

Director Warren then stated that he wanted to table action on the matter, as he was not aware that the issue was being discussed tonight, and that he thought the meeting was only a workshop meeting with the Board and Mr. Conner. Director Steffes noted that the workshop meeting has been rescheduled for September 23, 2008.

Ms. Bobbitt then explained that the recordings of the meetings could be discoverable evidence in a lawsuit and, therefore, recommended that the recordings be destroyed after the written minutes are approved. Ms. Bobbitt further recommended that a written policy concerning the process and procedures for recording the meetings be adopted by the Board. Upon motion by Director Theiss, seconded by Director Warren, after full discussion and the question being put to the Board, the Board voted unanimously to authorize Johnson Radcliffe to prepare a draft of a written policy for recording the Board's meetings for review and consideration by the Board at a future meeting.

REVIEW AND DISCUSS PROPOSALS FOR RENEWAL OF DISTRICT INSURANCE COVERAGES

Mr. Conner next reported that he and Director Marks had reviewed the three (3) renewal proposals received from: 1) Anco-McDonald Waterworks Insurance Services, L.L.C. ("Anco-McDonald"), reflecting a total premium of \$28,257; 2) AquaSurance, LLC, reflecting a total premium of \$24,785; and 3) The Essential Group ("Essential"), reflecting a total premium of \$20,028. Mr. Conner noted that Director Marks had indicated that he did not think the difference in the premium amounts warranted changing insurance providers from Anco-McDonald, the District's current provider. Further discussion of the matter then ensued. Director Theiss questioned why Mr. Conner and Director Marks are not recommending the Board accept the proposal with the lowest total premium amount which was submitted by Essential. Mr. Conner explained that Ms. Kimberly Courte, Program Manager of Essential, was previously with Anco-McDonald and stated that he was certain Essential would also provide good service and coverages. Director Warren then stated that he was in favor of accepting the proposal from Essential with a total premium of \$20,028. Upon motion by Director Warren, seconded by Director Theiss, after full discussion and the question being put to the Board, the Board voted unanimously to accept the insurance proposal from Essential. A copy of the approved proposal is attached hereto.

REVIEW BID TABULATIONS AND AWARD CONTRACT FOR CONSTRUCTION OF WASTEWATER TREATMENT PLANT (THE "STP") EXPANSION PROJECT

Mr. Peterson next distributed copies of the bid tabulations for the STP expansion project, a copy of which is attached hereto. Mr. Peterson reported that five (5) bids were received from very reputable contractors on July 30, 2008, and recommended that the Board award the construction contract to LEM Construction Co., Inc. ("LEM"), the low bidder for the base bid and alternate bid item nos. 1 and 3, in the total amount of \$6,891,500. Director Warren then asked what would happen if the contractor requests a change order on the project in the future. Mr. Conner responded that Jones & Carter and the Board would review any change order submitted by the contractor to determine if it is valid, and that all change orders would be brought to the Board for review and approval, which is the same procedure used on all construction contracts to which the District is a party.

Upon motion by Director Warren, seconded by Director Theiss, after full discussion and the question being put to the Board, the Board voted unanimously to award the construction contract for the STP expansion project to LEM, based on their bid of \$6,891,500 (a total of the base bid and alternate bid item nos. 1 and 3).

The Board next considered options for financing the cost overrun on the STP expansion project. Mr. Conner explained that Jones & Carter's original estimate of \$4,503,400 for construction of the STP expansion project was based on 2006 construction material costs, and that such estimate was included in the District's Bond Application Report ("BAR") No. 9, and that the bid on the project is approximately \$2.4 million more than the original cost estimate. Mr. Conner further explained that rising fuel costs and significant cost increases of over 200% for concrete, steel and copper have caused the project bids to exceed the original cost estimate.

