

2008-14
MINUTES OF MEETING
OF
BOARD OF DIRECTORS
September 23, 2008

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, September 23, 2008, at 7:00 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, thus constituting a quorum. Also attending the meeting were: Mr. Gene Conner, General Manager 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; Mr. Erich Peterson, P.E. of Jones & Carter, Inc. ("Jones & Carter"), engineers for the District; Mr. Danny Staab and Ms. Claudine Pacioni of SouthWest Water Company ("SWWC"), operators for the District; Mr. Bob Hudson of Texas Investment & Development Company, Inc., developer of the Bridgestone Lakes, Gosling Pines, Senterra Lakes, Inc. and Villages of Senterra Lakes subdivisions within the District; Mr. David Glunt of WB Sanctuary Development Partners, L.P., developer of The Sanctuary subdivision within the District; Mr. Bob Felinski of Protective Environmental Strategies, Inc. ("PES"); Mr. L. Carlin Short, II, financial advisor for the District; and Ms. Robin S. Bobbitt, attorney, and Ms. Brooke T. Dold, paralegal, of Johnson Radcliffe Petrov & Bobbitt PLLC, attorneys for the District. The following residents were also in attendance: Mr. Gary Palmer, Mr. Jesus Mendoza, Mr. Jade Boyd, Mr. Calvin McKinney and Mr. David Johnson. A copy of the sign-in sheets 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.

It was then noted that tonight's meeting will be the regular monthly meeting of the Board due to Hurricane Ike and had been rescheduled from September 16th.

HEAR FROM THE PUBLIC

Director Steffes invited comments from the public. Mr. Palmer thanked the Board and consultants for keeping the District's water and sewer facilities operational during Hurricane Ike.

Mr. Mendoza, a resident of the Bella Sera subdivision, stated that he wanted to discuss the recent flooding problem in Bella Sera during and after Hurricane Ike. Director Steffes stated that discussion regarding the flooding issue would be deferred until Mr. Peterson arrives at the meeting.

Mr. Boyd, the President of the Bridgeview Homeowners Association (the "HOA"), the HOA for the Bridgestone West subdivision, explained that he was attending the meeting to hear the Board's discussion regarding storm debris removal.

REGULAR AGENDA

TAX ASSESSOR/COLLECTOR'S REPORT

The Board then recognized Ms. Hall, who presented the Tax Assessor/Collector's Report for the month of August, a copy of which is attached hereto. Ms. Hall reported that to date, 98.0% of the District's 2007 taxes have been collected. Ms. Hall went on to state that no changes had occurred since she had submitted the electronic version of her report to the Board prior to the meeting.

Ms. Hall next reported that the District's 2008 certified values had been received from the Harris County Appraisal District ("HCAD") and stated that to date, there is \$638,827,734 in certified value and \$139,469,054 that remains uncertified.

Upon motion by Director Warren, seconded by Director Schkade, 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. Bobbitt then reported that there is no Delinquent Tax Attorney's Report for tonight's meeting and explained that the offices of Perdue, Brandon, Fielder, Collins & Mott, L.L.P. ("Perdue Brandon"), the District's delinquent tax attorney, had suffered damages during Hurricane Ike, and that key personnel had been relocated to temporary offices downtown. Ms. Bobbitt stated that Perdue Brandon, unless otherwise directed, has suspended termination of service on delinquent accounts for the month until their offices are back in operation.

GENERAL MANAGER'S REPORT

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

Mr. Conner noted that the Harris County Precinct 4 Constable's Report for the month of August had been previously distributed, a copy of which is attached hereto.

Concerning Hurricane Ike, Mr. Conner reported that the older subdivisions within the District had suffered more tree damage than the newer subdivisions and, therefore, had more debris. Mr. Conner reported that following the storm, he had requested proposals from Republic Waste Services ("Republic") and PES for removal of storm debris within the District. Mr. Conner noted that the Bridgeview HOA was also looking into contracting for the removal of storm debris within the Bridgestone West subdivision. Mr. Conner explained that Republic's cost was a flat rate of \$140 per hour, plus the cost for disposal, for storm debris that was properly bagged and bundled. Mr. Conner noted that Republic cannot begin storm debris removal until Sunday, September 28th. Mr. Conner then introduced Mr. Felinski with PES to the Board and reviewed a proposal from PES for storm debris removal, a copy of which is attached hereto. Mr. Conner recommended Option 4 on the PES proposal at a cost of \$245 per hour, and stated that PES could operate three (3) or four (4) heavy dump trailers in the District to get the debris removed. Mr. Conner added that PES has indicated that they could start work on the debris removal immediately.

