

MINUTES OF MEETING OF BOARD OF DIRECTORS
September 18, 2007

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 September 18, 2007; whereupon the roll was called of the members of the Board, to wit:

Gary Henderson, President
Mark Day, Vice President
Carol Barnes, Secretary
Leonard Fojt, Treasurer
Charles Bumpass, Assistant Secretary

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. Larry Mueller and Mr. Tony Sarman of TCB, Inc. ("TCB"), engineers 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; Ms. Julie Peak of First Southwest Company, financial advisor for the District; and Ms. Jana Cogburn and Ms. Nancy Green 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. **Public Hearing on Taxation of Goods in Transit and Resolution Authorizing Taxation of Goods in Transit.** There were no public comments. Ms. Cogburn and Ms. Guerrero reviewed with the Board the Resolution Authorizing Taxation of Goods in Transit, a copy of which is attached hereto as Exhibit "B". Upon motion by Director Fojt, seconded by Director Bumpass, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Resolution Authorizing Taxation of Goods in Transit.

2. **Minutes.** Consideration was given to the approval of the minutes of the meeting of August 21, 2007, previously distributed to the Board. Director Barnes requested that "Fojt" be changed to "Day" in the third sentence in item two of the minutes. Mr. Hoffman requested that 50% be corrected to 90% in the first sentence of paragraph nine under the Operations Report. Upon motion by Director Barnes, seconded by Director Bumpass, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of the meeting of September 11, 2007, as revised.

3. **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 "C." Ms. Guerrero reported that 98.674% of the District's 2006 taxes have been collected. Upon motion by Director Fojt, seconded by Director Barnes, 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 check nos. 1318 through 1321 from the Tax Account in the amounts, to the persons, and for the purposes described in the Tax Assessor and Collector's Report.

4. **Operations Report.** Mr. Hoffman presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "D." Mr. Hoffman reported that the District pumped 8,133,000 gallons and purchased 9,717,000 gallons of water during the last period and that the District has 126,842,000 gallons and three months remaining on its Harris-Galveston Coastal Subsidence District Permit. Mr. Hoffman reported that H2O accounted for 92.7% of the water pumped in and purchased by the District in August 2007.

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 on water plant maintenance and noted that Swain and Associates performed a comprehensive tank inspection at the water plant.

Mr. Hoffman reported that H2O replaced a two-inch solenoid on well #2 and calibrated the level sensor for the storage tank.

Mr. Hoffman stated that as directed by Director Henderson, H2O checked the generator elevations. Mr. Hoffman stated that a flood level of 123.3 feet would affect the generator and electrical controls.

Mr. Hoffman requested the Board's approval to upgrade the autodialer from an eight channel dialer to a 16 channel dialer so that H2O can monitor more alarm points. Upon motion by Director Fojt, seconded by Day, after full discussion and the question being put to the Board, the Board voted unanimously to approve upgrading the autodialer from eight channels to 16 channels at an estimated cost of \$1,900.

Mr. Hoffman reported on water line maintenance and noted that H2O pressure washed, wire brushed and painted the lift station fencing.

Mr. Hoffman noted that the fire hydrant at the corner of Cherry Park and Highway 6 has been relocated and should be invoiced next month.

Mr. Hoffman reported that H2O is waiting on a report from Sweetwater Environmental before scheduling a split sample at Rainbow Cleaners for tetrachloroethene ("perc") discharge.

5. **Bookkeeper's and Investment Report.** The President recognized Ms. Hogue, who presented to and reviewed with the Board the Bookkeeper's Report and the Investment Report, copies of which are attached hereto as Exhibit "E." Upon motion by Director Barnes, seconded by Director Bumpass, 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. 5769 through 5795 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 Investment Report.

6. **Renew District Insurance.** The Board reviewed the Harco and The Essential Insurance Group proposals, copies of which are attached hereto as Exhibit "F." Upon motion by Director Fojt, seconded by Director Barnes, after full discussion and the question being put to the Board, the Board voted unanimously to approve The Essential Group proposal effective September 28, 2007 through September 28, 2008.

