

NO. 2003-8

MINUTES OF MEETING
OF
BOARD OF DIRECTORS
April 14, 2003

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, April 14, 2003, at 6:00 p.m.; whereupon, the roll was called of the members of the Board, to-wit:

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| 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. Gene Conner, General Manager for the District; Mr. Michael McCall of McCall Gibson & Company, PLLC, auditors for the District; Mr. 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. Ed Shackelford, P.E. and Erich Peterson of Jones & Carter, Inc. ("Jones & Carter"), engineers for the District; Ms. Karen Sears and Mr. Joe Almaguer of Aqua Services, LP ("Aqua Services"), operators for the District; Mr. Robert Hudson of Texas Investment and Development Company, developer of the Bridgestone Lakes and Gosling Pines subdivisions within 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., development manager of the proposed Spring Terrace subdivision within the District; Mr. Jim Mercer, P.E. of J. H. Mercer Engineers and Messrs. Tracy Riley and Mike Plunkett of Eagle Water Management ("Eagle Management"); Mr. Jim Ridgway of NewQuest Properties, development manager for Walgreens and Wal-Mart commercial developments within the District; Mr. Ben Bivens representing Klein United Methodist Church; and Ms. Robin S. Bobbitt, attorney, and Ms. Brooke T. Dold, paralegal, of Johnson Radcliffe Petrov & Bobbitt PLLC, attorneys for the District. Copies of the sign-in sheets for those in attendance at the meeting are 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.

PUBLIC COMMENT

No public comments were given.

APPROVAL OF MINUTES

The Board first considered approval of the minutes of the special meetings of December 26, 2002, and March 18, 2003, the regular meeting of March 10, 2003, and the executive session of March 10, 2003. Director Dill noted corrections on pages 4, 8 and 12 of the minutes of the regular meeting of March 10, 2003 and page 1 of the executive session minutes of March 10, 2003. 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 the special meetings of December 26, 2002, and March 18, 2003, as written, and the regular meeting of March 10, 2003, and the executive session of March 10, 2003, as corrected.

Approval of the minutes of September 25, 2001, July 17, 2002, August 29, 2002, October 23, 2002 was deferred.

REVIEW OF AUDIT REPORT FOR FISCAL YEAR ENDING DECEMBER 31, 2001

Mr. McCall then reviewed the draft of the District's audit report for the fiscal year ending December 31, 2001, a copy of which is on file in the District's records. Mr. McCall also distributed a copy of Note 11 that will be included in the audit regarding the District's Water Supply and Wastewater Treatment Service Agreement with Northwoods Educational Foundation, a copy of which is attached hereto. Mr. McCall noted that he is also working on the preparation of a footnote concerning unreimbursed developer costs. Director Dill asked if the value of the newly-constructed utilities is reflected in the audit if such utilities have not yet been accepted by the District. Mr. McCall responded that the value of the utilities is not reflected until the cost for the utilities is reimbursed to the developer by the District.

Ms. Hall then entered the meeting at 6:10 p.m.

Mr. McCall then requested that the Board approve the audit, subject to a ten (10) day period for additional review and comments from the Board members and consultants. 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 audit report for the fiscal year ended December 31, 2002, pending a ten (10) day period for additional review and comment, and to authorize the filing of the audit with the appropriate governmental agencies.

Mr. Tracy Riley then entered the meeting at 6:20 p.m.

RATIFY ADOPTION OF RESOLUTION AUTHORIZING APPLICATION TO TEXAS COMMISSION ON ENVIRONMENTAL QUALITY FOR APPROVAL OF PROJECT AND SEVENTH ISSUE OF BONDS

Ms. Bobbitt reminded the Board that at the March 10, 2003 meeting, the Board had adopted a Resolution Authorizing Application to Texas Commission on Environmental Quality (the "TCEQ"), as requested by Jones & Carter, but that such item had not been on the agenda and, therefore, ratification of such action was necessary. 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 ratify adoption of the Resolution.

RATIFY APPROVAL AND AWARD OF CONTRACT FOR CONSTRUCTION OF UTILITIES TO SERVE SPRINGBROOK, SECTION 2

Ms. Bobbitt next reported that the approval and award of the contract to JAHO, Inc. for construction of the utilities to serve Springbrook, Section 2 had not been placed on an earlier agenda and, therefore, ratification of such action was necessary. 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 ratify approval and award of the utility construction contract to JAHO, Inc. for Springbrook, Section 2.

TAX ASSESSOR/COLLECTOR'S REPORT

Ms. Hall then presented the Tax Assessor/Collector's Report for the month of March, a copy of which is attached hereto. Ms. Hall reported that 94.6% of the District's 2002 taxes had been collected to date. Ms. Hall also reported that all property within the District for the 2002 tax year has been certified by the Harris County Appraisal District. Ms. Hall further noted that the 2002 delinquent tax statements had been mailed to delinquent taxpayers. 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 the Tax Assessor/Collector's Report and authorize payment of the checks reflected therein.

