

MINUTES OF MEETING OF BOARD OF DIRECTORS
August 19, 2008

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 August 19, 2008; 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 except Director Fojt. 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. 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; 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. **Minutes.** Consideration was given to the approval of the minutes of the meeting of July 15, 2008, previously distributed to the Board. Upon motion by Director Barnes, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted three in favor, with Director Bumpass abstaining, to approve the minutes of the meeting of July 15, 2008, as presented.

2. **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 "B." Ms. Guerrero reported that 98.33% of the District's 2007 taxes have been collected. Upon motion by Director Barnes, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Tax Assessor and Collector's Report and to authorize payment of check nos. 1380 through 1383 from the Tax Account in the amounts, to the persons, and for the purposes described in the Tax Assessor and Collector's Report.

3. **Consider and approve Depository Pledge Agreement with Compass Bank and Federal Home Loan Bank Board Atlanta.** The Board reviewed the Depository Pledge Agreement with Compass Bank and Federal Home Loan Bank Board Atlanta. Ms.

Cogburn noted that Texas State Bank has merged with Compass Bank and that a new Depository Pledge Agreement would need to be executed with Compass Bank. Ms. Cogburn requested that the Board consider accepting letters of credit with Federal Home Loan Bank Board Atlanta as collateral for deposits with Compass Bank. Upon motion by Director Barnes, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Depository Pledge Agreement with Compass Bank and Federal Home Loan Bank Board Atlanta and to accept letters of credit with Federal Home Loan Bank Board Atlanta as collateral for deposits with Compass Bank.

4. **Consider accepting letter of credit with Federal Home Loan Bank Board Atlanta as collateral for deposits with Compass Bank.** This was approved with item 2.

5. **Adopt Resolution Calling Bonds, Series 1998.** Ms. Cogburn reviewed with the Board the Early Call of the Series 1998 Bonds, a copy of which is attached hereto as Exhibit "C." Ms. Cogburn noted that the 2013 and 2014 maturities of the Series 1998 Bonds are outstanding and stated that the Board could redeem both maturities on November 1, 2008. Ms. Cogburn reported that the District's cost for the early call of the Series 1998 Bonds is approximately \$663,000. Extensive discussion ensued regarding the accretion table, and the required principal and interest payments for the call. Director Henderson stated that the early bond call would save the District approximately \$180,000. Ms. Cogburn noted that F&J would draft the notice to the holders of the 1998 Bonds in accordance with the 1998 Order and that the financial advisor will provide the dollar amounts required for the redemption. Upon motion by Director Bumpass, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Resolution Calling Bonds, Series 1998, a copy of which is attached hereto as Exhibit "D."

6. **Operations Report.** Mr. Hoffman presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "E." Mr. Hoffman reported that the District pumped 13,905,000 gallons of water and purchased 11,888,000 gallons of water from the West Harris County Regional Water Authority ("WHCRWA") during the last period and that the District has 100,285,000 gallons and four months remaining on its Harris-Galveston Coastal Subsidence District Permit. Mr. Hoffman reported that H2O accounted for 83.5% of the water pumped and purchased by the District in July 2008.

Mr. Hoffman presented to and reviewed with the Board the Maintenance Summary, a copy of which is attached to the Operations Report. Mr. Hoffman stated that he is scheduling tours of other water plants with different control systems in order to make a recommendation to the Board for the new control panel.

Mr. Hoffman reported that on the Porta-cell units at the water plant and noted that the chlorine technicians have recommended replacing the metering unit on both Porta-cells. Mr. Hoffman stated that the Porta-cell units are six to seven years old. Mr. Hoffman recommended repairing one unit for \$3,200 and replacing one unit with a new Royce 4100 liquid feeder at an estimated cost of \$14,500. Upon motion by Director Barnes, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted unanimously to approve the repair of on Porta-cell unit for \$3,200 and replacing one Porta-cell unit at an estimated cost of \$14,500.

Mr. Hoffman reported that the annual equipment lubrication is complete at a final cost of \$925.89.

Mr. Hoffman stated that H2O has investigated the low water accountability and noted that a list of action items pertaining to the investigation is attached to the Operations Report. Mr. Hoffman noted that H2O inspected storm sewers, verified meters, and checked sanitary sewer manholes near water line crossings. Mr. Hoffman reported that Samco inspected the interconnect valves and no leaks were found. Mr. Hoffman noted that an estimate to test the system for leaks by Samco is attached to the Operations Report. Mr. Hoffman reported that the District is losing about 3,000,000 gallons of water a month. Upon motion by Director Bumpass, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Samco proposal for leak detection at a cost not to exceed \$6,500.