7. **Indemnification of Directors.** It was noted that to the extent that the directors and officers liability insurance policy does not cover the losses of Directors carrying out the lawful business and duties of the Board in good faith, the Board can indemnify the Directors for losses. Upon motion by Director Bumpass, seconded by Director Barnes, after full discussion and the question being put to the Board, the Board voted unanimously to approve the District's indemnification of Directors for losses/costs arising from the Directors carrying out their lawful duty, to the extent that such losses are not otherwise covered by insurance.

8. **Engineer's Report.** The President recognized Mr. Sarman, who presented to and reviewed with the Board the Engineer's Report, a copy of which is attached hereto as Exhibit "G." Mr. Sarman stated that TCB has started updating the GIS mapping system and is gathering information needed for the updates. Mr. Sarman reported that TCB has met with H2O to discuss their operational needs for the GIS system updates. Mr. Sarman noted that TCB will continue to update the Board on the status of the project.

Mr. Sarman reported that TCB is performing the final review of the plan set for the phase 11 sanitary sewer repairs and once finalized, the plans will be submitted to H2O.

Mr. Sarman reported that TCB has prepared a final draft of Emergency Response Plan ("ERP") for the Board's review and comment. Mr. Sarman noted that electronic versions of the final draft have been e-mailed to each of the Board members. TCB will address any comments and submit the final ERP to the Board.

Mr. Sarman stated that TCB received an email containing draft drawings for St. Mary's expansion. Mr. Sarman noted that TCB and H2O have provided some preliminary comments based on the draft drawings.

Mr. Sarman reported that the District received two capacity requests and noted that one request is for an in-District customer. Mr. Sarman stated that the second request is from Harris County Municipal Utility District No. 257 ("No. 257") for additional capacity for 32 ESFCS. Mr. Sarman stated that both requests are attached to the Engineer's Report for discussion. The Board directed Mr. Sarman to obtain a retainer from No. 257 to do the engineering study necessary to determine if the District has adequate capacity available.

Mr. Sarman reported on the coating inspections and noted that this item was discussed in the Operations Report.

Mr. Sarman reported that TCB submitted replacement cost information to The Essential Group.

Mr. Sarman reported that the West Harris County Regional Water Authority (“WHCRWA”) has been reviewing their records and requested general information on the District, a copy of their email request is attached to the Engineer’s Report.

Mr. Sarman updated the Board on the status of the Reclaimed Water Project and noted that the project is still on hold.

9. **Update on reclaimed water system.** Ms. Cogburn stated that Ms. Sechrist furnished Harris County Municipal Utility District No. 163 (“No. 163”) an updated review of the Reclaimed Water System Agreement and that a letter of no objection will be presented to No. 163 for consideration.

10. **Report on CJOB meeting.** Mr. Hoffman reported that the District has 51% ownership in the siphon under Horsepen Creek and that the siphon cleaning was approved at the CJOB meeting based on a pro-rata ownership of the lines, in accordance with the terms of the shared wastewater collection agreement.

11. **Discuss TCEQ landscape irrigation rules.** Ms. Cogburn reviewed with the Board the TCEQ landscape irrigation rules, a copy of which is attached hereto as Exhibit “H.” Ms. Cogburn stated that legislative changes were passed to allow districts to voluntarily adopt and enforce landscape irrigation rules.

12. **Adopt Order Designating Officer to Calculate and Publish Tax Rate.** Ms. Peak presented to and reviewed with the Board her recommendation for the District’s 2007 Tax Levy. Ms. Peak recommended that the Board levy \$0.42 per \$100 of assessed valuation for debt service and \$0.05 per \$100 of assessed valuation to fund maintenance and operating expenditures. 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 adopt the Order Designating Officer to Calculate and Publish Tax Rate, a copy of which is attached hereto as Exhibit “I”, thereby indicating its intent to set a tax rate of \$0.47 per \$100 assessed valuation (\$0.42 per 100 valuation to pay principal and interest to service the District’s debts and \$0.05 per \$100 assessed valuation to fund maintenance and operating expenditures) and to designate Bob Leared as the District’s officer to publish the proposed tax rate in the *Houston Chronicle*.

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 _____.

President, Board of Directors

ATTEST:

Secretary, Board of Directors

(DISTRICT SEAL)