

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

30 December 2010

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 special session, open to the public, on 30 December 2010 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:

Robert Ehmann	President
Sherry Allard	Vice President
Joe Fratangelo	Secretary/Treasurer
Bernie Bryl	Assistant Vice President & Assistant Secretary
Mike Morgan	Assistant Secretary & Investment Officer

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

Also present were: Sara Ahlschlager of Barbara Wheeler & Associates ("Wheeler"), Tax Assessor/Collector for the District; Mike Christopher, E.I.T., of Jones & Carter, Inc. ("J&C"), Engineer for the District; Andy Phelps of Environmental Development Partners, L.L.C. ("EDP"), Operator for the District; Roger Schuett, Office Manager for the District; Deputy Constable Buddy Gheen, Jr., with Harris County Precinct 4 Constable's Office (the "Constable's Office"); Claudia Redden of Claudia Redden & Associates, L.L.C.; Dick Yale, Marcia Oliver, and Melisa Montague of Coats, Rose, Yale, Ryman & Lee, P.C. ("Coats Rose"), Attorney for the District; and Ray Cicconi, a resident of the District.

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 the Tax Assessor/Collector's Report is attached hereto. It was noted that the District has collected 99.72% of its 2009 taxes and 7.55% of its 2010 taxes. The Directors also reviewed and discussed the Delinquent Collections Listing, a copy of which is attached hereto. Ms. Ahlschlager noted that Wheeler was requesting approval for five checks written on the District's tax account, and two transfers by wire as follows: a transfer of \$33,304.26 in revenues from the tax for maintenance and operations to the District's Operating Fund and \$80,000 to the Debt Service Fund.

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 then submitted for the Board's review the Delinquent Tax Report as prepared by Perdue, Brandon, Fielder, Collins & Mott, L.L.P., the District's Delinquent Tax Attorney. A copy of the Delinquent Tax Report is attached hereto.

BOOKKEEPER'S REPORT

Ms. Redden distributed to the Board copies of the Bookkeeper's Report on behalf Claudia Redden & Associates, L.L.C., the District's Bookkeeper, a copy of which is attached hereto as an exhibit to these minutes. The Directors also reviewed certain invoices for payment by the Board, as well as the Investment Report. A discussion ensued regarding the payment of capital contributions by the owners of the Stuebner Airline tracts (the "Capital Contributions") in connection with the construction by the District of the Stuebner Airline utilities. Mr. Christopher stated that the Capital Contributions could be calculated after the bids for the Stuebner Airline utilities are reviewed in February 2011.

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.

PEACE OFFICER'S REPORT

The President recognized Deputy Gheen, who presented the Peace Officer's Report, a copy of which is attached hereto. He reported that the Constable's Office had asked the owners of the LA Fitness outlet in the District to place signs in their parking lot warning customers not to leave valuables in their vehicles. A discussion ensued regarding traffic issues. Deputy Gheen stated that a stop sign regulated by Harris County would have to be placed at the intersection of Barretts Crossing and Dayhill in order for the Deputies to write citations for traffic violations at that location. He added that the request for the stop sign should originate with the Community Association of Champion Woods Estates, Inc., rather than the District. He added that the existing stop sign at that location was installed by the developer of the subdivision and was not regulated by Harris County.

MINUTES OF THE MEETINGS OF 12 NOVEMBER 2010 AND 18 NOVEMBER 2010

The minutes of the meeting of the Board held on 12 November 2010, 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 12 November 2010 as written.

The minutes of the meeting of the Board held on 18 November 2010, 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 18 November 2010 as written.

DEVELOPMENT REPORT

Ms. Montague distributed copies of the Development Report as prepared by John Lightfoot Investments, L.P., regarding the status of development in The Falls at Champion

Forest, Champion Falls Estates (collectively, the "Falls") and Champion Woods Estates ("Champion Woods"). A copy of the Development Report is attached hereto.