Ms. Jarmon next reviewed the status of the District's Operating Fund and Construction Fund with the Board. Ms. Jarmon explained that there is currently \$800,000 in surplus bond funds in the District's Construction Fund, but recommended using such surplus funds for other smaller projects, such as the installation of the chloramination disinfection equipment required for the District's conversion to surface water. Mr. Conner noted that the District will be required to install a primary chloramination disinfection system at the elevated storage tank with back-up equipment at the District's other water plant sites. Ms. Jarmon next reviewed the District's Operating Fund. Ms. Jarmon stated that she does not recommend reducing the Operating Fund reserve, and recommended that the District continue to maintain at least a one (1) year Operating Fund reserve. Ms. Jarmon suggested that the Board consider reallocating project funds that were approved in BAR No. 9 to cover the STP expansion cost overrun.

Mr. Short then advised the Board that the District's tenth (10th) bond issue will be sold in a market that has not been seen for over 20 years, and noted that such bond issue will need to be sold in two (2) to three (3) increments and will be offered based on the District's own credit rating of BBB+ and without municipal bond insurance.

Director Steffes stated that he agrees with Ms. Jarmon's recommendation to maintain a one (1) year reserve in the District's Operating Fund.

Ms. Jarmon then reviewed the project funds still available from BAR No. 9. Mr. Peterson suggested that the Water Plant No. 3 expansion and Water Plant No. 4 construction project could be delayed for approximately one (1) to one-and-one-half (1½) years, and that the \$2,869,000 allocated for such project be reallocated to the STP expansion project. Mr. Conner agreed with Mr. Peterson's suggestion. Mr. Peterson went on to explain that the District's 2006 Master Plan anticipated a growth rate of 100 to 150 connections per month, but that with the slowdown in the housing market, the actual growth rate is now closer to 40 connections per month, which will allow the District to delay construction of the Water Plant No. 3 expansion and Water Plant No. 4 construction project. Mr. Peterson stated that the District now has three (3) major waterline loops and, with the addition of the elevated storage tank, the Water Plant No. 4 construction could be delayed until 2010. Mr. Shackelford added that, although residential growth within the District has slowed down, the commercial development continues to increase, which benefits the District with increased assessed valuations and decreased infrastructure costs.

Director Marks then entered the meeting at 7:59 p.m.

Director Warren then questioned why the construction costs for the STP expansion project had escalated so much. Ms. Jarmon referred the Board to the articles regarding price increases in construction materials received from an acquaintance of hers, copies of which are attached hereto. Mr. Peterson noted that there are fewer contractors that do STP construction projects, and that the \$2.4 million cost overrun has been driven by sharp increases in construction material costs. Mr. Shackelford added that three (3) bids for the STP expansion project were within three percent (3%) of each other, which is a good indicator that the construction costs are valid.

Concerning the STP expansion project, Director Marks asked if new screens and clarifier unit are being installed, since he recalls that such items were previously replaced several years ago in connection with the STP rehabilitation project. Mr. Conner responded that the screens and clarifier will be modified, not replaced, with the expansion project.

Director Steffes then noted that there is a bad odor emanating from the manhole on Edgewood Place. Mr. Peterson stated that the manhole is a junction box for Lift Station Nos. 2, 3, 5 and 7, which line then flows to the STP. Mr. Peterson noted that the gravity line from the junction box is currently being designed and will be larger in size to accommodate the future flow from those lift stations.

Mr. Conner then summarized what steps need to be taken to make application to the Texas Commission on Environmental Quality (the "TCEQ") for approval to reallocate the \$2,869,900 approved in BAR No. 9 for the Water Plant No. 3 expansion and Water Plant No. 4 construction for use on the STP expansion project. Mr. Peterson noted that the TCEQ had required the \$2,869,900 to be escrowed and, therefore, the TCEQ application will need to include a change in scope of project, as well as a request for the release of the funds from escrow. Mr. Peterson added that the TCEQ application will be submitted for expedited review.

Upon motion by Director Theiss, seconded by Director Marks, after full discussion and the question being put to the Board, the Board voted unanimously to authorize Jones & Carter and Johnson Radcliffe to prepare an application to the TCEQ for a change of scope and release of escrowed funds in order to reallocate the \$2,869,900 designated for the Water Plant No. 3 expansion and Water Plant No. 4 construction for use on the STP expansion project..