Director Marks then entered the meeting at 7:10 p.m.

One of the residents stated that he has a problem with the way Republic is handling garbage collection since the storm. The resident noted that there is confusion regarding what Republic will and will not pick up. Director Steffes then explained that media sources have been stating that residents must not combine household garbage with storm debris. Mr. Conner explained that Republic's first priority under their contract with the District is to remove household garbage, and then to remove properly bagged and bundled items. Mr. Conner noted that Republic has had to use temporary staff in the District, which may have caused some confusion with garbage collection during the past week.

Mr. Felinski suggested that in addition to Option 4, the Board may want PES to provide a roll-off container and crew at a cost of \$475 per load for household debris, such as sheet rock and carpets. Director Marks asked Mr. Felinski for an estimate of time to collect all of the storm debris. Mr. Felinski estimated 15 to 20 minutes per home. Director Schkade asked Mr. Felinski if he was familiar with the size and condition of the District. Mr. Felinski stated that he had not yet driven the entire District, but had a general idea of the District's size and the scope of the work. A discussion ensued regarding the extent of storm debris throughout the District. Director Steffes then asked if the District's costs for removal of storm debris would qualify for reimbursement from the Federal Emergency Management Agency ("FEMA"). Ms. Bobbitt responded that it is her understanding that the District would not qualify for FEMA reimbursements, and explained that FEMA has entered into contracts with cities and counties for storm debris removal and, therefore, the District would not be eligible for reimbursement. Director Warren noted that the FEMA crews had begun collection of storm debris in portions of the District.

Director Steffes then asked Mr. Felinski to work with Mr. Conner tomorrow to prepare an estimate of storm debris removal from 10% to 15% of the District. Ms. Bobbitt asked if Mr. Felinski already has an idea or estimate of the time and cost to remove storm debris from

areas in the District with the most debris, which would be the older subdivisions in the District. Mr. Felinski responded that he estimates a cost of \$175,000 to \$225,000 to service the entire District. Mr. Conner noted that PES will work from the street right-of-way and does not enter onto private property to remove storm debris.

Mr. Felinski thanked the Board and exited the meeting at 7:40 p.m.

Upon motion by Director Schkade, 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 Steffes suggested that the Board discuss the storm debris removal matter later in the meeting and possibly in executive session.

DIRECTOR'S INSPECTION REPORT

Director Schkade then reported that he and Mr. Staab had inspected the District's facilities on September 6, 2008 before Hurricane Ike. A copy of Director Schkade's Inspection Report is attached hereto. Director Schkade asked for identifying signage to be installed at the Spring Terrace lift station and detention pond. Concerning the Sewage Treatment Plant (the "STP"), Director Schkade reported that the fine air diffuser had blown out and needs repair or replacement. Mr. Conner noted that the fine air diffuser will be replaced during the upcoming STP expansion project.

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 Inspection Report.

DISCUSS 2008 TAX RATE

The Board then recognized Mr. Short, who distributed copies of his 2008 tax rate recommendation, a copy of which is attached hereto. Mr. Short explained that his recommendation assumes that the District opts to continue the strategy adopted in previous years of "under levying" its debt service tax rate and maintaining the option to transfer funds from its General Operating Fund to the Debt Service Fund. Mr. Short noted that his preference is to levy the same tax rate as 2007, which was a debt service rate of \$0.50 per \$100 of assessed valuation, plus a maintenance tax of \$0.25 per \$100 of assessed valuation. Mr. Short added that the situation is a bit more complicated with the District's \$29 million bond issue pending at the Texas Commission on Environmental Quality (the "TCEQ"). Mr. Short explained that the District cannot sell more debt without either increasing the debt service tax rate to \$0.61 or having more assessed value on the ground. Mr. Short explained that historically, the Board has tried to maintain a level tax rate and noted that in the future, the Board may need to use the operating/maintenance tax in a different manner. The Board concurred with Mr. Short's tax rate recommendation.

