

MINUTES OF MEETING
OF
BOARD OF DIRECTORS
December 21, 2010

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 Jerry Thomas Center, 4403 Lost Lake Lane, Spring, Texas, its regular meeting place within the boundaries of the District, on Tuesday, December 21, 2010, at 6:00 p.m.; whereupon, the roll was called of the members of the Board, to-wit:

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

All members of the Board were present, except Directors Marks and Schkade, thus constituting a quorum. Director Schkade monitored the meeting by conference call. Also attending the meeting were: Mr. Gene Conner, General Manager for the District; Ms. Mary Jarmon of Myrtle Cruz, Inc., bookkeeper for the District; Ms. Pat Hall of Equi-Tax, Inc., tax assessor/collector for the District; Messrs. Erich Peterson, P.E. and Josh Lee of Jones & Carter, Inc. ("Jones & Carter"), engineers for the District; Mr. David Rowe and Ms. Jennifer Baker of Water District Management Company, Inc. ("WDM"), operators for the District; Mr. Kevin Tousant and Ms. Nicole Rocheleau of Republic Services, Inc. ("Republic"), garbage collection service provider for the District; Lieutenant Ronnie Glaze of the Harris County Precinct 4 Constable's Office; Mr. Bob Hudson of Texas Investment & Development Company, Inc., developer of the Bridgestone Lakes, Gosling Pines, Senterra Lakes, LP and Villages of Senterra Lakes subdivisions within the District; Mr. Tim Early of K. Hovnanian Homes, an investor in the Bridgestone Lakes, Section 4 subdivision and a developer in the Gosling Pines subdivision; Ms. Briana S. Vann, a member of the Gosling Pines Homeowners Association and a resident of the Gosling Pines subdivision within the District; Ms. Amber Naylor, Mr. David Naylor, Mr. Colin Chapman and Ms. Martha Velasquez, residents of the Gosling Pines subdivision within the District; Mr. Ahmad Walton, a resident of the Northcrest Village subdivision within 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. A copy of the sign-in sheet for those in attendance at the meeting is 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.

Dinner was provided for the Board members and consultants by Republic.

Lieutenant Glaze left the room prior to the start of the meeting due to a police emergency and Ms. Baker exited at the same time.

PUBLIC COMMENT

Director Steffes first recognized Ms. Vann, who noted that she was recently elected to serve on the Board of Directors of the Gosling Pines Homeowners Association and stated that she has a number of questions concerning the District. Mr. Naylor stated that he was in attendance at the meeting to observe. Director Steffes welcomed the residents and recommended that they contact Mr. Conner or Mr. Rowe regarding any questions they may have. Ms. Vann then explained that residents of Gosling Pines have been experiencing water quality issues, as well problems with traffic speeding through the subdivision. Ms. Vann then asked if the District has a contract for constable services. Director Steffes responded that the District does contract for the services of eight (8) Harris County constables at a cost of over \$500,000 per year. Mr. Chapman stated that he has only seen one (1) deputy in 13 months and noted that his street has a crime problem. Director Steffes noted that if residents observe criminal actions, they must call the Harris County Precinct 4 office to report same, not 911, which is the Sherriff's Department. Director Warren stated that constable contact stickers can be obtained from the Bridgestone Homeowners Association or the Constable's office.

Mr. Walton then addressed his concerns over the water in the detention pond between the Northcrest Village subdivision and the Wal-Mart Center, and asked if aeration pumps could be installed to prevent the water from becoming stagnant and reduce the number of mosquitoes. Mr. Conner then reported that modifications are underway to convert that detention pond into a 50/50 pumped and gravity flow facility with a wet bottom. Mr. Conner added that the District does not take any responsibility for aesthetic improvements and advised Mr. Walton to talk to his homeowners association.

Ms. Vann then stated that she was told that the Gosling Pine detention pond was going to be a 50/50 pumped and gravity flow facility. Mr. Conner responded that the plans for the Gosling Pines detention pond call for a 50/50 pumped and gravity flow system with a wet bottom.

HARRIS COUNTY PRECINCT 4 CONSTABLE'S REPORT

Director Steffes reported that Lieutenant Glaze had been called away on an emergency and would not be in attendance at the meeting. Director Steffes noted that a copy of the monthly Constable's Report had been previously distributed to the Board, a copy of which is attached hereto.

