

**MINUTES OF MEETING
KLEINWOOD MUNICIPAL UTILITY DISTRICT
HARRIS COUNTY, TEXAS**

October 22, 2009

STATE OF TEXAS
COUNTY OF HARRIS

The Board of Directors (the "Board") of Kleinwood Municipal Utility District (the "District") of Harris County, Texas, met in **regular session**, open to the public, on **Thursday, October 22, 2009**, at 5:30 p.m. at the District Office, 16530 Kleinwood Drive, Spring, Texas, within the boundaries of the District, and the roll was called of the duly constituted officers and members of the Board, to-wit:

Stephen E. Williams	President
Vic Fowler	Vice President & Investment Officer
Robert Ehmann	Secretary/Treasurer
Sherry Allard	Assistant Vice President & Assistant Secretary
Joe Fratangelo	Assistant Secretary

and all of said persons were present, thus constituting a quorum.

Also present were: Jon Unterreiner, P.E., and Mike Christopher, E.I.T., of Jones & Carter, Inc. ("Jones & Carter"), Engineer for the District; and Maria Parker and David F. Green of Coats, Rose, Yale, Ryman & Lee, P.C. ("Coats|Rose"), Attorney for the District.

The President called the meeting to order in accordance with notice posted pursuant to law, and the following business was transacted.

CLOSED SESSION

Upon motion duly made and seconded, the Board voted unanimously to convene in closed session at 5:32 p.m., to discuss proposed real estate transactions.

OPEN SESSION

Upon motion duly made and seconded, the Board voted unanimously to re-convene in open session at 6:00 p.m.

Joining the meeting at this time were: Sara Ahlschlager of Barbara Wheeler & Associates ("Wheeler"), Tax Assessor/Collector for the District; Bill Blich with Samco Capital Markets, Financial Advisor for the District; Mike Ammel and Eric Thiry of Environmental Development Partners, L.L.C. ("EDP"), Operator for the District; John Lightfoot with John Lightfoot Investments, L.P. ("Lightfoot"), developer of Land in the District; Constable Buddy Gheen, Jr., with Harris County Precinct 4 Constable's Office (the "Constable's Office"); Dick Yale of Coats|Rose; and members of the public listed on the attached Attendance Sheet.

HEARING ON PROPOSED TAX RATE

The Board convened a public hearing to discuss the proposed tax rate for the 2009 tax year (the "Tax Rate"). At this time the President asked if there were any opponents or proponents to the Tax Rate present at the hearing who wished to address the Board concerning the Tax Rate. It was noted by the Board that there were no persons in attendance who desired to address the Board regarding the Tax Rate.

The President then adjourned the Public Hearing.

PEACE OFFICER'S REPORT

The President recognized Deputy Gheen, who presented the Peace Officer's Report, a copy of which is attached hereto. Discussion ensued regarding security-related issues. Director Williams stated that the Board would be interested in hearing comments from the homeowner associations in the District regarding the possibility of a third contract officer being assigned to patrol duties in the District under the Law Enforcement Agreement between the District and Harris County.

HEAR FROM THE PUBLIC

The President recognized Larry Chamberlin, who addressed the Board regarding security-related issues. He submitted to the Board a summary of service calls (the "Calls Summary") made in the District by the Constable's Office for the period of January 1, 2009, through October 20, 2009. A copy of the Calls Summary is attached hereto.

The President recognized Newlyn Hardy, who addressed the Board regarding security-related issues.

The President recognized Mr. Lightfoot, who addressed the Board regarding security-related issues.

TAX ASSESSOR/COLLECTOR'S REPORT

The President recognized Ms. Ahlschlager, who submitted to and reviewed with the Board the Tax Assessor/Collector's Report, a copy of which is attached hereto. It was noted that the District has collected 98.75% of its 2008 taxes. The Directors also reviewed and discussed the Delinquent Collections Listing, a copy of which is attached hereto.