Mr. Hoffman reviewed the Water Quality Complaint Log and stated that H2O may run a water line around Mesa Gardens to alleviate the odor complaints.

7. **Bookkeeper's and Investment Report.** The President recognized Ms. Hogue, who presented to and reviewed with the Board the Bookkeeper's Report, the budget for the fiscal year ending February 28, 2009 and the Investment Report, copies of which are attached hereto as Exhibit "F." Ms. Hogue noted that the budget for Water Plant Painting was amended to \$300,000 and the Water Plant Control Panel was amended to \$100,000 and requested the Board's approval of the amendments. 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 accept the Bookkeeper's Report, to authorize payment of check nos. 6038 through 6056 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 and the budget amendments.

8. **Consider and approve budget amendment.** This item was approved in the Bookkeeper's Report.

9. **Approve and authorize filing of Continuing Disclosure Information.** Upon motion by Director Barnes, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted unanimously to approve and authorize F&J to file the Annual Report of Financial Information and Operating Data on behalf of the District.

10. **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 is currently working to add the sanitary sewer repair information to the GIS files. Mr. Sarman noted that TCB located information from April 2001, which indicates that the sanitary sewer repairs for phases 3 and 4 were put on hold until they could be included with additional repairs for bidding. Mr. Sarman stated that the repairs were not included in later phases. Mr. Sarman requested the Board's approval for TCB to coordinate with H2O and to have a contractor address the point repairs.

Mr. Sarman stated that TCB is working with H2O to determine the needs for the future control panel.

Mr. Sarman reported the TCB is finalizing the drawings and specifications for bidding the water plant painting project, which includes the GST hydrotanks and exposed piping on the off-site wells and fences. Mr. Sarman requested the Board's approval to start advertising for bids for the water plant painting. 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 authorize TCB to begin advertising for bids for the water plant painting.

Mr. Sarman reported that TXDOT held a meeting on July 29, 2008 to discuss the proposed improvements to the Highway 6 and FM 529 intersection expansion. Mr. Sarman reported that TCB is coordinating with TXDOT to provide plans for the utilities in the project area. Mr. Sarman noted that TXDOT's updated plans would be available around the beginning of September. Mr. Sarman reported that based on the current plans, the waterline along FM 529 will need to be relocated to make room for the lane expansion of FM 529. Mr. Sarman stated that a map of improvements will be brought to the next meeting for discussion.

11. **Renew District Insurance.** The Board reviewed insurance proposals from Anco McDonald, Harco/TML and The Essential Group, copies of which are attached hereto as Exhibit "H." Discussion ensued. 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 Essential Group insurance proposal.

12. **Indemnification of Directors.** Ms. Cogburn stated that to the extent that the directors and officer's insurance policy does not cover 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 indemnification of directors for losses arising from the directors carrying out their lawful duty, to the extent that such losses are not otherwise covered by insurance.

13. **Discuss and approve web site updates.** Director Day reported that the District web site has not been updated to add recent approved minutes on the site and also has other outdated information. Director Barnes stated that she would review the web site and contact the web site manager to request that outdated information be removed from the site. Director Day agreed to assist Director Barnes. Ms. Green stated that she would send the missing approved minutes to the web site manager and would begin routinely sending approved minutes to the web site manager following the District meetings.

14. **Report on Copperfield Joint Operations Board ("CJOB") meeting.** Director Henderson reported that he did not attend the August meeting. Mr. Sarman stated that CJOB discussions included prospective TCEQ permit requirements regarding E-coli effluent discharge into water streams. Mr. Sarman stated that CJOB has authorized H2O to obtain E-coli samples at the Plant and discharge points to determine a baseline reading for E-coli discharge.

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

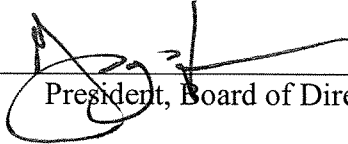
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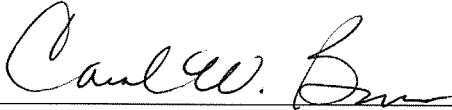
The foregoing minutes were passed and approved by the Board of Directors on

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President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