CONSENT AGENDA

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 then stated that three (3) bids had been received for the installation of the automatic transfer switches on Lift Station Nos. 1 and 2, and noted that the low bid was received from Generators of Houston in the amount of \$16,090. Ms. Bobbitt requested that the Board defer action on the minutes of the special meetings of November 3, 2010 and November 9, 2010.

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 approve the following Consent Agenda items: 1) approval of the minutes of the November 16, 2010 regular meeting, as written; 2) award contract for installation of the Lift Station Nos. 1 and 2 automatic transfer switches to Generators of Houston in the amount of \$16,090; 3) approval of the following pay estimates: a) Pay Estimate No. 3 and Final in the amount of \$16,815.47 from PM Construction & Rehab, L.P. in connection with the Sanitary Sewer Pipe-Bursting Improvement project; b) Pay Estimate No. 2 and Final in the amount of \$8,324.59 from Bay Utilities, LLC in connection with the construction of the water, sanitary sewer and drainage facilities to serve Villages of Senterra Lakes, Section 3; and c) Pay Estimate No. 19 in the amount of \$12,269.10 from LEM Construction in connection with the Wastewater Treatment Plant Expansion project; 4) authorize execution of the Seals Gully Dedication to Harris County Flood Control District ("HCFCD") - 4.2906-acre tract and the Seals Gully Dedication to HCFCD Northcrest Village 3.68-acre and 9.41-acre tracts; and 5) authorize the Financial Advisor and Attorney to prepare and file updated continuing disclosure information.

REGULAR AGENDA

REVIEW AND APPROVE FEASIBILITY STUDY FOR SERVICE TO 3.0413-ACRE TRACT OWNED BY CASTLEWOOD DEVELOPMENT, INC. (CASTLEWOOD")

Mr. Lee then reviewed the feasibility study prepared by Jones & Carter regarding a request for water and sanitary sewer service for the 3.0413-acre commercial tract located south of FM 2920 and west of Kuykendahl Road, a copy of which is attached hereto. Mr. Lee noted that only 0.98 acres of the tract is considered developable. Mr. Lee stated that a car wash is proposed to be built on the tract of land.

Concerning water service, Mr. Lee explained that the District has adequate water capacity to serve the tract, and there is an existing 12-inch waterline along the north right-of-way ("ROW") of FM 2910 in a 10-foot wide waterline easement. Mr. Lee stated that the owner/developer will need to extend an eight-inch (8") waterline under FM 2920 in a 16-inch steel casing to the commercial tract, as depicted in the exhibit attached to the feasibility study. Mr. Lee noted that the owner/developer will need to acquire a 10-foot wide waterline easement along the south ROW of FM 2920 across the adjacent land to the west.

Mr. Lee next explained that the District also has adequate sanitary sewer capacity to serve the tract, and stated that there is an existing 12-inch sanitary sewer line located along the north ROW of FM 2920 in a 15-foot wide sanitary sewer easement adjacent to the aforementioned 10-foot wide waterline easement. Mr. Lee stated that the owner/developer will also need to extend an eight-inch (8") sanitary sewer line under FM 2920. Mr. Lee added that

the owner/developer will need to dedicate a 15-foot wide sanitary sewer easement to the District at the northwest corner of the tract.

Concerning the financial feasibility of the proposed project, Mr. Lee explained that the estimated bond requirement for the public waterline and sanitary sewer lines is \$78,000, and stated that based on the District's Reimbursement Calculation Worksheet ("RCW"), the development would support a reimbursement amount of approximately 61% for the Project Wide costs. A copy of the preliminary RCW is attached to the feasibility report. Mr. Lee stated that Castlewood plans to partner with the owner of the 1.7803-acre adjacent tract to install the necessary utility lines to serve both tracts.

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 approve the feasibility study prepared by Jones & Carter.

