

MINUTES OF MEETING OF BOARD OF DIRECTORS
September 21, 2010

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 21, 2010; 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 Mr. Chris Hoffman of H2O Consulting, Inc. ("H2O"), operators for the District; Ms. Michelle Guerrero of Bob Leared Interests ("BLI"), tax assessor and collector for the District; Mr. Tony Sarman of AECOM Technical Services, Inc. ("AECOM"), engineers for the District; Ms. Lori Hogue of Myrtle Cruz, Inc., bookkeeper for the District; Mr. Greg Lentz of First Southwest Company, financial advisor for the District; Ms. Debra Edwards, a resident of 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 August 17, 2010, previously distributed to the Board. Upon motion by Director Barnes, seconded by Director Fojt, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of the meeting of August 17, 2010, as presented.

2. **Consider Financial Advisor's recommendation for the 2010 Tax Rate and Authorize Publication.** Mr. Lentz reviewed with the Board the 2010 Tax Rate Recommendation for the District, a copy of which is attached hereto as Exhibit "B." Mr. Lentz reported that according to the Harris County Appraisal District, the District's 2010 taxable appraised value decreased by 6.6% compared to 2009 values. Ms. Guerrero reported that the losses occurred with the District's commercial properties. Mr. Lentz recommended that the District set a tax rate of \$0.41 per \$100 assessed valuation to pay principal and interest on the District's debts or set a tax rate of \$0.38 per \$100 assessed valuation to pay principal and interest on the District's debts and transfer \$66,000 from the maintenance and operating account to

subsidize the debt service account. Extensive discussion ensued. The Board discussed levying the same tax as last year with the intent to transfer money from the maintenance and operating account to the debt service account. The Board requested that Ms. Peak attend the October meeting to discuss the need to actually transfer the funds. 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 "C," thereby indicating its intent to set a tax rate of \$0.43 per \$100 assessed valuation (\$0.38 per \$100 valuation to pay principal and interest to service the District's debts and \$0.05 per \$100 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*.

3. Adopt Order Designating Officer to Calculate and Publish Tax Rate.

This item was approved in item 2.

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 99.16% of the District's 2009 taxes have been collected. Upon motion by Director Fojt, 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. 1141 and 1142 from the Tax Account in the amounts, to the persons, and for the purposes described in the Tax Assessor and Collector's Report.

5. 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, 2011, and the Investment Report, copies of which are attached hereto as Exhibit "E." 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 Bookkeeper's Report, to authorize payment of check nos. 6643 through 6669 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. Operations Report.

Mr. Hoffman presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "F." Mr. Hoffman reported that the District pumped 510,000 gallons of water and purchased 15,676,000 gallons of water from the West Harris County Regional Water Authority ("WHCRWA") during the last period. Mr. Hoffman reported that H2O accounted for 90.3% of the water pumped and purchased by the District in August 2010.

Mr. Hoffman reported on water plant maintenance and noted that the new right angle drive for well #2 has been ordered at an estimated replacement cost of \$26,000.

Mr. Hoffman reported that the proposal from DLD Services to replace the existing offsite well engine is attached to the Operations Report. Mr. Hoffman stated that the price to supply and install the unit is \$9,655. In response to a question, Mr. Hoffman reported that the engine would include a 90-day warranty. Upon motion by Director Fojt, seconded by

Director Day, after full discussion and the question being put to the Board, the Board voted unanimously to approve replacing the offsite well engine at a cost of \$9,655.

Mr. Hoffman reported on lift station maintenance and noted that the semi-annual lift station cleaning has been scheduled at an estimated cost of \$1,750.

Mr. Hoffman reported on water line maintenance and stated that the valve installations at Sugar Ridge/Starbridge and Sugar Ridge/Palisades Heights are complete at a final cost of \$16,000.

Mr. Hoffman reported that the meter vaults behind Randall's had three lids stolen. Mr. Hoffman reported that the new lids were fabricated and bolted down and a fourth lid was re-anchored at a final cost of \$2,878.29. Mr. Hoffman stated that H2O notified the Sheriff's office of the theft.