Mr. Short then reiterated his earlier remarks, for the benefit of Director Marks, regarding the bond sale environment as it relates to the issuance of the District's tenth (10th) bond issue. Mr. Short noted that he is recommending that BAR No. 10 bonds be sold in several increments and warned that the Board should be prepared to postpone a bond sale if market conditions so warrant.

Mr. Peterson then noted that the 60-day expedited review period for BAR No. 10 had expired on August 29th, but that he has been in contact with the TCEQ staff member who is reviewing BAR No. 10. Director Warren asked about the status of the preparation of BAR No. 11. Mr. Peterson responded that he is working on the sizing of the bond issue, and that he

hopes to have a preliminary list of projects to be included in BAR No. 11 at the Board's next meeting.

Director Warren then asked if the Springbrook and Stone Forest subdivisions are built out. Mr. Peterson responded that there are still two (2) sections of Springbrook to be completed and that Stone Forest is now built out.

REVIEW AND DISCUSS BOND FINANCING STATUS AND RELATED CRITERIA FOR INCLUSION IN BOND ISSUES AND REIMBURSEMENT

Mr. Short then recommended the following criteria for determining the priority for project reimbursement in connection with BAR No. 10: 1) status of completion of improvements; 2) age of the project; 3) assessed value generated by the project and amount of excess assessed value on the ground; and 4) size of the project reimbursement and how it best fits with the increment of bonds to be issued. The Board concurred with the proposed criteria.

Mr. Short then exited the meeting at 8:40 p.m.

REVIEW AND DISCUSS BONDS GULLY PROJECT AND RELATED PARTICIPATION AGREEMENT FOR UPPER/LOWER BONDS GULLY IMPROVEMENT PROJECT (THE "BONDS GULLY AGREEMENT")

Mr. Conner then reported on the receipt of an email from Mr. Bob Hudson in late July concerning the Bonds Gully project, and suggesting that the District fund such project, rather than the developers. Mr. Conner briefly reviewed the background and history of the Bonds Gully project and the Bonds Gully Agreement. Mr. Conner further explained that, as previously discussed with the Board, several obstacles have impeded the District from moving forward with the Bonds Gully project, including, but not limited to, environmental issues and concerns raised by the U.S. Army Corp of Engineers, which have been recently resolved. Mr. Conner also reported receipt of correspondence from Mr. Jamie Cornelius of Sowell & Co., the developer of the Rhodes Landing subdivision within the District and the subdivision within Meadowhill Regional Municipal Utility District ("Meadowhill"), which indicated he was not prepared to enter into the Bonds Gully Agreement until the District and Meadowhill reached an agreement on the Bonds Gully project. Mr. Conner noted that the District never intended to enter into any agreement with Meadowhill regarding the Bonds Gully project, and that the Letter of Understanding dated March 3, 2005 (the "LOU") by and among the participants did not contemplate Meadowhill being a party to the Bonds Gully Agreement. Director Steffes then asked what Mr. Hudson is asking the Board to do. Mr. Conner responded that Mr. Hudson asked to have a review of the Bonds Gully project and a proposed special meeting of the participants and inquired about funding the project from District funds and how Meadowhill will participate in the funding.

Director Marks then asked why the Bonds Gully project is needed. Mr. Peterson responded that outfall improvements are needed for the Bridgestone Lakes and Rhodes Landing developments in order to comply with Harris County's (the "County") permitting requirements for such developments. Mr. Peterson further reminded the Board that two (2) subdivisions in Meadowhill utilize the Bridgestone Lakes detention ponds for drainage outfall, and that the

developers for such development projects are parties to the LOU in connection with the Bonds Gully project, and that such LOU is the basis for the terms and provisions of the proposed Bonds Gully Agreement. Director Marks commented that the developers benefiting from the Bonds Gully improvements need to fund their pro rata share of costs for the project. Director Marks then asked why the District is paying for a portion of the improvements. Mr. Shackelford responded that the District is only participating in the funding of the Lower Bonds Gully portion of the project as a result of the District's need for additional drainage improvements to be provided by the Lower Bonds Gully improvements to relieve flooding on North Tangle Creek south of Shalom Creek. Mr. Conner reiterated that this portion of the Bonds Gully project is the only portion in which the District has a financial obligation.