Then, after discussion, upon a motion duly made and seconded, the Board voted unanimously to approve the Tax Assessor/Collector's Report and to authorize payment of the checks listed therein.

DELINQUENT TAX REPORT

Ms. Ahlschlager submitted to and reviewed with the Board the Delinquent Tax Report as prepared by Perdue, Brandon, Fielder, Collins & Mott, L.L.P. ("Perdue"), the District's Delinquent Tax Attorney. A copy of the Delinquent Tax Report is attached hereto.

ATTORNEY'S REPORT

The President recognized Ms. Parker, who presented the Attorney's Report.

After discussion, upon a motion duly made and seconded, the Board voted unanimously to accept the Attorney's Report.

MINUTES OF THE MEETINGS OF SEPTEMBER 18, 2009, AND SEPTEMBER 24, 2009

Proposed minutes of the meeting of the Board held on September 18, 2009, previously distributed to the Board, were presented for consideration and approval.

After discussion, upon a motion duly made and seconded, the Board voted unanimously to approve the minutes of the meeting of September 18, 2009, as written.

Proposed minutes of the meeting of the Board held on September 24, 2009, previously distributed to the Board, were presented for consideration and approval.

After discussion, upon a motion duly made and seconded, the Board voted unanimously to approve the minutes of the meeting of September 24, 2009, as written.

REQUEST FOR REIMBURSEMENT/FLAGSHIP PROPERTIES ("Flagship")

Ms. Parker reported on the status of Flagship's request for reimbursement of its eligible development costs related to the 0.90-acre and 1.12-acre tracts on Louetta Road (the "Flagship Tracts"). Based on the taxable value of the Flagship Tracts, she told the Board, Flagship does not qualify for the full amount of the reimbursement pursuant to the terms of the Development and Financing Agreement between the District and FPC/Colonnades Apartments, Ltd. Ms. Parker stated that District & Urban qualifies for reimbursement of its eligible development costs related to the development of the Flagship Tracts.

ORDER SETTING TAX RATE FOR 2009

Consideration was then given to setting the tax rate for 2009.

After discussion, upon a motion duly made and seconded, the Board voted unanimously to (1) set and levy a debt service tax of \$0.4422 per \$100 of assessed value, and to levy a maintenance and operation tax of \$0.1878 per \$100 of assessed value, for a total tax rate for 2008 of \$0.63 per \$100 of assessed value and (2) to adopt the Order Setting Tax Rate for 2009.

AMENDED DISTRICT INFORMATION FORM

Consideration was then given to amending the District's Information Form to reflect the 2009 tax rate.

After discussion, upon a motion duly made and seconded, the Board voted unanimously to approve the Amended District Information Form.

RESCHEDULE BOARD OF DIRECTORS MEETING

Ms. Parker inquired if the Directors desired to reschedule the November 26, 2009, Board meeting in view of the Thanksgiving holiday. After discussion, the Directors agreed to meet on Monday, November 30, 2009.

STUEBNER-AIRLINE UTILITIES

Ms. Parker reported that the District's Attorney is working to acquire the final utility easements along Cypresswood Drive in order for the District to provide service to the tracts on Stuebner-Airline Road.

DEVELOPMENT REPORTS/REQUESTS FOR SERVICE

The President recognized Mr. Unterreiner, who reported on the status of various developments in the District as follows:

1. **Hilliard Tract/Meyer Park Office Condominiums**. Mr. Unterreiner reported that Ms. Hilliard had cleared her property but has not requested service from the District.

2. **Lightfoot Office Building**. Mr. Unterreiner reported that Jones & Carter has approved the revised plans for this project.

3. **Midas International Corporation ("Midas")**. Mr. Unterreiner reported that Jones & Carter has submitted the As-Built Certification to Harris County for construction of the Storm Water Quality feature (the "SWQ Feature") for the detention pond in Champion Falls Estates that serves the Midas tract. Jones & Carter expects that Harris County will issue the Certificate of Compliance within the next two weeks.