DELINQUENT TAX ATTORNEY'S REPORT

Ms. Hall then reviewed the Delinquent Tax Attorney's Report with the Board, a copy of which is attached hereto. Director Warren inquired if the Board could file suit against the delinquent taxpayer with the over 65 deferral. Ms. Hall responded that the Board could not file suit on such account. Ms. Hall next reported that she had received three (3) requests from residents for refunds of penalty and interest, whose tax statements were sent to the wrong mortgage company following the refinancing of their homes. Ms. Bobbitt noted that under the provisions of the Texas Property Tax Code, the Board does not have the authority to waive penalty and interest for such purposes. Ms. Hall stated that she would prepare response letters to the residents.

CONSIDER REQUESTS FOR SERVICE AND ANNEXATION AND AUTHORIZE FEASIBILITY STUDIES

The Board then recognized Messrs Mercer, Riley and Plunkett, who requested service to and annexation of a 3.9-acre tract of land located on Spring-Cypress Road contiguous to the Stone Forest subdivision. Mr. Riley explained that Eagle Management will locate their office on a portion of the tract and is requesting 4,800 gallons of capacity for the entire tract, 500 gallons of which would be used for the Eagle Management building in the immediate future. Mr. Riley added that the additional 4,300 gallons of capacity would be needed when the remaining portion of the tract is sold to another entity for development.

Director Marks then entered the meeting at 6:33 p.m.

Ms. Bobbitt explained that capacity availability letters issued by the District typically have a one (1) to two (2) year term. Mr. Riley stated that two (2) years may not be adequate because of ongoing road construction on Spring-Cypress that is likely to delay development of the remainder of the tract. Further discussion of the matter then ensued. Director Steffes then stated that Mr. Riley could come to the Board and request that his capacity commitment be renewed at the end of the two (2) year period, if necessary. Mr. Peterson stated that a feasibility study needed to be done on the tract prior to the District issuing a capacity commitment. 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 accept Mr. Riley's application for service and annexation and authorize Jones & Carter to prepare a feasibility study for the 3.9-acre tract, upon receipt of a \$3,000 deposit from Eagle Management.

Mr. McCall then exited the meeting at 6:35 p.m.

Mr. Hudson then explained that he was representing Mr. Jim Ward concerning the proposed development of Ward Lake, a 154.4-acre tract of land located north of FM 2920 and across from Doerre Road. Mr. Hudson distributed development projections for the proposed development, a copy of which is attached hereto.

Messrs. Mercer, Riley and Plunkett then exited the meeting at 6:37 p.m.

Mr. Hudson stated that Ward Lake would consist of approximately 653 lots in the \$105,000 to \$135,000 price range, and that Obra Homes currently had the land under contract. Mr. Hudson noted that Mr. Ward is in the process of acquiring a 20-acre portion of the 154.4-acre tract for commercial development. Mr. Hudson explained that drainage for the tract will be provided by a 8,800 linear foot drainage pipe that will carry drainage to the Harris County Flood Control District (the "HCFCD") ditch that serves the Windrose subdivision. Mr. Hudson noted that water service could be extended from the Klein Independent School District stadium tract, and that an existing force main could be extended to provide sewer service to the tract. Director Steffes then requested that the Board be provided with information on Obra Homes.

Mr. Ridgway then entered the meeting at 6:50 p.m.

Mr. Shackelford inquired regarding the time frame for the proposed development. Mr. Hudson stated that Mr. Ward would like to move forward with the feasibility study as soon as possible. A discussion then ensued concerning the further expansion of the District to the west and whether to set limits on how far to extend the District's boundaries. Director Marks asked if a package sewage treatment plant could be used to serve development in that area. The Board also discussed the need for a Master Plan for the District and the need for an update of the five (5) year plan. Mr. Shackelford noted that there are other tracts in the immediate area of the Ward tract that may also seek utilities from the District. Director Marks expressed concern over the ramifications if the housing market slows down. Director Dill reminded Director Marks that the Board has structured the District's reimbursement policy based on the valuation of a development for that reason. Director Dill noted that he did not want Mr. Ward to pay \$3,000 for the feasibility study when the Board is not certain it desires to extend the District's boundaries that far west. Director Steffes commented that Director Marks made a good point about using a package sewage treatment plant to serve tracts on the far west side of the District. Director Warren stated that he wanted to review a Master Plan and get all of his questions answered before making a decision about annexing the 154.4-acre Ward tract. Director Dill stated that if the Board approves going forward with the feasibility study, Mr. Ward needs to understand that the Board is not committed to annexing the tract. 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 authorize Jones & Carter to proceed with the feasibility study for the Ward tract and to proceed with the preparation of a Master Plan for the Board's review. Mr. Shackelford then asked for a clarification from the Board concerning the time frame for completion of the feasibility study. Director Dill stated that the feasibility study typically takes 30 to 60 days to prepare, but that the Board would not expect the Master Plan to be completed within such time frame.

