks stated that from his perspective, the two (2) options were a financial wash since the difference in costs is only approximately \$35,000. Director Steffes then pointed out that the biggest cost savings with the construction of an EST will be the annual savings on electricity.

Mr. Conner next reviewed with the Board other issues related to the proposed Water Plant No. 4 and EST. Mr. Conner reminded the Board that the EST issue was always on the horizon, as it was always known that either the District was going to need to construct an EST to comply with TCEQ rules or apply for an additional waiver of the EST requirement. Mr. Conner explained that an EST was not advisable as a part of the original Master Plan, because all four (4) water plants would be required to deliver water throughout the District. However, with the NHCRWA providing a dedicated line and 85% of the District's water needs to the EST at normal operating pressure, the construction of an EST makes sense. Mr. Conner stated that with the ability to locate an EST in a strategic location, the District can provide water from the EST to the entire District without having to re-pump the water. This would minimize the need for the District's water plants and significantly reduce the District's power costs. Mr. Conner added that with the dedicated line being built by the NHCRWA, the District can minimize the size of Water Plant No. 4 and possibly eliminate the need to expand Water Plant No. 3.

Director Warren then asked what Bilma Public Utility District ("Bilma"), Northwest Harris County Municipal Utility District No. 30 ("NW 30") and Northampton Municipal Utility

District ("Northampton") will do with respect to surface water. Mr. Shackelford explained that Bilma and NW 30 will convert to surface water in 2010, and that Northampton will convert to surface water in 2030.

Director Theiss then asked why the cost of an additional EST waiver was not included in the Water Plant No. 4 bond application. Mr. Shackelford responded that Jones & Carter is still working on the preparation of the bond application report that includes Water Plant No. 4, and that such application will reflect whichever decision the Board makes on this matter. Director Marks then stated that he is concerned with the recent recommendation for an EST, since the District's prior stance has consistently been that the District did not want an EST.

Director Warren then stated that he cannot make a decision on the matter at this time, that he is not pleased with how the EST issue has been presented to the Board, and that he needs more time to fully evaluate the information that has been provided before making a decision. Director Steffes then summarized the issues relating to the proposed EST and Water Plant No. 4 and stated that he, too, was surprised by the recommendation for the EST, but that after thinking about the issue and looking at the power cost savings, he feels it is in the District's best interests to move forward with an EST and utilize the water the NHCRWA can provide to the District.

Mr. Conner then stated that the Board needs to evaluate the options and provide the consultants with the direction the Board wishes to proceed. Mr. Conner stated that in his view, with a dedicated line from the NHCRWA, the EST makes the most sense. Mr. Conner also stated that it is possible that the District would not receive an additional EST waiver from the TCEQ and could face the situation of needing both a larger Water Plant No. 4 and an EST.

Director Steffes then asked what actions the Board needs to take tonight. Mr. Shackelford stated that he would like the District to concur with the infrastructure recommendation and approve the proposed Joint Cooperative Plan for the pass through sale of water to NW 30. Mr. Rolan then explained that the NHCRWA does not have a way to get water directly to NW 30 at this time and requested that the District enter into a Groundwater Transfer Agreement – Buyer with the NHCRWA and that the District would then, in turn, enter into a Water Supply Agreement with NW 30. Mr. Rolan further explained that the District would charge NW 30 the cost the District pays for water from the NHCRWA and any additional operational/maintenance costs the District incurs to provide the water to NW 30.

Director Marks then stated that he had previously requested from Jones & Carter a breakdown of the operational/maintenance costs that would be charged to NW 30, and that he needed to review such information prior to making a decision on the provision of water to NW 30. Mr. Shackelford apologized for not having the cost information and stated he would have such information for the Board's review prior to the next regular meeting scheduled for November 21, 2006. Director Steffes then asked what the interconnect with NW 30 would cost. Mr. Shackelford responded that the interconnect line is already in place between NW 30 and the District, and that two (2) additional interconnects would be constructed at NW 30's sole cost. Mr. Rolan then noted that there would be no pumpage fee charged to the District by the NHCRWA for the water sold to NW 30 since the District is not pumping groundwater.

Director Marks then stated that the District is always on the short side of the stick, and that he is concerned that the Joint Cooperative Plan and proposed EST is not a benefit to the

District's taxpayers, but rather a more regional benefit. Director Steffes stated that he feels that the Board members should get any questions they have on the EST or the proposed Joint Cooperative Plan to Mr. Conner, and that the Board would continue discussions on the matter at the next regular Board meeting scheduled for Tuesday, November 21, 2006.

Mr. Rolen then exited the meeting at 10:35 p.m.

ALTERNATE ALIGNMENTS FOR UPPER/LOWER BONDS GULLY PROJECT

Mr. Shackelford then explained to the Board that Jones & Carter is investigating additional alignments for the Upper/Lower Bonds Gully improvement project in order to save money on land acquisition costs. Mr. Shackelford then asked for concurrence from the Board on the concept of re-alignment and for authorization to move forward with performing the necessary surveying work and obtaining the necessary property appraisals associated with the land acquisitions. Upon motion by Director Marks, seconded by Director Theiss, after full discussion and the question being put to the Board, the Board voted unanimously to concur with the proposed re-alignment of the Upper/Lower Bonds Gully project and to authorize Jones & Carter and JRPB to pursue the land acquisitions necessary for said re-alignment.

MISCELLANEOUS MATTERS

Ms. Bobbitt reminded the Board that the next regular meeting is scheduled for Tuesday, November 21, 2006, at 6:00 p.m.

There being no further business to come before the Board, the meeting was adjourned at 10:50 p.m.

APPROVED AND ADOPTED this 20<sup>th</sup> day of February, 2007.



*Linda Theiss*  
Secretary, Board of Directors