Ms. Bobbitt then explained that a draft of the Bonds Gully Agreement was sent to the participants several months ago, a copy of which is attached hereto. Director Warren then asked what Mr. Hudson's share of project costs is. Ms. Bobbitt responded that based on the cost estimate and allocation of costs prepared by Jones & Carter, which items are exhibits to the proposed Bonds Gully Agreement, his share estimate is \$442,591 for the Upper Bonds Gully portion of the project and \$146,000 for the Lower Bonds Gully portion of the project. Director Steffes observed that while the District still has reimbursement obligations to Mr. Hudson for Bridgestone Lakes, Sections 2 and 3, Mr. Hudson also has an obligation to participate in the funding of the Bonds Gully project, in light of the fact that Bonds Gully is the designated outfall for the Bridgestone Lakes development, and that the County made acceptance of the streets in Bridgestone Lakes, Section 1 contingent upon the Bonds Gully project being completed. Director Steffes added that Mr. Hudson's share of costs for the Bonds Gully project could be deducted from the District's remaining reimbursement obligations to Mr. Hudson for the Bridgestone Lakes development, if that is how he desires to fund his share of the project costs. Mr. Peterson then added that Jones & Carter is ready to advertise for bids on the Bonds Gully project, but that the Bonds Gully Agreement needs to be finalized and executed by all the parties prior to moving forward with the project.

Upon motion by Director Marks, seconded by Director Warren, after full discussion and the question being put to the Board, the Board voted unanimously to reaffirm that the District expects the developers benefiting from the Bonds Gully project, including Bridgestone Lakes Development Company, Inc., K. Hovnanian of Houston, L.P., dba Parkside Homes, Sowell Property Partners – Rhodes Landing, L.P. and Sowell Interest – Meadowhill, L.P. to pay their pro rata share of costs of the Upper/Lower Bonds Gully improvements, and instructed Johnson Radcliffe to prepare and transmit a letter to the respective developers reaffirming the Board's position on the matter.

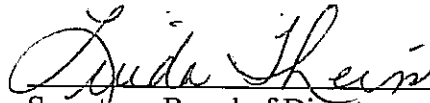
Director Warren asked how long it will take to complete the Bonds Gully project. Mr. Peterson estimated that the project would be completed by the latter part of 2009, assuming the project is advertised for bids and moves forward on a timely basis over the next several months.

ATTORNEY'S REPORT

Ms. Bobbitt then updated the Board regarding the status of acquisition of the 0.051-acre sanitary sewer easement from Mr. Rouzbeh Alamdari in connection with the Gosling Road utilities extension project. Ms. Bobbitt reported that following the August 19, 2008 meeting, a final offer in the amount authorized by the Board was extended to Mr. Alamdari, which he declined, at which point the matter was sent to the condemnation attorney, as previously authorized by the Board. Ms. Bobbitt went on to explain that the condemnation attorney had sent a final offer letter in the amount of the appraisal on the property, at which time Mr. Alamdari asked the District to pay for a tap connection, his pro rata share of the Gosling Road extension project costs and future annexation costs, in addition to the amount previously offered by the District. Ms. Bobbitt then asked for direction from the Board concerning Mr. Alamdari's most recent response and request. Upon motion by Director Marks, seconded by Director Warren, after full discussion and the question being put to the Board, the Board voted unanimously to reject Mr. Alamdari's most recent counteroffer and any further requests submitted by Mr. Alamdari and to proceed with the condemnation of the easement.

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

PASSED, APPROVED AND ADOPTED this 21st day of October, 2008.


Secretary, Board of Directors