REPORT ON REVISED LAND PLAN FOR THE VILLAGES OF SENTERRA LAKES SUBDIVISION

Mr. Hudson then reviewed a revised land plan for the development of the Villages of Senterra Lakes subdivision. Mr. Hudson stated that previously, the land plan for the Villages of Senterra Lakes, Sections 4 and 5 called for 43 85-foot lots, but now a Dallas homebuilder is interested in developing those two (2) sections as the Villages of Senterra Lakes, Section 4 and changing the land plan to include 65 60-foot lots. Mr. Hudson noted that the 65 homes in the revised land plan will have an average value of \$280,000 per home. Mr. Hudson added that the remaining land known as Villages of Senterra Lakes, Section 2 will be developed as a gated community comprised of 18 non-lake lots and six (6) lake lots. Mr. Hudson noted that the proposed revisions will increase the total number of single-family homes in all sections of the Villages of Senterra Lakes from 250 to 271 and increase the assessed value by an estimated \$4 million. Mr. Hudson then requested that the Board authorize Jones & Carter to review his revised land plan, verify his projections, and report back to the Board at the January 18, 2011 meeting.

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 authorize Jones & Carter to review the revised land plan for the Villages of Senterra Lakes.

REVIEW, DISCUSS AND APPROVE RENEWAL OF SOLID WASTE COLLECTION AGREEMENT WITH REPUBLIC

Mr. Conner then introduced Mr. Tousant and Ms. Rocheleau of Republic to the Board and thanked them for the dinner that Republic had provided at tonight's meeting.

Mr. Conner then recommended that the Board defer action on the proposed renewal of the Solid Waste Collection Agreement with Republic until the January 18, 2011 meeting when all of the Board can be present.

TAX ASSESSOR/COLLECTOR'S REPORT

Ms. Hall then presented the Tax Assessor/Collector's Report for the month of November, a copy of which is attached hereto. Ms. Hall reported that 1.9% of the District's 2010 taxes have been collected to date.

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 approve the Tax Assessor/Collector's Report and to authorize payment of the checks reflected therein.

DELINQUENT TAX ATTORNEY'S REPORT

Ms. Hall then briefly reviewed the Delinquent Tax Attorney's Report with the Board, a copy of which is attached hereto.

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 approve the Delinquent Tax Attorney's Report.

BOOKKEEPER'S REPORT

Ms. Jarmon next reviewed the Bookkeeper's Report with the Board, including the revenues and expenses of the District, the budget comparison, investment report and the checks being presented for payment, a copy of which is attached hereto. Ms. Jarmon noted that monthly invoices had been sent to the various developers in the District for construction management services and to those developers with outstanding balances for annexations, feasibility studies, easement acquisitions and/or other services provided by the District.

Ms. Jarmon then reported that she had received a check in the amount of \$70,711.52 from the City of Houston (the "City") for the District's share of the September sales tax revenue in connection with the District's Strategic Partnership Agreement with the City.

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 approve the Bookkeeper's Report, the investment report and the payment of the checks reflected therein.

REVIEW AND ADOPT BUDGET FOR THE FISCAL YEAR ENDING DECEMBER 31, 2011

Ms. Jarmon then reminded the Board that at the November meeting, the Board requested that Jones & Carter prepare a Three (3) Year Capital Improvement Plan ("CIP"). Ms. Jarmon stated that she and the attorneys had worked with Jones & Carter on the proposed budget for the fiscal year ending December 31, 2011 (the "2011 Budget"), and that Jones & Carter had prepared the proposed CIP, copies of which were emailed to the Board and are attached hereto.

Mr. Peterson then reviewed the CIP with the Board and explained it coordinates with certain items reflected in the proposed 2011 Budget.

Ms. Hall then exited the meeting at 7:00 p.m.

Director Theiss then asked about Item G. reflected on the CIP entitled "Wastewater Collection System". Mr. Peterson explained that the item is for the ongoing rehabilitation of the District's sanitary sewer lines and is not related to the Wastewater Treatment Plant Expansion project.

The District's residents then exited the meeting at 7:03 p.m.

Ms. Jarmon next began her review of the Summary of the 2011 Operating Account reflected on page 2 of the proposed 2011 Budget.

Mr. Tousant and Ms. Rocheleau then exited the meeting at 7:05 p.m.

Ms. Jarmon noted that if all of the proposed 2011 projects are completed and, even with a possible transfer of \$2 million in operating funds to the District Debt Service account, the District will still have an operating reserve of 89.4% and stated that she is very comfortable with that amount of reserve.

Mr. Peterson then interjected that the District's previous Five (5) Year CIP ends in six (6) days, and noted that virtually all of the projects contained in the prior CIP have been completed.