Concerning the current bond market, Mr. Short advised the Board that there are fewer buyers interested in purchasing tax-exempt debt and, therefore, the number of bids being received on utility district bonds has significantly declined. Director Steffes asked what interest

rates are doing on investment funds. Ms. Jarmon noted that she recently had a district sell bonds at 6.00%, and that investment rates in the various investment pools have not yet changed much. Ms. Bobbitt reminded the Board that if the interest rate on the District's 10th bond issue is higher than 5.65%, the rate that was used in the bond application report, it will be necessary to go back to the TCEQ for approval of a higher interest rate.

Mr. Short then recommended that the Board request an estimate of assessed value as of October 1, 2008 from HCAD to determine if there is adequate assessed value to market the first increment of the \$29 million bond issue.

Upon motion by Director Marks, seconded by Director Theiss, after full discussion and the question being put to the Board, the Board voted unanimously to authorize Ms. Hall to publish the effective tax calculation and notice of the public hearing in the "This Week" section of The Houston Chronicle, to maintain the District's debt tax rate of \$0.50 per \$100 of assessed valuation, and to maintain a maintenance tax rate of \$0.25 per \$100 of assessed valuation, for a total 2008 tax rate of \$0.75 per \$100 of assessed valuation, and to adopt a Resolution Requesting HCAD for an Estimated Appraisal of Property (the "Resolution") as of October 1, 2008. A copy of the Resolution is attached hereto.

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 reported that the 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 and/or easement acquisitions.

Ms. Jarmon further reported that during the prior month, she had received checks for \$33,435.13 and \$46,038.96 from the City of Houston (the "City") for the District's share of the May and June Strategic Partnership Agreement ("SPA") sales tax revenue. Copies of the SPA reports are attached hereto.

Ms. Jarmon noted that The Essential Group's Waterworks Insurance Network is now managed by the Highpoint Insurance Group, L.L.C. ("Highpoint"). Director Marks commented that the Board should have been informed about the change, and questioned whether the credentials and coverages are the same as reflected in the proposal approved by the Board at the September 2, 2008 meeting. The Board asked Ms. Bobbitt to contact Ms. Kimberly Courte of Highpoint, for an explanation regarding the District's insurance coverage.

Mr. Mendoza then stated that he had to return to work and could not stay at the meeting any longer and exited the meeting at 8:00 p.m.

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.

Ms. Hall then exited the meeting at 8:05 p.m.

OPERATOR'S REPORT

Mr. Staab then introduced Ms. Pacioni to the Board. Mr. Staab stated that Ms. Pacioni will serve as the Contract Manager. Ms. Pacioni stated that she has been with SWWC for five (5) months, and that she has experience with utility companies and water districts. Ms. Pacioni then distributed her business card.

Mr. Staab next presented the Operator's Report for the month of August to the Board, including the termination list, previously distributed to the Board, copies of which are attached hereto. Mr. Staab explained that according to the Report, the District's four (4) month water accountability ratio was 90.9%, the monthly ratio was 90.4%, there were 27 sludge hauls during the prior month, and there are currently 5,194 connections in the District. Mr. Staab stated he had nothing further to add to his written Report.

Mr. Conner noted a problem had been encountered with the motor control panel on the diesel generator engine at the STP that the problem is being investigated.

Mr. Staab then reported that he has a meeting later this week with a fencing contractor to review fence damage at the District's various facilities caused by Hurricane Ike. Mr. Conner noted that the meeting is in preparation for the insurance adjuster's inspection. Director Theiss asked if the damages to the fences are covered by the District's insurance. Mr. Conner responded that there is insurance coverage, but that he did not know to what degree in light of the high winds that occurred during Hurricane Ike.

Mr. Peterson entered the meeting at 8:15 p.m.

Ms. Pacioni next reported that a bill adjustment request had been received from Time Saver Food Mart ("Time Saver") on FM 2920, and that such entity had used 783,000 gallons of water during the month of July. Ms. Pacioni stated that the August meter reading was back to 6,000 gallons of water, which is Time Saver's typical usage. Ms. Pacioni explained that the owner has requested an adjustment on the July bill. Mr. Staab noted that SWWC is having the meter tested for accuracy. Director Theiss suggested that the matter be further discussed at the Board's next special workshop meeting. Mr. Conner stated he would look into the matter further.