DEVELOPMENT REPORTS/REQUESTS FOR SERVICE

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

1. **Zaxby's Chicken Dinner Restaurant**. Mr. Christopher reported that the engineer for Chicken Dinner Properties, LLC (called "CDP") had provided J&C with as-built drawings certifying the correct volume for the detention pond that serves the tract. Ms. Oliver remarked that the \$5,000 deposit retained by the District had been refunded to CDP upon receipt of the as-built drawings.

2. **Klein Independent School District ("KISD")**. Mr. Christopher reported that J&C had provided comments to the engineer for KISD on the plans for the Klein High School reconstruction project (the "KHS Project"). He added that the KISD engineer had indicated the possibility of changing the location and increasing the size of the water meter for the water line for the KHS Project. A discussion ensued regarding the connection fee that would be charged to KISD for the water line connection for the KHS Project. The Directors also discussed whether KISD had paid a capital contribution to the District for utilities to serve the KISD property. Mr. Christopher reported that KISD is considering adding a small restroom facility near the soccer field on the south side of the KISD property. Ms. Oliver stated that she would review the Water Supply Agreement as amended between the District and KISD.

3. **Whataburger Restaurants, LP ("Whataburger")**. Mr. Christopher reported that J&C had approved the final plans for the proposed development of a Whataburger restaurant on a 1.145-acre tract in Restricted Reserve A, Kleinwood Shopping Center, Section 2 (the "Whataburger Tract").

4. **Stuebner Airline Veterinary Clinic (the "Veterinary Clinic")**. Mr. Christopher reported that J&C had commenced the design work for the Veterinary Clinic facility to be constructed on the tract previously owned by Charles O'Pry on Stuebner Airline.

5. **HEB Center Yogurt Shop**. Mr. Christopher reported that a yogurt shop is being planned for the former location of the Chewy Balls outlet in HEB Center. He noted that the District's Operator had conducted an inspection and confirmed that there were no modifications to the existing plumbing. J&C is working with Regency Realty Group, Inc., regarding the application for service and plan review fee for the yogurt shop.

ENGINEER'S REPORT

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

1. **Stuebner Airline Utilities**. Mr. Christopher reported that Harris County had approved the plans for the Stuebner Airline utilities this week. J&C is finalizing the bid documents and will advertise for bids for the Stuebner Airline utilities in January 2011.

Mr. Christopher stated that J&C had provided the District's Attorney with a copy of the application (the "Application") to be submitted to the Texas Commission on Environmental Quality (the "TCEQ") for the release of funds in escrow from the proceeds of the sale of the District's Series 2006 Bonds relating to (1) the cost to construct the Stuebner Airline utilities; and (2) the cost to acquire water line and sanitary sewer line easements for the Stuebner Airline utilities. Upon approval by the District's Attorney, he continued, J&C will submit the Application to the TCEQ.

Mr. Christopher then informed the Board that J&C would schedule a meeting with Bernhardt E. Frank and the contractor to verify which of the trees fronting Mr. Frank's tract on Stuebner Airline are to be preserved during the construction of the Stuebner Airline utilities.

2. **Chloramine Conversion at Water Plants.** Mr. Christopher reported on the status of the chloramine conversion at Water Plant Nos. 1 and 2 (the "Conversion Project") by Long & Son, Inc. He informed the Board that the Conversion Project is complete and that J&C had delivered the final operating and maintenance manuals relating to the Conversion Project to the District's Operator.

3. **North Harris County Regional Water Authority ("NHCRWA") Chloramination Credits.** Mr. Christopher reported that J&C will submit the requisite documentation relating to the cost of the Conversion Project to the NHCRWA with the District's application for the Chloramination Credit, now that the Conversion Project is complete and all documentation has been received from the contractor.

4. **Directional Flushing Plan.** Mr. Christopher reported that J&C would commence preparation of the directional flushing plan after the District's Operator has completed the survey of the water line valves in the District's water distribution system.

5. **Sanitary Sewer Rehabilitation Strategy.** Mr. Christopher reported that J&C is reviewing the history of repairs made to the District's wastewater collection system and will formulate a strategy for inspecting, cleaning, and rehabilitating the sanitary sewer lines (the "Rehabilitation Strategy"). A report regarding the Rehabilitation Strategy will be presented at the Board's meeting on 27 January 2011.