Ms. Jarmon then returned to her review of the proposed 2011 Budget. Ms. Jarmon stated that Mr. Conner had prepared the 2011 detention pond maintenance costs for the various subdivisions, and that she had forwarded such information to the homeowner associations. Ms. Jarmon further stated that the proposed budget includes an expense item based on current rates being charged for the North Harris County Regional Water Authority (the "NHCRWA") and noted that, if the District does not charge the fees it is charging to its customers, the delta between what the District is paying to the NHCRWA and what the District is charging its customers will widen and the District will continue to lose money.

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 approve and adopt the CIP.

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 adopt the 2011 Budget.

Ms. Jarmon then continued to discuss the NHCRWA fee revenues and expenses. Ms. Jarmon explained that the difference between the pumpage fee of \$1.75/1,000 gallons of water that is currently being charged to the District's customers and the surface water rate of \$2.20/1,000 gallons of water being paid to the NHCRWA will eventually negatively impact the District's operating reserves. Mr. Conner then noted that the District's current Rate Order only allows WDM to charge District customers a pumpage fee of \$1.75/1,000 gallons of water usage and, therefore, the District's Rate Order needs to be updated. Ms. Jarmon then added that a majority of the utility districts her firm represents that are receiving surface water are amending their Rate Orders to charge an amount closer to the NHCRWA's surface water cost. Director Warren then asked what the NHCRWA cost for water will be going forward. Ms. Bobbitt stated

that the NHCRWA board has recently determined that the NHCRWA fees will not be increased until the third (3rd) or fourth (4th) quarter of 2011. Ms. Bobbitt reminded the Board that it had previously made the decision not to increase the NHCRWA fees until the Board knew the amounts of the District's Depreciation Credit from the NHCRWA for the elevated storage tank and the Chloramine Credit from the NHCRWA and knew how much surface water the District will be using.

Ms. Jarmon went on to explain that the District is now receiving a Depreciation Credit of \$18,962/month and is projected to receive a Chloramine Credit of \$2,500/month. Director Warren commented that the NHCRWA fees will never go away and will only continue to go up. Director Thiess commented that the water being received at her house looks terrible and smells. Mr. Conner responded that the water quality issues are coming from the distribution lines, flow rates and a low level of alkalinity in the surface water. Mr. Conner noted that WDM has installed the ortho-phosphate equipment and increased flushing to mitigate the water quality issues. Director Thiess further stated that she could see a problem with the Board increasing water rates with all of the water quality issues the District has been experiencing. Director Steffes agreed that the timing for a water rate increase is not good, but stated that the Board cannot hide the cost of water and continue to pay a larger cost to the NHCRWA than the District is collecting from its customers. Further discussion then ensued, following which Ms. Jarmon and Mr. Conner recommended that the Board consider increasing the NHCRWA fee from \$1.75 to \$2.20/1,000 gallons of water to be effective as of the February billing cycle.

Ms. Bobbitt next recommended that the Board also consider adopting a separate rate classification for commercial customers. The Board then decided to defer action on the District's Rate Order until the January 18th meeting when all of the Board members can be present.

GENERAL MANAGER'S REPORT

Mr. Conner then reviewed with the Board the General Manager's Report, previously distributed to the Board, a copy of which is attached hereto.

Mr. Conner reported that the bioaugmentation process seems to have significantly reduced the odor problem at Lift Station No. 1. Mr. Conner added that Verde Environmental is proposing to charge the District \$1,300/month to implement the process at the lift stations located in the residential areas of the District.

Concerning the replacement of the emergency generator at Lift Station No. 4, Mr. Conner reported that Jones & Carter has confirmed that the existing 20-kilowatt ("kW") generator should be upgraded to a 35-kW generator. Mr. Conner then recommended that the matter be further discussed at the January 18th meeting when all of the Board members can be present.

Upon motion by Director Thiess, seconded by Director Warren, after full discussion and the question being put to the Board, the Board voted unanimously to approve the General Manager's report.