4. **Zaxby's Chicken Dinner Restaurant ("Zaxby's")**. Mr. Unterreiner reported that Jones & Carter has received notice that Zaxby's is ready to proceed with construction of the public sanitary sewer line (the "Sewer Line"). Jones & Carter confirmed that construction of the Sewer Line will not exceed \$25,000, and accordingly it will not be necessary to solicit bids. Jones & Carter will inspect the facilities on behalf of the District during construction to ensure they are constructed properly.

5. **Klein Independent School District ("Klein ISD")**. Mr. Unterreiner reported that Jones & Carter reviewed the revised addendum for wastewater service at the request of the District's Attorney. Jones & Carter was contacted by the engineer for Klein ISD, who stated that they are beginning work on improvements around the stadium that might require plan approval.

DEVELOPMENT OF CHAMPION FALLS ESTATES, CHAMPION WOODS ESTATES, THE FALLS AT CHAMPION FOREST (herein collectively, the "Falls")

The President recognized Mr. Lightfoot, who reported on development in the Falls. A copy of the Development Report for the Falls as prepared by Lightfoot is attached hereto.

ENGINEER'S REPORT

The President recognized Mr. Unterreiner, who presented the Engineer's Report as follows:

1. **Stuebner-Airline Utilities.** Mr. Unterreiner reported that Jones & Carter is finalizing the design for the Stuebner-Airline utilities, and is working with Coats|Rose to acquire the final easements along Cypresswood Drive. Jones & Carter will submit the plans for final approval once the easements have been recorded.

2. **Water Line Across Bubbles Car Wash.** Mr. Unterreiner reported that Jones & Carter received City of Houston approval on the plans and is submitting the plans to Harris County the following week. Jones & Carter will then solicit bids for construction of the water line for review at the Board's next meeting.

3. **North Harris County Regional Water Authority ("NHCRWA") Coordination.** Mr. Unterreiner reported that Jones & Carter sent letters to the water districts that have emergency water interconnections with the District's water system, notifying them of the District's intent to convert to the chloramine disinfection method in the near future.

Mr. Unterreiner then submitted to and reviewed with the Board a Water Costs Summary as prepared by Jones & Carter that compares the District's current water productions costs with future groundwater pumpage rates and future surface water rates to be charged by the NHCRWA. A copy of the Water Costs Summary is attached hereto as an exhibit to these minutes.

4. **Smoke Testing and Televised Inspection of Sanitary Sewer Lines.** Mr. Unterreiner reported that Jones & Carter is reviewing the videos in order to determine whether all of the sanitary sewer lines had been examined. Jones & Carter is working with EDP to determine whether all of the issues indicated in the smoke testing report had been addressed.

5. **Surplus Funds.** Mr. Unterreiner reported that Jones & Carter has prepared an expedited application for the release of \$719,176 in surplus funds. In order to avoid having the surplus funds being escrowed, Jones & Carter will delay submission of the application to the Texas Commission on Environmental Quality (the "TCEQ") until all agency approvals have been received for the Bubbles Express water line project.

6. **NHCRWA/Chloramine Conversion.** Mr. Unterreiner discussed with the Board the status of the conversion to a chloramine disinfection system at the District's water plants (the "Conversion") by Long & Son, Inc. ("Long"). The electrical and chloramine equipment subcontractors are nearing completion of their work. Jones & Carter is working with Long to schedule startup tests of the chloramine disinfection system. Mr. Unterreiner reported that Long had submitted Pay Estimate No. 2 in the amount of \$3,240 in connection with the Conversion. A copy of Pay Estimate No. 2 is attached hereto.

After discussion, upon a motion duly made and seconded, the Board voted unanimously to authorize payment of Pay Estimate No. 2.