Mr. Plunkett then re-entered the meeting at 6:55 p.m.

INTRODUCTION OF GENERAL MANAGER

Director Steffes then took several minutes to introduce Mr. Conner, the District's new General Manager. Director Steffes also introduced Ms. Sears of Aqua Services.

DEVELOPER REPORTS

Mr. Hudson first reported on Bridgestone Lakes and stated that lots were being staked in Bridgestone Lakes, that the 36-inch storm sewer had been installed, that the plat was on the agenda at Harris County Commissioners Court tomorrow and that the Texas Department of Transportation is going to re-configure the traffic light at the subdivision's entrance.

Ms. Hall then exited the meeting at 7:10 p.m.

Concerning Gosling Pines, Mr. Hudson reported that bids had been taken on the detention pond, and that the bid tabulation had been submitted to Jones & Carter for review. Mr. Hudson reported that the low bidder was A. H. Baker based on a low bid of \$509,000. Mr. Hudson stated that he hoped to deliver lots to the builders in August.

Mr. Haaland reported that he had nothing new to report concerning Stone Forest, Sections 2 and 3. Mr. Haaland added that the contractor was working on finalizing the detention pond in order to obtain maintenance acceptance by the HCFCF.

Mr. Walkoviak then reported that 148 acres of Sam Amber's property had been sold to Centex Homes ("Centex"), who in turn sold 59.327 acres of such tract to MHI Partnership Ltd. ("MHI"). Mr. Walkoviak then reviewed the general land plan for such acreage that reflects 302 residential lots on each tract. Mr. Walkoviak explained that Mr. Amber retained a 9.8-acre tract on FM 2920 and a 7-acre tract north of Boudreaux Road for commercial development. Mr. Walkoviak next presented Partial Assignments of Rights and Assumption of the Agreement for Financing of Facilities and the Annexation and Service Agreements from Proguard Mini Storage, Ltd. to Centex and from Centex to MHI and asked the Board to approve and acknowledge such Partial Assignments. The Board then stated that since the items were not on tonight's agenda, they would be placed on the May agenda for Board action. Director Marks inquired if the lots in the development would be the same size as approved earlier by the Board. Mr. Walkoviak stated that the lot sizes would remain the same. The Board asked Mr. Walkoviak to submit a revised land plan to the Board and Jones & Carter.

Mr. Ridgway next reported that bids were taken for the construction of utilities to serve the Wal-Mart and related commercial development at FM 2920 and Kuykendahl Road. Mr. Ridgway stated that the low bidder was Reddico Construction based on a low bid of \$1.3 million. Mr. Ridgway reported that the developer will be ready to take bids on the private on-site lines in four (4) to six (6) weeks.

Concerning the Walgreens development at Spring-Cypress Road and Kuykendahl Road, Mr. Ridgway reported that he had finally received notice of the \$60,000 tap fee from Aqua Services and commented that the tap fee amount seemed excessive for boring across Kuykendahl Road. Mr. Almaguer explained that the contractor would have to bore two (2) separate lines under Kuykendahl Road, which increases the cost. Mr. Ridgway noted that he has a concern regarding the District's requirement that meters and backflow prevention devices be placed on the outside of the building when it would cost \$6,000 to \$8,000 less to place the meters and backflow prevention devices inside the building or provide the District with 24/7 access to such facilities in a closet with outside access. Director Steffes stated that the matter will likely be discussed further later in the meeting.

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

REVIEW, APPROVE AND AUTHORIZE EXECUTION OF AMENDED ANNEXATION AND SERVICE AGREEMENT AND AMENDED AGREEMENT FOR FINANCING OF FACILITIES REGARDING 0.4796-ACRE KLEIN TRACT

Ms. Bobbitt then reported that with the annexation of the 0.4796-acre tract of land owned by David Klein, it was necessary to amend the Agreement for Financing of Facilities and the Annexation and Service Agreement to include such tract of land. 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 approve and authorize the execution of the proposed amendments, copies of which are attached hereto.

REVIEW, APPROVE AND AUTHORIZE EXECUTION OF ANNEXATION AND SERVICE AGREEMENT AND AGREEMENT FOR FINANCING OF FACILITIES REGARDING 28.3849-ACRE MILESTONE TRACT

Ms. Bobbitt next explained that Milestone Klein Crossing S. C., Ltd. ("Milestone") is now ready to enter into an Agreement for Financing of Facilities and an Annexation and Service Agreement for the 28.3849 acres that are being annexed into the District. Director Marks inquired what would be built on the tract. Mr. Peterson responded that Milestone had not provided such information. 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 approve and authorize execution of such agreements, copies of which are attached hereto.

DIRECTOR'S INSPECTION REPORT

Director Steffes then presented a report on his inspection of the District's facilities. Director Steffes reported that he, Mr. Shackelford, Mr. Conner, Ms. Sears and Mr. Almaguer toured the Kroger site, the Bueker commercial sites at Bridgeview Plaza and FM 2920, as well as the District's plant facilities.