DIRECTOR'S INSPECTION REPORT

Mr. Conner noted that Director Marks had inspected the District's facilities on December 15th with Mr. Danny Staab of WDM. A copy of Director Marks' inspection report is attached hereto. It was noted that Director Marks had reflected in his report that the lighter colored buildings at Water Plant No. 2 need to be cleaned or painted. Mr. Conner added that Mr. Staab is going to obtain a cost estimate to replace the Water Plant No. 2 gates with a sliding gate system. Mr. Conner further stated that Director Marks had also reported that the fence at the Rhodes Landing detention pond has several boards missing and has graffiti that needs to be removed.

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 approve the Director's Inspection Report.

It was noted that Director Warren will be conducting the facility inspections for the months of January and February.

OPERATOR'S REPORT

Mr. Rowe next presented the Operator's Report for the month of November to the Board, a copy of which is attached hereto. Mr. Rowe reported that the water accountability for the month was 95%, with a four (4) month overage of 96.0%, and that the District currently has 5,447 active connections.

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 approve the Operator's Report and to authorize the termination of service to the delinquent accounts, in accordance with the provisions of the District's Rate Order.

ENGINEER'S REPORT

Mr. Peterson then reviewed the Engineer's Report with the Board, a copy of which is attached hereto.

Mr. Peterson first reported that he, Mr. Lee and Mr. Conner will drive to Austin in the morning to meet with Mr. Randy Nelson of the Texas Commission on Environmental Quality to have a pre-filing meeting regarding the District's Bond Application Report No. 11.

Mr. Hudson then noted that he had received a letter from Mr. Jonathan D. Polley of Johnson Radcliffe, dated December 17, 2010, putting the Villages of Senterra Lakes, L.P. ("VOSL") on notice regarding the disrepair of the detention ponds in the Villages of Senterra Lakes subdivision. A copy of such letter is attached hereto. Mr. Hudson explained that there are three (3) connected detention ponds in Villages of Senterra Lakes, Section 1. Mr. Hudson reported that Storm Water Solutions has conducted an inspection of the detention ponds and prepared a list of deficiencies. Mr. Hudson added that VOSL has authorized Storm Water

Solutions and other contractors to bid on the work to correct the side slope deficiencies in the detention ponds, which work would begin after January 1, 2011.

Mr. Hudson also reported that he has requested a meeting with the Harris County Flood Control District to discuss the acceptance of the Villages of Senterra Lakes detention ponds.

Director Warren then asked Mr. Hudson for information regarding Supreme Builders, Ltd. that is reflected as a delinquent account on the Delinquent Tax Attorney's Report. Mr. Hudson responded that the lots owned by Supreme Builders were sold in foreclosure proceedings for the outstanding delinquent taxes on December 17, 2010. Mr. Hudson added that Rialto Capital Management LLC, a subsidiary of Lennar Homes, purchased the lots.

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 approve the Engineer's Report.

ATTORNEY'S REPORT

Ms. Bobbitt then reported that Johnson Radcliffe had received notice that WB Sanctuary Development Partners, LP, the developer of The Sanctuary subdivision, had filed for Chapter 11 bankruptcy. Ms. Bobbitt stated that Johnson Radcliffe will continue to monitor the matter.

Ms. Bobbitt next reported that she had never received a response to her letter, dated November 11, 2010, to SouthWest Water Company ("SWWC") denying payment of any additional amounts to SWWC, but that Ms. Jarmon has confirmed that SWWC cashed the District's settlement check and, therefore, the matter is now closed.

Concerning the status of the Lower Bonds Gully drainage easement acquisitions, Ms. Bobbitt reported that Mr. Polley and Mr. Conner have scheduled a meeting with Mr. Jimmie Schindewolf on Thursday, January 6, 2011, to discuss the needed proposed ROW acquisition from the Schindewolf family. Ms. Bobbitt further reported that updated appraisals on the three (3) tracts of land have been prepared by Integra and are in the process of being reviewed by Ms. Jolie S. Lenz of Johnson Radcliffe. Ms. Bobbitt noted that the square foot value reflected in the updated appraisals is the same as what was reflected in the 2007 appraisals.

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 approve the Attorney's Report.

MISCELLANEOUS MATTERS

Ms. Bobbitt noted that the next regular meeting of the Board is scheduled for Tuesday, January 18, 2011, at 6:00 p.m.

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

PASSED, APPROVED AND ADOPTED this 18th day of January, 2011.


Secretary, Board of Directors