6. **Auxiliary Generators.** Mr. Christopher discussed with the Board the status of the contract for: (1) the installation of a diesel auxiliary generator at Water Plant No. 2; and (2) the installation of a natural gas auxiliary generator at the Champions Woods Estates Lift Station (collectively, the "Generators") by C. F. McDonald Electric, Inc. (called "McDonald"). He reported that McDonald had ordered the Generators and is pouring the slabs for the Generators. Mr. Christopher remarked that McDonald had submitted Pay Estimate No. 1 in the amount of \$13,500 in connection with the Generators Project. A copy of Pay Estimate No. 1 is attached hereto.

7. **Water Plant Annual Inspections.** Mr. Christopher reported on the annual inspections of the interior of the ground storage tanks and hydropneumatic tanks at the District's Water Plant Nos. 1 and 2 (the "Annual Inspections"). He stated that the Annual Inspection at Water Plant No. 1 was completed earlier this week and that the Annual Inspection at Water Plant No. 2 had been scheduled for the following week. Mr. Christopher remarked that the preliminary results of the Annual Inspections indicate the need for recoating the hydropneumatic tanks at Water Plant No. 1 (the "HPT Recoating").

After discussion, upon a motion duly made and seconded, the Board voted unanimously to authorize the District's Engineer to prepare construction documents and solicit bids for the HPT Recoating.

A discussion then ensued regarding Water Plant Nos. 1 and 2. Mr. Phelps remarked that EDP would leave one of the ground storage tanks (the "GSTs") at Water Plant No. 1 out of service in view of the reduced water demand during the winter months. He explained that using the GSTs at Water Plant No. 2 and the remaining GST at Water Plant No. 1 would prevent the stored water from becoming stale. He then discussed with the Board the exercising of the District's water wells. Mr. Phelps expressed his desire to exercise the water wells more frequently than once per week. However, he continued, the exercising of the water wells has to be balanced with the NHCRWA's directive that the District use surface water to meet 95% of its water demand.

Then, after review, upon a motion duly made and seconded, the Board voted unanimously to accept the Engineer's Report.

ATTORNEY'S REPORT

The President recognized Ms. Oliver, who presented the Attorney's Report. She submitted to and reviewed with the Board a memorandum from the District's Attorney regarding the status of certain ongoing matters for the District. A copy of the memorandum is attached hereto as an exhibit to these minutes.

CERTIFIED AGENDAS OF EXECUTIVE SESSIONS

Ms. Oliver informed the Board that Coats Rose had prepared a template (the "Template") for the preparation of certified agendas pertaining to executive sessions attended by attorneys with Stumpf Cannon Fasthoff, P.C. (called "Stumpf"), special Attorney for the District. She added that the District's Attorney had forwarded the Template to Stumpf and Director Allard, who would coordinate with each other as needed with regard to the drafting of certified agendas for executive sessions attended by Stumpf.

RATE ORDER

The Directors discussed the amendments to the District's Consolidated Rate Order (the "Rate Order") that were approved at the Board's meeting on 18 November 2010, relating to the District's policy pertaining to back yard drains and swimming pool drains. Ms. Oliver stated that Section 2.06.E of the Rate Order would be revised to state that (1) the District's Operator is authorized to inspect yard and other drains on a customer's property but is not required to do so; (2) a customer with an unauthorized drain would receive written notice of the corrective action required and would have 30 days in which to make the corrections without incurring any cost; and (3) a reinspection fee of \$100 would be charged to customers if the corrections are not addressed within 30 days. A copy of the amended Rate Order is on file in the permanent records of the District.