7. **Water Plant No. 1 Storm Sewer Repairs.** Mr. Unterreiner reported on the Water Plant No. 1 Storm Sewer Repairs (the "Sewer Repairs") by Scohil Construction Services, LLC. The pre-construction meeting was conducted on October 9, 2009. Jones & Carter issued the Notice to Proceed on October 12, 2009. The scheduled completion date for the Sewer Repairs is November 11, 2009.

8. **Emergency Preparedness Plan (the "EMP")**. Mr. Unterreiner reported that the TCEQ is scheduled to release the EMP requirements on December 1, 2009. Jones & Carter is evaluating the District's ability to meet the new power requirements based on the draft TCEQ rules.

9. **Auxiliary Generators**. Mr. Unterreiner reported that Jones & Carter is evaluating the need for (a) an auxiliary generator at Water Plant No. 2; and (b) auxiliary generators for the District's sanitary sewer lift stations. Mr. Unterreiner reviewed with the Board a Generator Cost Estimate Comparison as prepared by Jones & Carter, a copy of which is included with the Engineer's Report.

10. **Flagship and District & Urban Reimbursement**. Mr. Unterreiner reported that Jones & Carter is working with the District's Attorney and Financial Advisor to provide the necessary information to determine if the Flagship Tracts have sufficient taxable value to qualify for reimbursement of eligible development costs.

11. **CVS Lift Station Electric Service Account**. Mr. Unterreiner reported that Bob Wooten of Tradition Energy, the District's electric service consultant, contacted CVS with regard to having the electric service account for the CVS Lift Station transferred to the District. CVS's electric consultant released the electric meter so that the District can add it to their current electric contract.

12. **Water Loss Audit**. Mr. Unterreiner reported that Jones & Carter is working with the District's Operator to evaluate further options to determine where water loss is occurring.

13. **Detention Ponds/Champion Woods Estates and The Falls**. Mr. Unterreiner reported that Jones & Carter had prepared an annual cost summary for the maintenance of the Detention Ponds serving The Falls and Champion Woods Estates.

14. **Semi-Annual Well Performance Tests**. Mr. Unterreiner discussed with the Board the results of the semi-annual well performance tests performed on the District's water wells by G-M Services, Inc. Mr. Unterreiner reported that the water wells are operating satisfactorily. Copies of the Well Performance Test Summaries are attached hereto.

Upon a motion duly made and seconded, the Board voted unanimously to accept the Engineer's Report, a copy of which is attached hereto.

OPERATOR'S REPORT

The President recognized Mr. Ammel, who submitted to and reviewed with the Board the Operator's Report as follows:

1. **Water Plant Operations**. Mr. Ammel reported that the billed to pumped ratio for the prior month was 91.2% and that the District has a total connection count of 792.

2. **System Repairs**. Mr. Ammel reported that the District's Operator had replaced four residential water meters that had registered usage of more than 1,000,000 gallons. EDP replaced two long service lines and removed an unused water tap that was leaking.

3. **Water Plant No. 2**. Mr. Ammel reported that on September 7, 2009, the autodialer at Water Plant No. 2 notified EDP of a high level storage tank condition. EDP responded and

discovered the ground storage tank to be overflowing. EDP examined the well controls and determined that the fault was a failed water level sensor. NTS Pumps, Motors & Controls ("NTS") made the necessary repairs. NTS reported that the high water level probe (the "Probe") had corroded and fallen off. NTS checked other Probes in the tanks, which were also found to show signs of corrosion. ESP instructed NTS to replace the Probes in order to prevent future failures.

4. **Lift Station No. 3.** Mr. Ammel reported that the replacement autodialer for the Lift Station No. 3 was installed and programmed on September 30, 2009.

5. **Chloramine Conversion Customer Education.** Mr. Ammel stated that prior to converting to the chloramine disinfection method at the District's water plants, it will be necessary for the District to provide advance notification regarding the Conversion (the "Notice") to its customers. Mr. Ammel proposed that the Notice be distributed to the District's customers in both November and December 2009.