Director Warren stated that he had spoken with Mr. Almaguer about the J&L Services ("J&L") mowing contract for the seven (7) lots owned by the District. Director Warren stated that the Bridgestone Homeowners Association (the "HOA") has a person who will mow the lots for \$50 instead of the \$75 being charged by J&L. Director Warren suggested that the District continue to use J&L to mow and maintain the District's plant sites and enter a contract with the HOA to mow the District's lots. Director Steffes inquired whether the individual utilized by the HOA has liability insurance. Director Warren stated that the individual has liability insurance. Director Steffes asked Director Warren to submit an agreement with the HOA and evidence of liability coverage to Ms. Bobbitt for review. Director Dill asked for the mowing schedule currently utilized by J&L and the schedule to be utilized by the HOA contractor.

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 approve the Director's Report.

Ms. Bobbitt noted that Director Joyce is scheduled to conduct the Director inspections for the months of May and June.

OPERATOR'S REPORT

Ms. Sears explained that Mr. Dunn will no longer attend the District's meetings and that she would serve as a back-up and supply administrative support to Mr. Almaguer, who would continue to attend the meetings.

Mr. Almaguer then reviewed the Operator's Report for the month of March, a copy of which is attached hereto. Mr. Almaguer first reported on the usages at the District's Water Plants. Mr. Almaguer reported that Water Well No. 1 is now back online. Director Dill noted that the usage of the two (2) wells at Water Plant No. 2 was still out of balance. Mr. Almaguer explained that he had changed out the controls for Well No. 2-2 to make it the lead well with

Well No. 2-1 as the back-up well. Mr. Almaguer added that the usage of the wells is not determined by run times, but by the amount of gallons pumped from each well.

Mr. Almaguer then reported that the water accountability ratio for the month was 91.9%, with a four (4) month average of 91.2%, and that there were eight (8) sludge hauls during the month. Mr. Almaguer added that there are currently 2,394 connections in the District, including 90 builder accounts and 32 vacancies. Mr. Almaguer noted that there had been no excursions at the Sewage Treatment Plant during the prior month, and there are five (5) months remaining on the District's Harris-Galveston Coastal Subsidence District (the "HGCSO") water withdrawal permit.

Mr. Almaguer next reported that a draft of the District's 2002 Consumer Confidence Report ("CCR") was included in the Operator's Report for the Board's review and approval. Director Steffes stated that he would like the President's Message to be revised and updated. Mr. Almaguer stated that the revised CCR would be presented at the Board's May meeting for approval and needs to be finalized and distributed to the residents by July 1, 2003.

Ms. Sears then reported that the District had received a Certificate for Outstanding Performance from the TCEQ concerning the District's water distribution system. Ms. Sears explained that the Certificate is an award for the District's water system having no violations during the years 1997 through 2001. The Board suggested that the Certificate and the CCR be posted on the District's Web site. Ms. Bobbitt stated that her office would provide the items to Ms. Payne for posting on the Web site.

Ms. Sears next presented a copy of the new billing statement format being implemented by Aqua Services, a copy of which is attached hereto. The Board suggested that Aqua Services place an item about the Certificate of Outstanding Performance from the TCEQ in the message box of the billing statement.

Mr. Almaguer next noted that a copy of the Aqua Services' response letter to Mr. Steve Tetlow regarding payment for garbage services was included in the Operator's Report. Mr. Almaguer added that no further communication had been received from Mr. Tetlow.

Director Steffes then stated that as he reviewed the Aqua Services invoices, he could not identify where the revenues from the various customer inspections, grease trap inspections, etc. are recorded. Ms. Jarmon explained that the Board sees the expenses billed by Aqua Services for the inspection fees and that Aqua Services then submits a report to her with the breakout of such revenues. Ms. Sears stated she would include the inspection fee revenue information on the monthly Operator's Report.

Mr. Plunkett then exited the meeting at 8:05 p.m.

Director Warren then reported that Mr. Jerry Thomas, President of the HOA, was eyewitness to a truck stealing water from a District fire hydrant earlier today on Dawn Lily and reported it to Mr. Almaguer. Mr. Almaguer stated that the truck was owned by Scott Drilling, a contractor drilling a water well on property located near the District, and that the company was notified that they would be billed for usage of approximately 2,500 gallons of District water. Ms. Bobbitt added that the District could also impose a penalty for such violation pursuant to the

provisions of the District's Rate Order. 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 Mr. Conner to file a criminal complaint against Scott Drilling and to proceed with charging them for the stolen water, along with a penalty and the costs incurred by the District in connection with such matter.

Mr. Bivens then entered the meeting at 8:10 p.m.

Mr. Almaguer next noted that the Harris-Galveston Area Council had sent out a notice for the Harris County Electronics Waste Recycling Event scheduled for Saturday, May 17, 2003, at Barbara Bush Library, a copy of which is attached hereto.

