

MINUTES OF MEETING OF BOARD OF DIRECTORS
January 17, 2006

THE STATE OF TEXAS
COUNTY OF HARRIS
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 186

The Board of Directors (the "Board") of Harris County Municipal Utility District No. 186 (the "District") met in regular session, open to the public, at the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Suite 5100, Houston, Texas, at 12:00 p.m. on January 17, 2006; whereupon the roll was called of the members of the Board, to wit:

Gary Henderson, President
Mark Day, Vice President
Jaquelyn Champagne, Secretary
Carol Barnes, Assistant Secretary
Leonard Fojt, Treasurer

All members of the Board were present. Also attending all or parts of the meeting were Ms. Michelle Guerrero of Bob Leared Interests ("BLI"), tax assessor and collector for the District; Mr. Jerry Eckert of Turner Collie & Braden, Inc. ("TC&B"), engineer for the District; Mr. Chris Hoffman of H2O Consulting ("H2O"), operator for the District; Ms. Lori Hogue of Myrtle Cruz, Inc., bookkeeper for the District; and Mr. Mike McCall and Ms. Stephanie Swedlund of McCall, Gibson & Company, PLLC, auditors for the District; and Ms. Jana Cogburn and Ms. Kelly Russell of Fulbright & Jaworski L.L.P. ("F&J"), attorneys for the District.

The meeting was called to order and, in accordance with notice posted pursuant to law, copies of Certificates of Posting of which are attached hereto as Exhibit "A," the following business was transacted:

1. **Minutes.** Consideration was given to the approval of the minutes of the meetings of December 20, 2005, previously distributed to the Board. Upon motion by Director Day, seconded by Director Barnes, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of the meeting of December 20, 2005, as presented.

2. **Engage Auditor for fiscal year ending February 28, 2006.** The President recognized Mr. McCall, who presented to and reviewed with the Board the auditor engagement letter, a copy of which is attached hereto as Exhibit "B." Upon motion by Director Barnes, seconded by Director Champagne, after full discussion and the question being put to the Board, the Board voted unanimously to authorize the execution of the auditor engagement letter, thereby hiring McCall, Gibson & Company, PLLC to perform the District's audit for fiscal year ending February 28, 2006.

3. **Adopt Order Calling Directors Election.** Ms. Cogburn presented to and reviewed with the Board a draft of the Order Calling Directors Election, a copy of which is

attached hereto as Exhibit "C." Ms. Cogburn reported that the District is now required to utilize an electronic voting machine at the upcoming Directors Election. Ms. Cogburn reviewed with the Board the "full-service" and "limited service" contract options with Harris County. Ms. Cogburn stated that the "full-service" option will cost approximately \$3,383 per voting machine and the "limited-service" option will cost \$2,674 per voting machine. Ms. Cogburn also reported that at least two election officials will have to attend a four hour training session (provided by Harris County) in connection with the electronic voting machines. It was the consensus of the Board for F&J to submit notice to Harris County that the District plans to utilize a full service contract with Harris County.

4. **Tax Assessor and Collector's Report.** Ms. Guerrero presented to and reviewed with the Board the Tax Assessor and Collector's Report, a copy of which is attached hereto as Exhibit "D." Ms. Guerrero reported that as of December 31, 2005, the District had collected 42.136% of its 2005 taxes. Upon motion by Director Champagne, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted unanimously to accept the Tax Assessor and Collector's Report, and to authorize payment of checks Nos. 1209 through 1213 from the Tax Account in the amounts, to the persons, and for the purposes described in the Tax Assessor and Collector's Report.

5. **Adopt Order Authorizing Property Tax Exemptions.** Upon motion by Director Day, seconded by Director Fojt, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Order Adopting Residential Homestead Exemption from Taxation, a copy of which is attached hereto as Exhibit "E," thereby authorizing a 20% homestead exemption, and to adopt the Order Adopting Exemptions from Taxation for Individuals Who are Disabled or are 65 Years of Age or Older, a copy of which is attached hereto as Exhibit "F," thereby granting such an exemption in the amount of \$10,000.

6. **Operations Report.** Mr. Hoffman presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "G." Mr. Hoffman reported that H2O accounted for 90.9% of the water pumped in the District in December.

Mr. Hoffman reported that the District pumped 17,098,000 gallons of water during the last period. Mr. Hoffman noted that the District has 200,000,000 gallons and eleven months remaining on its Harris-Galveston Coastal Subsidence District Permit.