After discussion, the Board authorized the District's Operator to distribute the Notice to the District's customers as described above.

6. **Baseline Water Testing For Chloramine Conversion.** Mr. Ammel reported that EDP has begun sampling the water in the District's ground storage tanks and water distribution system in order to establish a baseline for monitoring the amount of nitrification that will occur when the Conversion is completed. EDP will use the baseline information to determine the optimum chemical feed rates to minimize water quality issues following the Conversion.

Then, after discussion, upon a motion duly made and seconded, the Board voted unanimously to approve the Operator's Report, a copy of which is attached hereto.

TERMINATION OF SERVICE

Consideration was then given to the termination of water and sewer service to certain accounts. The President recognized Mr. Ammel, who advised the Board that the requisite notifications had been given to each customer and that each customer was advised of the date, time and place of the meeting which they may attend to discuss termination of service. The Board noted that there were no customers present to protest the utility billings.

After discussion, upon a motion duly made and seconded, the Board voted unanimously to authorize the Operator to terminate the water and sewer service to those accounts listed on the termination list attached hereto.

REPORT ON OPERATION OF DISTRICT OFFICE

The President recognized Mr. Schuett, who submitted to and reviewed with the Board the report concerning the District Office (the "Office Report"), a copy of which is attached hereto.

After review, upon a motion duly made and seconded, the Board voted unanimously to accept the Office Report.

BOOKKEEPER'S REPORT

Mr. Schuett then reviewed with the Board the Bookkeeper's Report, a copy of which is attached hereto, and certain invoices for payment by the Board. The Board also reviewed the Investment Report. Discussion ensued regarding the District's investments. Mr. Schuett distributed to the Board copies of an article from the October 21, 2009, edition of the *Houston Chronicle* regarding investment losses incurred by the State of Texas. Mr. Schuett stated that the article could be incorrectly construed as saying that water district investments held by TexPool were included in the \$19,500,000 in investments that were written off by the Texas Treasury after Austin Capital Safe Harbor informed the State Treasurer that the funds had been lost in the Bernard Madoff securities fraud. He directed the Board's attention to a letter from Federated Securities Corp. ("Federated"), which manages the TexPool and TexPool Prime investment pools. A copy of the letter is attached hereto. The letter states that neither Tex Pool nor TexPool Prime have ever invested funds in any securities offered by Mr. Madoff.

Then, upon a motion duly made and seconded, the Board voted unanimously to approve the Bookkeeper's Report, and to authorize payment of the checks listed therein.

KLEINWOOD MAINTENANCE FUND ("KMF")

Director Fratangelo reported on the activities of the KMF.

KLEINWOOD JOINT POWERS BOARD ("KJPB")

Director Williams reported on the activities of the KJPB. He discussed with the Board matters relating to the inspection conducted at the Kleinwood Regional Wastewater Treatment Plant by the U.S. Environmental Protection Agency.

NHCRWA

Mr. Green distributed copies of a memorandum from Coats|Rose regarding the October 5, 2009, meeting of the NHCRWA board of directors. A copy of the memo is attached hereto.

CLOSED SESSION

Upon motion duly made and seconded, the Board voted unanimously to re-convene in closed session at 8:34 p.m., to discuss proposed real estate transactions.

OPEN SESSION

Upon motion duly made and seconded, the Board voted unanimously to re-convene in open session at 9:07 p.m.

After discussion, upon a motion duly made and seconded, the Board voted unanimously to authorize the District's Attorney to proceed as discussed in closed session.

NEWSLETTER

Director Williams reviewed with the Board a commentary that was published in the October 2009 edition of the *Kleinwood Krier* newsletter. A copy of the commentary is attached hereto as an exhibit to these minutes.

WEB SITE

The Board briefly discussed matters relating to the District's internet web site.

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

Approved this 30 November 2009

Robert Edmann
Secretary, Board of Directors