Mr. Almaguer then explained that he was asked by Director Steffes how long Aqua Services had held the paperwork for the Aqua Four Carwash tap fee. Mr. Almaguer stated that Aqua Services received the paperwork for the tap fee on March 14, 2003. Director Steffes stated that he will contact the carwash owner regarding the matter, since he had represented that Aqua Services had been holding the paperwork for an extended period of time.

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 Operator's Report and the service terminations to the delinquent accounts.

CONSIDER REQUEST FOR OUT-OF-DISTRICT WATER AND WASTEWATER SERVICE TO KLEIN UNITED METHODIST CHURCH

The Board then recognized Mr. Bivens, Trustee Chairman of Klein United Methodist Church ("KUMC"). Mr. Bivens explained that KUMC was requesting out-of-district water service for KUMC from the District's water line located on the south side of FM 2920 and will possibly seek sewer service at a later time once the sanitary sewer lines have been extended near the KUMC. Mr. Bivens stated that KUMC has a small water well that provides water to KUMC and has a septic tank for the provision of wastewater service. A copy of Mr. Bivens' letter summarizing the needs of KUMC is attached hereto. Director Dill stated that he is a member of KUMC and, therefore, will abstain from any vote regarding the service request. Director Dill asked Mr. Bivens what type of sewer system KUMC currently utilizes. Mr. Bivens stated that it is a gravity flow system into a septic tank. Mr. Bivens noted that KUMC may need to consider installing a lift pump to the force main that will serve the Wal-Mart tract. Mr. Shackelford then asked if KUMC used potable water for irrigation purposes. Mr. Bivens stated that KUMC would continue to use their small well for irrigation purposes as long as it is operational. Mr. Peterson noted that Jones & Carter will need to look at the capacity and fire protection requirements of KUMC. Director Marks asked if the KUMC tract would continue to be used for a church, rather than a school facility. Mr. Bivens stated that KUMC has expansion plans for the existing facilities, but they will continue to be used as a church and daycare facility. Mr. Shackelford stated that Jones & Carter can look into the service request at the same time that they develop a Master Plan for the District. Upon motion by Director Joyce, seconded by Director Warren, after full discussion and the question being put to the Board, the Board voted four (4) votes in favor, with Director Dill abstaining, to authorize Jones & Carter to review the water and wastewater capacities needed by KUMC and include such capacity needs in the District's Master Plan.

Mr. Bivens then thanked the Board and exited the meeting at 8:35 p.m.

Director Steffes then asked how the authorized work will be billed by Jones & Carter. Director Dill stated that Jones & Carter was not preparing a full feasibility study at this point for the KUMC tract and, therefore, the cost should be minimal. Director Steffes asked Jones & Carter to contact the Board if significant time is involved for the review of the KUMC capacities. Mr. Ridgway commented that the sanitary sewer lines on the Wal-Mart tract do not abut the KUMC property.

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 and the checks being presented for payment, a copy of which is attached hereto. Ms. Jarmon stated that she will e-mail a summary report of surplus funds to Mr. Shackelford, as requested. Ms. Jarmon reported that she had just received a \$167,977.16 payment from Centex for its pro rata share of the Kuykendahl Road/FM 2920 trunk utility lines and Lift Station No. 5. Ms. Jarmon noted that NewQuest Properties and D. R. Horton have until April 18th to pay their current pro rata shares of such costs.

Ms. Jarmon next explained that Mr. Conner's salary will be wire transferred to his account each month. Ms. Jarmon explained that the wire transfer form requires three (3) Board member signatures, and that she will have the form signed at the monthly Board meeting and hold it until the 30th of each month. Ms. Jarmon further noted that tonight's checks included the District's payment to the HGCSO for sponsorship of the Water Wise Program at Roth Elementary School.

Ms. Jarmon next reported that the checks being presented also include payment of Pay Estimate No. 8 and Final to Schier Construction Co. in the amount of \$49,720.01 in connection with the ground storage tank at Water Plant No. 1; Pay Estimate No. 5 to Conn's Inc. in the amount of \$55,131.03 for the construction of Lift Station No. 5 and Pay Estimate No. 3 to Triple B Construction in the amount of \$98,997.21 for the construction of Kuykendahl Road/FM 2920 trunk utility project.

Ms. Jarmon added that the auditors had found an error in the summary of costs for the rehabilitation of Ditch C and stated that \$1,600 is owed to the District by Harris County in connection with such project.