STRATEGIC PARTNERSHIP AGREEMENT

Next, the Board discussed matters relating to the Strategic Partnership Agreement (the "SPA") with the City of Houston (the "City") for the limited purpose annexation of certain commercial areas in the District (the "Commercial Areas"). Ms. Oliver reported that the SPA

was approved by the Houston City Council on 1 December 2010 and is being recorded in the Official Records of Real Property of Harris County, Texas. Ms. Oliver reported that the City's Planning and Development Department ("P&D") had provided the District's Attorney with a preliminary list of commercial entities located in the District that would be subject to the sales tax levied by the City (the "Entities List"). She explained that the District's consultants would need to review the Entities List and provide corrections to P&D by 21 January 2011. Ms. Oliver stated that Coats Rose would forward the Entities List to Wheeler and J&C for review. Attached hereto as exhibits to these minutes are copies of an electronic mail message from Gwendolyn Tillotson of P&D and the Entities List.

A discussion then ensued regarding the District's share of sales tax collections pursuant to the SPA (the "Collections"). Mr. Yale remarked that the amount paid to the District for the Collections would likely vary from month-to-month.

GROUNDWATER CREDITS / HARRIS-GALVESTON SUBSIDENCE DISTRICT ("HGSD")

The Board discussed matters relating to the proposed sale of the District's accumulated groundwater credits (the "Credits"). Ms. Oliver distributed copies of a table prepared by the District's Attorney that denotes the status of inquiries received from persons or entities regarding the possible purchase of the Credits. A copy of the table is attached hereto as an exhibit to these minutes. Ms. Oliver noted that earlier this date, after consultation with Director Ehmann, the District's Attorney completed the sale of Credits in the amount of 12,600,000 gallons to New Orleans Cold Storage & Warehouse Co., LTD, for \$44,100 as follows: (1) 8,736,000 gallons, consisting of the entire value of Certificate No. 2510; and (2) 3,864,000 gallons from Certificate No. 3000, with the balance of 5,712,000 gallons to be issued to the District in a replacement Certificate. Attached hereto as exhibits to these minutes are copies of (1) the letter of transmittal from Coats Rose to the HGSD; and (2) the Bill of Sale and Assignment relating to the sale of the Certificates.

ANNEXATION OF STUEBNER AIRLINE TRACTS

Next, the Board discussed the proposed annexation of the Stuebner Airline tracts. Ms. Oliver reported that the District's Attorney is working with the owners of the Veterinary Clinic to obtain an Acknowledgement and Acceptance Agreement, a legal description, and a title report for the property previously owned by Charles H. and Judith M. O'Pry. She noted that the owners of the Veterinary Clinic need to place the required deposit with the District to cover legal and engineering fees relating to the annexation.

TEXAS SUNSET ADVISORY COMMISSION

Ms. Oliver then reviewed with the Board a memorandum from Coats Rose summarizing the Sunset Advisory Commission's report on the review of the TCEQ. Ms. Oliver reviewed the recommendation that rate hearings should be conducted before the Public Utility Commission rather than the TCEQ. She added that the Sunset Advisory Commission was also recommending an increase in the regulatory assessment charged to customers of municipal utility districts. A copy of the memorandum is attached to these minutes as an exhibit.

OPERATOR'S REPORT

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

1. **Water Plant Operations.** Mr. Phelps reported that the billed to pumped ratio for the prior month was 97.8% and that the District has 823 service connections, including 10 vacant single-family residences.

2. **Utility Operator's Report.** Mr. Phelps reviewed with the Board the utility billing summary, accountability report, subsidence district report, NHCRWA fee report, and the 60-day delinquent list, as shown in the Operator's Report attached hereto.

A. **Substantial System Repairs.**

Distribution Valve Survey		\$ 3,064.94
Water Plant No. 1	Repair vandalized motors	\$ 2,796.20
Water Plant No. 1	Replace pump alternator	\$1,033.00

B. **Water Plant No. 1.** Mr. Phelps discussed the condition of the motor on booster pump No. 1. He reported that NTS Pumps, Motors & Controls had completed the repairs to the motor. Mr. Phelps added that EDP is soliciting price quotes for a leaking valve seal.