Mr. Hoffman reported on sewer line maintenance and stated that the cleaning and televising of the sewer main along Highway 6 is complete and the DVDs have been reviewed by H2O and AECOM at a final at cost of \$13,104.34.

Mr. Hoffman reported that H2O is trying to coordinate the District sidewalk repairs (requested by the Southdown HOA) with the CJOB trunk line repairs.

Mr. Hoffman reported that a list of the top 37 meters of high end water users is attached to the Operations Report for the Board to determine how many meters to audit for the Texas Water Development Board ("TWDB"). Discussion ensued on the number of meters to include in the audit. Upon motion by Director Bumpass, seconded by Director Fojt, after full discussion and the question being put to the Board, the Board voted unanimously to test the top 20 meters of high end water users in the District at an estimated cost of \$200 per meter.

Mr. Hoffman reviewed the water quality complaint log, a copy of which is attached to the Operations Report.

7. **Engineer's Report.** Mr. Sarman reviewed with the Board the Engineer's Report, a copy of which is attached hereto as Exhibit "G." Mr. Sarman reported that AECOM has finished reviewing the videos of the 21-inch sanitary sewer trunk line along Highway 6. Mr. Sarman reported that a summary of the noted defects and estimates for lining the various sewer segments are attached to the Engineer's Report for discussion. Mr. Sarman recommended slip line repairs for type one and two locations. Discussion ensued. Mr. Hoffman recommended obtaining estimates for the repairs and obtaining a proposal for the repairs with the Copperfield Joint Operation Board sewer repairs. No action was taken.

Mr. Sarman reported on surge protectors and noted that the typical surge protectors are designed to last about ten years depending on the number of surges and the strength of the surges. Mr. Sarman reported that newer surge protectors perform better than previous models and provide more protection from larger surges. Mr. Sarman stated that a new surge protector is being installed with the new MCC.

Mr. Sarman reviewed updated available natural gas generators, a copy of which is attached to the Engineer's Report.

8. **Award contract for Control Panel and MCC design.** Mr. Sarman reported that AECOM had the bid opening for the control panel and MCC design project on September 16, 2010 and noted that copies of the bids are attached to the Engineer's Report. Mr. Sarman recommended that the Board award the contract to the low bidder, Pieper Houston Electric, L.P. ("Pieper") in the amount of \$175,450 with a contract time of 250 calendar days. Mr. Sarman stated that the bid did not include the electrical costs associated with installing the generator on the generator pad. Discussion ensued regarding obtaining a cost estimate for all of the electrical work. The Board discussed either re-bidding or receiving a change order from Pieper to include the additional work. 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 award the contract for the Control Panel and MCC design to Pieper in the amount of \$175,450 and to authorize Director Henderson to discuss and approve the additional changes in the change order on behalf of the District.

9. **Discuss generators for lift station and water plant.** This item was deferred.

10. **Review issues relating to CJOB meeting.** Director Henderson reported that CJOB approved the repair of the transfer pump and approved televising and cleaning the 18-inch clay pipe sewer line on Club Lake (which runs from the Burger King restaurant to River Garden). Director Henderson stated that following the testing of the manhole locations related to the sidewalk repair request, H2O found some deterioration in the pipe and CJOB authorized spending \$15,000 to televise and clean the pipe to determine the severity of the problem.

11. **Discuss insurance renewal (renews 9/28/10).** The Board reviewed the insurance proposal from Highpoint Insurance Group, LLC ("Highpoint"), a copy of which is attached hereto as Exhibit "H." 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 Highpoint proposal and 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.

12. **Indemnification of Directors.** This item was approved in item 11.

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

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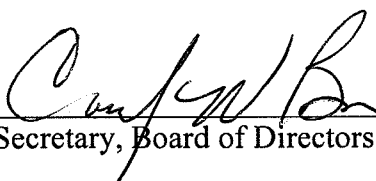
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The foregoing minutes were passed and approved by the Board of Directors on October 19, 2010.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