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

DISCUSSION REGARDING NOTICE FROM THE NORTH HARRIS COUNTY WATER AUTHORITY (THE "NHCRWA") CONCERNING CAPITAL CONTRIBUTION

Ms. Bobbitt first presented a notice from the NHCRWA concerning the District's pro rata share of the capital costs of the NHCRWA's first bond issue, previously distributed to the Board. A copy of such notice is attached hereto. Mr. Short then reviewed a memorandum concerning

the District's options for payment of \$1,781,409 to the NHCRWA, due on September 30, 2003, a copy of which is attached hereto. Mr. Short stated that the Board must determine if they want to pay the District's pro rata share through the pumpage fees or by paying the amount in full by issuing bonds. Director Dill asked what option would be the most cost effective for the District's taxpayers. Mr. Short responded that the most cost effective means is to have the NHCRWA issue the debt on the District's behalf. Mr. Short further noted that the District will need to evaluate this matter each time the NHCWRA gives notice of its intent to issue debt.

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 authorize the preparation of a response to the NHCRWA prior to May 15th that the District declines to issue debt to fund the District's \$1,781,409 pro rata share of the NHCRWA's first bond issue. Ms. Bobbitt stated she would prepare a response to the NHCRWA.

STATUS OF REFUNDING BOND ISSUE

Mr. Short next reported that he was anxious to take advantage of the current bond market for the proposed refunding bond issue to insure that the District achieves the best level of savings. Mr. Short stated that the bond sale has been scheduled for Wednesday, April 16, 2003. Mr. Short stated that when he first discussed the idea of a refunding bond issue, he was looking at a present value savings of 3%, but that based on the current market conditions, he hopes to obtain in excess of 7% in present value savings or approximately \$600,000 in gross savings and \$35,000 to \$45,000 in the District's debt service payments. Director Warren inquired why the bond sale was not scheduled to coincide with tonight's meeting or could not be held on a Friday. Mr. Short explained that the municipal finance industry requires two (2) full business days to initiate and consummate a bond transaction. Mr. Short went on to report that the District's refunding bond issue had received an investment grade rating of BBB+ by Standard & Poor's, which was not anticipated. A copy of the news release regarding the rating is attached hereto.

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 financial advisor to proceed with the marketing and pricing of the refunding bond issue on Tuesday, for sale on Wednesday, April 16, 2003.

REVIEW \$5,650,000 SEVENTH BOND APPLICATION

Mr. Shackelford next distributed copies of the draft of the District's \$5,650,000 Seventh Bond Application Report prepared by Jones & Carter, a copy of which is attached hereto for the Board's review. Mr. Shackelford requested that the Board provide any questions or comments on the bond application to Mr. Peterson.

ENGINEER'S REPORT

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

Mr. Peterson first reported that Jones & Carter is in the process of reviewing and re-evaluating the Bonds Gully drainage study, as previously discussed with the Board.

Concerning the problem with flooding on FM 2920, Mr. Peterson reported that the contractor for the Northwoods trunkline project had re-graded and hydro-mulched the FM 2920 drainage ditch, and that the final inspection of such project will be scheduled within the next two (2) weeks.

Mr. Peterson then recommended payment of Pay Estimate No. 3 in the amount of \$98,997.21 to Triple B Construction, in connection with the Kuykendahl/FM 2920 trunk utility project, and Pay Estimate No. 5 in the amount of \$55,131.03 to Conn's Inc. in connection with the construction of Lift Station No. 5.

Mr. Peterson then distributed and reviewed the updated construction timeline, a copy of which is attached hereto. Mr. Peterson noted that the construction of Water Plant No. 1 had been removed from the timeline, and noted that Pay Estimate No. 8 and Final in the amount of \$49,720.01 was being recommended for payment to Schier Construction Co. in connection with such project.

Concerning the Rhodes Landing project, Mr. Peterson reported that he, Mr. Conner, Ms. Sears and Mr. Almaguer inspected the detention pond for such project to assess the access to the detention pond pump controls. Mr. Peterson stated that the owner of the commercial strip where Neal's Restaurant is located is agreeable to allow access to the detention pond via the existing driveway behind the strip center, which the District will extend 30 or 40 feet to access the pump control panel. Mr. Shackelford interjected that the District needs to establish policies/procedures for the District's assumption of detention ponds for maintenance. Director Marks then inquired how the District got into a situation where it did not have access to the detention pond. Mr. Shackelford stated that he did not know the history of the detention pond. Mr. Peterson stated that there is access to the control panel, but not all-weather access.

Mr. Peterson then reported on various meetings held with Mr. Conner, Ms. Sears and Mr. Almaguer to tour the District's facilities, to review and discuss the development projects within the District and to discuss the issues regarding the individual metering at commercial developments within the District. Mr. Shackelford stated that it is critical that Jones & Carter and Aqua Services have a written policy that can be handed to commercial developers concerning the District's requirements for metering and access easements. Mr. Shackelford added that he will be working with the District's consultants and Mr. Conner to develop such a policy. Director Warren commended Mr. Shackelford for taking the time to meet with Aqua Services and on the team effort to address such issues. Mr. Shackelford noted that he is continuing to schedule meetings with each of the Directors to discuss District matters.