Upon motion by Director Warren, seconded by Director Schkade, 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.

APPROVE ASSIGNMENT OF REIMBURSEMENTS OF BRIDGESTONE LAKES, SECTIONS 2 AND 3 TO DAVID KLEIN, TRUSTEE

Ms. Bobbitt then presented a Collateral Assignment of Contracts, Contract Rights and Security Agreement Bridgestone Lakes Development Company, Inc. and David R. Klein, Trustee (the "Assignment") regarding Bridgestone Lakes, Sections 2 and 3 for the Board's review, approval and execution. Ms. Bobbitt explained that Mr. Hudson is apparently selling and assigning his reimbursement rights for Bridgestone Lakes, Sections 2 and 3 to Mr. Klein, and that the Board is only acknowledging such assignment.

Mr. Short then exited the meeting at 8:25 p.m.

Director Steffes then asked Mr. Peterson if the Bridgestone Lakes, Section 2 detention pond is compliant with Harris County Flood Control District ("HCFCD") requirements. Mr. Peterson responded that the approved plans and specifications for such detention pond were compliant with HCFCD requirements, but that the facility was not constructed in accordance with the approved plans and specifications. Ms. Bobbitt concurred with Mr. Peterson. Director Steffes asked Mr. Hudson if Mr. Klein is aware of the problems with the Bridgestone Lakes, Section 2 detention pond. Mr. Hudson responded that Mr. Klein is aware of the matter. Director Marks then asked if the Assignment changes any of Mr. Hudson's obligations and responsibilities to the District. Mr. Peterson responded that the Assignment did not change any of Mr. Hudson's obligations and responsibilities to the District.

Director Steffes then stated that the Board would proceed with the remainder of the agenda items and further discuss the Assignment later in executive session.

ENGINEER'S REPORT

Mr. Peterson then stated that no changes have been made to the Engineer's Report that was previously distributed to the Board prior to tonight's meeting. A copy of the Engineer's Report is attached hereto.

Mr. Peterson reported that he had recently spoken with Mr. Linden Poole, the TCEQ representative assigned to review the District's pending Bond Application Report No. 10, and learned that Mr. Poole is in the process of drafting the TCEQ staff memo for peer review.

Concerning the request from Harris County (the "County") for water service to the Spring Camp, Mr. Peterson reported that he is working with Mr. Staab on a cost estimate and exhibits relating to the cost of extending service to the Spring Camp for submission to the County for review.

Mr. Peterson noted that the 60-day expedited review for the District's application for release of escrowed funds expired on September 14, 2008, and that the TCEQ approval letter is currently in peer review.

Upon motion by Director Marks, seconded by Director Schkade, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Engineer's Report.

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 reported that he has added Pay Estimate No. 1 from Gonzalez Construction Enterprise, Inc. ("Gonzalez") in the amount of \$66,617.03 in connection with the Kuykendahl Road waterline extension to the Consent Agenda.

Upon motion by Director Marks, seconded by Director Theiss, after full discussion and the question being put to the Board, the Board voted unanimously to approve the following Consent Agenda items: 1) approve the minutes of the regular meeting of August 19, 2008; 2) authorize Jones & Carter to advertise for bids for The Sanctuary water, sewer and drainage facilities; and 3) approve the following pay estimates: a) Pay Estimate No. 1 in the amount \$66,617.03 from Gonzalez in connection with the Kuykendahl Road waterline extension; and b) Pay Estimate No. 6 in the amount of \$16,120.48 from Clearwater Utilities, Inc. in connection with the water, sewer and drainage facilities to serve Spring Terrace, Section 5.

ATTORNEY'S REPORT

Ms. Bobbitt then distributed copies of the proposed Policy Governing Audio Recordings of Board of Directors Meeting for the Board's review and consideration, as discussed at the September 2, 2008 special Board meeting, a copy of which is attached hereto.

Ms. Bobbitt then reported that the commissioners for condemnation hearing on the Alamdari easement matter have been selected and a date for the hearing will soon be set. Ms. Bobbitt noted that notice of the hearing must be served to Mr. Alamdari 11 days prior to the hearing date.