Mr. Hoffman presented to and reviewed with the Board the Maintenance Summary, a copy of which is attached to the Operations Report. Mr. Hoffman reported that H2O wrapped all valves and piping for winter and verified that the heaters were working in all of the rooms.

Mr. Hoffman reported that the TCEQ performed their annual inspection in December and he is waiting on the final report from the TCEQ. Mr. Hoffman reported that the inspector noted that some minor changes to the sampling plan need to be made, but indicated that those changes could be made when the District converts to surface water.

Mr. Hoffman reported that the priority one and two repairs for phase eight and nine of the sanitary sewer line repairs are nearing completion. Mr. Hoffman reviewed with the Board the summary report, a copy of which is attached to the Operations Report.

Mr. Hoffman reported that the two contractors have been coordinating to schedule the vault manhole repair and have tentatively scheduled it for January 23, 2006.

Mr. Hoffman reported that the slip line under River Garden has been completed and will be sealed when the vault repair is complete.

Mr. Hoffman reported that phase 10 sanitary sewer line cleaning and televising will begin in early February.

Mr. Hoffman reported that the Harris-Galveston Coastal Subsidence District annual report is due January 31, 2006.

Mr. Hoffman reported that as a part of the District's water audit, he may have to test some of the meters H2O is removing during the meter change out program. Mr. Hoffman reported that he will also randomly test some of the large meters in the District as part of this program. Mr. Hoffman reported that the water audit is due to the Texas Water Developmental Board by March 31, 2006.

7. **Bookkeeper's Report; Approve Investment Report.** The President recognized Ms. Hogue, who presented to and reviewed with the Board the Bookkeeper's Report and monthly Investment Report, copies of which are attached hereto as Exhibit "H." Upon motion by Director Day, seconded by Director Champagne, after full discussion and the question being put to the Board, the Board voted unanimously to accept the Bookkeeper's Report, to authorize payment of check Nos. 5241 through 5261 from the Operating Account, each in the amounts, to the persons, and for the purposes described in the Bookkeeper's Report, and to approve the monthly Investment Report.

8. **Approve budget for fiscal year ending February 28, 2007.** Ms. Hogue reviewed with the Board the budget for the fiscal year ending February 28, 2007, a copy of which is attached hereto as Exhibit "I." The Board noted several changes to the budget and asked Ms. Hogue to revise the budget as discussed. Action on this matter was deferred.

9. **Engineer's Report.** The President recognized Mr. Eckert, who presented to and reviewed with the Board the Engineer's Report, a copy of which is attached hereto as Exhibit "J." Mr. Eckert reported that TC&B is coordinating with Mr. Hoffman to incorporate the maintenance database into the GIS system.

Mr. Eckert updated the Board on the District's conversion to surface water. Mr. Eckert reported that R&B Group has completed the connection to water tank no. 1 and will begin the hydrostatic pressure test this week in anticipation of receiving surface water from the West Harris County Regional Water Authority.

Mr. Eckert reviewed with the Board Change Order No. 2 in the amount of \$13,194.72, as submitted by R&B Group, for the cost incurred for the extended riser connections

and air gap modifications, per the City of Houston's requirements prior to their approval of final design, a copy of which is attached to the Engineer's Report. Mr. Eckert reported that the R&B Group has also requested a contract extension of 120 days. Upon motion by Director Barnes, seconded by Director Champagne, after full discussion and the question being put to the Board, the Board voted unanimously to approve Change Order No. 2, thereby authorizing payment of \$13,197.72 and a 120 day contract extension.

10. **Discuss and take action in connection with conversion to surface water.** This was discussed as part of the Engineer's Report.

11. **Discuss and take action in connection with reclaimed water project.** Mr. Eckert reported that the special meeting that was scheduled for January 23, 2006 has been postponed. Mr. Eckert reported that TC&B has requested additional operations data from the landscaping companies employed to maintain the right of ways and common areas that will be utilizing the reclaimed water for their irrigation purposes. Mr. Eckert reported that TC&B anticipates rescheduling the meeting within the month to discuss the system's capacity and each district's allocation.

12. **Authorize execution of contract between the District and HCMUD No. 162 for Water Line Maintenance.** Ms. Cogburn noted that she will prepare a draft contract for the Board's review.

13. **Update on District website creation.** Director Champagne updated the Board on the website creation.

14. **Report on Copperfield Joint Operations Board meeting.** Mr. Hoffman updated the Board on the most recent CJOB meeting.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, the meeting was adjourned.

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The foregoing minutes were passed and approved by the Board of Directors on

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President, Board of Directors

ATTEST:

Secretary, Board of Directors

(DISTRICT SEAL)