Mr. Shackelford next reported that he and Aqua Services had inspected Mr. Bueker's two (2) commercial developments on FM 2920 and at Bridgeview Plaza. Mr. Shackelford explained that although the developers are required to submit their construction plans to Jones & Carter for review and to make any necessary revisions, the contractors do not always use the approved plans. Mr. Shackelford went on to explain that in the case of Mr. Bueker's development at Bridgeview Plaza, the contractor had built the strip center according to the original plans and not the plans that had been approved by Jones & Carter. Mr. Shackelford noted that the problems have been identified, and the developer will have to go back and revise the water line

connections. Mr. Shackelford stated that he and Aqua Services will work to improve the paper trail concerning commercial developments.

Director Dill then stated that it was his understanding that the Board had directed that service was not to be initiated to a commercial development until the development and the utility connections are inspected. Ms. Sears stated that Aqua Services performs cross-connection inspections, but not plumbing inspections. Director Dill commented that the Board's expectations were not new, and that the construction plans are to be approved by Jones & Carter and sent to Aqua Services, and that Aqua Services is to inspect the connections before service is initiated. Mr. Almaguer stated that Aqua Services' personnel are inspecting up to the backflow preventor, but not the building plumbing. Director Dill stated that these procedures should have been clear several years ago. Mr. Shackelford interjected that the dilemma is that the District does not have a maintenance easement from the tap connection at the street to the meter at the building, and that the District needs to acquire such easements from the developers in order to be able to inspect the connections and maintain the meters. Mr. Shackelford stated that the District must either obtain the water line easements or install the meters at the curb. Director Marks commented that this was a very old problem in the District, and that he is pleased that there are three (3) new heads working to resolve the problem.

Mr. Conner then explained that Mr. Bueker's commercial development at Bridgeview Plaza was connected correctly at the curb, but that the District still needs to have an easement up into the property to enable the District to have access to the meter. Mr. Conner expressed his concern that the same continuity needs to be established regarding anything that the District accepts for operation and maintenance, such as the pumped detention ponds. Mr. Conner stated that he was very pleased with the cooperation among the consultants and stressed the need for policies and procedures for the consultants to utilize.

Director Steffes then recognized Mr. Ridgway concerning his earlier request to be allowed to install the backflow prevention device and meter inside the Walgreens building or in an outside closet. Mr. Conner stated that the District must have 24/7 access to the backflow preventor and the meter. Director Marks asked where the meters will be located. Mr. Ridgway responded that the fire protection line is not typically metered and just has a backflow preventor. Mr. Ridgway requested that the meters be placed in a closet that is accessible from the outside of the building. Director Steffes then stated that it was a safe assumption that the backflow preventors and meter needs to be located on the outside of the building.

Mr. Peterson went on to report that the District's five (5) year plan was last updated in 2000 and recommended that it again be updated. Director Dill stated that a Master Plan also needs to be developed in conjunction with the five (5) year plan, as discussed earlier in the meeting. Upon motion by Director Joyce, seconded by Director Warren, after full discussion and the question being put to the Board, the Board voted unanimously to authorize Jones & Carter to work with the General Manager to update the five (5) year plan and to develop a Master Plan for the District.

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 approve the Engineer's Report and approve payment of the Pay Estimates outlined above.

GENERAL MANAGER'S REPORT

Mr. Conner then distributed copies of his report for the Board's review, a copy of which is attached hereto.

Messrs. Hudson and Short then exited the meeting at 9:55 p.m.

Mr. Conner reported that he had new office telephone and cell phone numbers and provided such information to the Board.

Mr. Conner next reported that he had met with Mr. Bueker regarding his commercial developments on FM 2920 and at Bridgeview Plaza, and that Mr. Bueker agreed to install his water line outside of the building on FM 2920 (similar to what was done at the Kroger's shopping center), which will allow full District access to the meters and water line. Mr. Conner went on to explain that Mr. Bueker was advised that Bridgeview Plaza was not built according to the approved plans, and that Mr. Bueker has agreed to remove and relocate the water line from the interior of the building to the outside back wall of the building. Mr. Conner added that Mr. Bueker will also have separate meters and backflow preventors installed for each tenant. Mr. Conner recommended that Mr. Bueker retain ownership and maintenance of the water line at Bridgeview Plaza. Mr. Conner further recommended that the District refund Mr. Bueker's \$16,000 tap fee for the single meter that was installed and that each tenant will now pay for an individual tap. Mr. Conner added that Mr. Bueker will also provide a 20-foot access easement to the District for the water line. 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 General Manager's recommendation for Mr. Bueker's FM 2920 development and for Bridgeview Plaza. A discussion then ensued concerning the amount of time Mr. Bueker should be given to re-install the water line and provide the access easement. The Board concurred that a maximum of 60 days was appropriate and requested that Ms. Bobbitt prepare a letter and send a form of access easement to Mr. Bueker.

Mr. Haaland then exited the meeting at 10:15 p.m.