EXECUTIVE SESSION

Director Steffes then adjourned the regular meeting at 8:35 p.m. and announced that the Board would convene in executive session pursuant to Section 551.071(1)(A), Texas Government Code, as amended, to consult with the District's attorney regarding attorney/client privilege matters. The members of the Board, Mr. Conner, Mr. Peterson, Ms. Bobbitt and Ms. Dold remained in the executive session, at which time all other persons in attendance at the meeting exited the meeting room.

RECONVENE IN OPEN SESSION

Director Steffes then reconvened the meeting in open session at 9:15 p.m., at which time Mr. Hudson and Mr. Boyd re-entered the meeting and the Board took the following actions.

Upon motion by Director Marks, seconded by Director Theiss, after full discussion and the question being put to the Board, the Board voted unanimously to authorize execution of the Assignment between Bridgestone Lakes Development Company, Inc. and David R. Klein, Trustee, a copy of which is attached hereto.

Upon motion by Director Marks, seconded by Director Theiss, after full discussion and the question being put to the Board, the Board voted unanimously to authorize Mr. Conner to make arrangements with PES to do five (5) days of storm debris removal at a cost of up to, but not to exceed, \$15,000 and to further review and discuss the matter with the Board at the special meeting scheduled for September 30, 2008.

Mr. Boyd asked Mr. Conner to communicate the Board's decision to Ms. Judy Gordon with the Bridgeview HOA on Wednesday morning.

Mr. Hudson then exited the meeting at 9:22 p.m.

DISCUSS BELLA SERA FLOODING ISSUES

Mr. Peterson then addressed the Board regarding the flooding of the streets in the Bella Sera subdivision during Hurricane Ike and several days thereafter. Mr. Peterson explained that prior to tonight's meeting, he had reviewed the plans approved by the City and County for the Bella Sera water, sewer and drainage facilities and detention pond. Mr. Peterson further stated that he also accessed rainfall data from the County's Office of Emergency Management website, which reflected an average rainfall of 14.57 inches within a 24-hour period at Spring Creek Road and Kuykendahl Road and an average rainfall of 18 inches at Spring Creek Road and Interstate 45. Mr. Peterson added that a rainfall of 13 inches is considered to be a 100-year flood event. Mr. Peterson stated that the Bella Sera detention pond system is designed for a 100-year flood event, but that obviously more than 13 inches of rain fell as a result of Hurricane Ike. Director Marks then asked why there was standing water in the subdivision four (4) days after the rain ceased and what was causing such problem. Mr. Peterson explained that the problem is with the Kuykendahl Road outfall, and that the problem will be resolved with the installation of box culverts during construction of Phase 3 of the Upper Seals Gully project.

Director Marks asked if house elevations in the Bella Sera subdivision have been checked. Mr. Peterson noted that the District is not responsible for checking or verifying house elevations. Director Steffes interjected that the builder and mortgage company, not the District, provide a slab survey to the title company at the closing on a home purchase.

Director Theiss then noted that it seems odd that only the Bella Sera subdivision and detention pond had a problem during the storm. Mr. Conner then stated that the problem was caused due to the detention pond outfall to the Kuykendahl Road roadside ditch being limited, as required by the County and the Texas Department of Transportation. Mr. Conner further reported that District representatives were working together with Kroger and Bella Sera to regulate the pumping of stormwater into the outfall. Ms. Bobbitt then noted that it was fortunate that Kroger contacted the District, and not the County, about the District's pumping of water and the resulting problem it caused to Kroger.

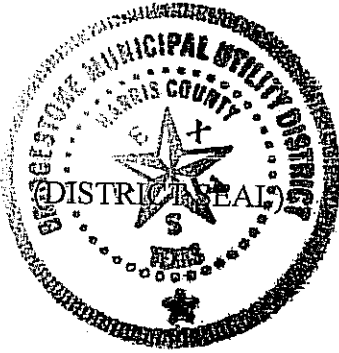
Director Warren then asked what the District will do about homes that were flooded in Bella Sera. Mr. Conner stated that the District is not responsible for the flooding. Ms. Bobbitt recommended that the residents submit a claim on their homeowner's insurance for any damages.

MISCELLANEOUS MATTERS

Ms. Bobbitt reminded the Board that the next regular meeting of the Board is scheduled for Tuesday, October 21, 2008, at 7:00 p.m.

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

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



Lynnda Hein
Secretary, Board of Directors