C. **Conversion to Surface Water.** Mr. Phelps reported that the District's Operator had received some comments from the District's customers regarding discoloration of the drinking water. He stated that EDP is discussing this matter and other potential water quality issues with the District's Engineer. A discussion ensued regarding the surface water being supplied by the NHCRWA. The Board briefly discussed the possibility of adding orthophosphates to the District's drinking water to act as a corrosion inhibitor in galvanized pipes. No action was taken in connection with this matter.

D. **Commercial Taps.** Mr. Phelps reported that EDP had received the approved plans for the development in the Whataburger Tract and is preparing the tap fee letter.

E. **Water Valve Survey.** Mr. Phelps reported that Phase 1 of the survey of valves on the District's water distribution system (the "Valve Survey") is approximately 95% complete. He stated that EDP plans to present a report on the Valve Survey at the Board's meeting on 27 January 2011.

F. **Water Quality Issues.** The Board then discussed matters relating to news reports regarding the presence of hexavalent chromium ("Chromium-6") in the drinking water of certain cities in the United States. Mr. Phelps remarked that Chromium-6 is not present at any detectable level in the District's drinking water.

G. **Tree Removal Request.** Mr. Phelps reported that the resident at 16922 Barretts Crossing had again requested the District's assistance in removing a pine tree that had apparently been struck by lightning and that is located behind her residence in the detention pond owned by the District. He noted that the affected tree is now dead. Mr. Schuett stated that he would look into removing the dead pine tree.

TERMINATION OF SERVICE

Consideration was then given to the termination of water and sewer service to certain delinquent accounts. The President recognized Mr. Phelps, 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 Board meeting which they could 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 presented the report concerning the District Office (the "Office Report"), a copy of which is attached hereto. Mr. Schuett informed the Board that he would arrange for the trimming of a pine tree in front of the tennis courts that has a significant number of holes caused by woodpeckers. He noted that the telephone and internet connection at the District Office were not operable earlier this date. A technician was called to the District Office and the telephone and internet service were restored, he told the Board.

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

WEB SITE

The Board next discussed matters relating to the District's internet web site (the "Web Site"). Director Ehmann discussed with the Board the possibility of posting weather information from The Texas Report on the Web Site. Mr. Yale remarked that if the information contained in The Texas Report is protected by copyright, it would be necessary to obtain permission from the magazine before posting the information on the Web Site.

KLEINWOOD JOINT POWERS BOARD ("KJPB")

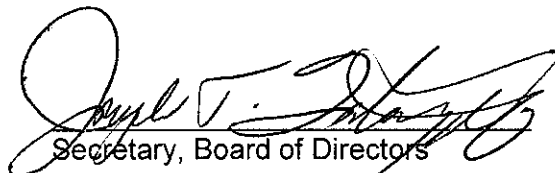
Director Fratangelo presented a report on the activities of the KJPB. He reported that EDP is assuming operation of the Kleinwood Regional Wastewater Treatment Plant as of 1 January 2011.

NHCRWA

Mr. Green distributed copies of a memorandum from the District's Attorney regarding the 10 December 2010 meeting of the NHCRWA board of directors. A copy of the memorandum is attached hereto. Mr. Green then distributed copies of a table (the "Water Rate List") listing the water rates charged by (1) regional water authorities and groundwater conservation districts located in Harris, Fort Bend, and Montgomery Counties; and (2) the City. A copy of the Water Rate List is attached hereto as an exhibit to these minutes.

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




Secretary, Board of Directors

Kleinwood Municipal Utility District
Meeting of 30 December 2010
Attachments

1. Tax Assessor/Collector's Report;
2. Delinquent Tax Attorney's Report;
3. Bookkeeper's Report;
4. Peace Officer's Report;
5. Development Report;
6. Engineer's Report;
7. Pay Estimate No. 1;
8. Memorandum – status of ongoing matters;
9. Email and list of commercial entities;
10. Table – status of sale of groundwater credit certificates;
11. Letter from Coats Rose to HGSD with Bill of Sale and Assignment;
12. Memorandum – Sunset Advisory Commission;
13. Operator's Report;
14. Office Management Report;
15. Memorandum – NHCRWA; and
16. Water Rates chart.