Director Dill then asked why the District would not accept Mr. Bueker's water line for maintenance. Mr. Shackelford stated that it is best to remain consistent, and it is more common for the owner of the utilities to maintain the utility lines from the meter to the building.

A discussion then ensued regarding the party responsible for making concrete or paving repairs on an easement when a District line is repaired. Mr. Conner stated that it is very costly for the District to be required to make such repairs. Ms. Bobbitt noted that she would need to amend the District's form of easement to reflect any changes that are determined to be appropriate. Director Dill stated that he is not in favor of the District being responsible for any repairs if the District must tear up concrete to access District utility lines. Mr. Conner stated he would be reviewing the matter further.

Mr. Conner then continued with his General Manager's Report, reporting that the fluoride level in Water Well No. 2-2 is approximately 2% and that the allowable maximum is 1.2%. Mr. Conner stated that the fluoride level in the well may leech out over time, but in the interim, the high fluoride level may be a compliance issue. Mr. Conner stated that Aqua Services will

control the fluoride level by programming a PLC device to dictate the operation of the two (2) wells at Water Plant No. 2 and control the blending of the water from the wells. Mr. Conner explained that Water Well 2-1 will need to run twice as long as Water Well No. 2-2. Director Dill requested that Jones & Carter investigate the possibility of obtaining a variance from the State that would allow the District to use the average fluoride levels of all four (4) wells in the District. Mr. Almaguer stated that Water Well No. 3 will now be used as the lead well. Mr. Conner stated that he was obtaining a cost for weekly fluoride testing of the wells.

Mr. Conner next reported that he was working on obtaining a vulnerability assessment for the District's facilities.

Director Warren noted that Mr. Conner and the Board need to register for the Association of Water Board Directors - Texas Summer Conference in Corpus Christi. Ms. Jarmon then handed out Conference registration forms for the Board to complete.

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 General Manager's Report.

REVIEW, APPROVE AND AUTHORIZE EXECUTION OF CONTRACT FOR GENERAL MANAGEMENT SERVICES WITH G. E. CONNER, INC.

Ms. Bobbitt then reviewed with the Board the proposed contract for General Management Services with G. E. Conner, Inc. ("G.E. Conner"). Director Marks questioned why the salary was now \$107,800 instead of \$100,000. Ms. Bobbitt explained that the Board had agreed to contract with G. E. Conner as a consultant and not as an employee of the District, with Mr. Conner paying his own employment and social security taxes. Ms. Bobbitt added that the employment taxes total \$7,650 and that \$150 was added for workers compensation coverage, as agreed to by the Board at the March 18th meeting, to bring the total salary to \$107,800. Ms. Bobbitt reminded the Board that they had agreed to pay as additional salary any costs that the District would have paid on Mr. Conner's behalf as an employee.

Ms. Bobbitt then brought up questions about Mr. Conner providing his own general liability insurance coverage. Mr. Conner stated that he was not prepared to provide liability coverage and that it would be a large expense to him. The Board asked if the District could obtain a rider on its general liability policy that would cover Mr. Conner. Ms. Bobbitt stated that she will check with Anco Wessendorff concerning such coverage. Mr. Conner stated that he will also investigate the matter with his insurance agent. 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 Contract for General Management Services With G.E. Conner, Inc., subject to the liability insurance issue being resolved.

ATTORNEY'S REPORT

Ms. Bobbitt then reported that the NHCRWA recently sent letters to the districts that had previously indicated that they wanted to participate in the Phase 1 Groundwater Transfer Projects (the "GTP") to obtain updated information from each district. A copy of such letter is attached

hereto. Ms. Bobbitt added that the NHCRWA Engineer Manager will be contacting each district engineer regarding participation in the GTP.

Ms. Bobbitt then reported that she had received no response from Mr. Bucchino regarding acquisition of the drainage easement for Bonds Gully. Ms. Bobbitt then presented a Resolution Authorizing Proceedings in Eminent Domain concerning Mr. Bucchino's property. Upon motion by Director Dill, seconded by Director Marks, after full discussion and the question being put to the Board, the Board voted unanimously to adopt such Resolution, a copy of which is attached hereto.

MISCELLANEOUS MATTERS

Mr. Conner then proposed a change in the District's regular meeting date in order to provide more time for the meeting materials from the consultants to be provided to the Board. Mr. Conner stated that the third Tuesday appeared to work for most of the consultants' schedules. Ms. Bobbitt noted that her office will need to check with Bridgestone Baptist Church to see if the meeting room is available on such date. Director Dill stated that he may have a conflict on the third Tuesday, but would check his schedule and advise Mr. Conner of his availability. Mr. Conner suggested that the matter be discussed further at the May meeting.

There being no further business to come before the Board, the meeting was adjourned at 11:05 p.m.

PASSED, APPROVED AND ADOPTED this 12th day of May, 2003.

/s/Jim Marks

Assistant Secretary, Board of Directors

(DISTRICT SEAL)

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