

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

**26 May 2011**

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 26 May 2011 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: Cindy Engelbert of Barbara Wheeler & Associates, Inc. ("Wheeler"), Tax Assessor/Collector for the District; Jonathan Unterreiner, P.E., and 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; Dick Yale, Marcia Oliver, and David Green of Coats, Rose, Yale, Ryman & Lee, P.C. ("Coats Rose"), Attorney for the District; and Ray Cicconi, a resident of the District.

Director Ehmann called the meeting to order.

**PUBLIC COMMENTS**

The Board noted that there were no members of the public in attendance who wished to address the Board at this time.

The Directors then discussed the response that should be given to members of the public who inquire about the terms of the settlement (the "Settlement") of the litigation relating to the Development, Financing and Annexation Agreement by and between the District and JP/Raveneaux Partners, LP, and Kera Development, L.P. ("Raveneaux"). Ms. Oliver informed the Board that the discussions and deliberations that occurred in the mediation session between the District and Raveneaux (the "Mediation") that took place on 1 April 2011 are confidential. However, she continued, the amount of the Settlement is not confidential and could be disclosed. Ms. Oliver added that she would review the matter further with Fred Stumpf of Boyer Jacobs Short, PC, the attorney who represented the District in the Raveneaux litigation, in order to clarify which information relating to the Settlement can be disclosed to the public.

## **MINUTES OF THE MEETING OF 28 APRIL 2011**

The minutes of the meeting of the Board held on 28 April 2011, previously distributed to the Board, were presented for consideration and approval. Director Bryl requested a revision to page 10 of the minutes.

After discussion, upon a motion duly made and seconded, the Board voted unanimously to approve the minutes of the meeting of 28 April 2011, as amended.

### **PEACE OFFICER'S REPORT**

Mr. Green distributed copies of the Peace Officer's Report as prepared by the Harris County Precinct 4 Constable's Office (the "Constable's Office"). A copy of the Peace Officer's Report is attached hereto. A discussion ensued regarding security-related matters. The Directors discussed the possibility of posting security and crime-prevention information on the District's internet web site. The Board then directed Mr. Green to confer with Deputy Constable Buddy Gheen, Jr., of the Constable's Office regarding which security and crime-prevention information to post.

### **DEVELOPMENT REPORT**

Mr. Green distributed copies of the Development Report as prepared by John Lightfoot Investments, L.P. ("Lightfoot"), 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.

### **TAX ASSESSOR/COLLECTOR'S REPORT**

The President recognized Ms. Engelbert, 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 had collected 97.5% of its 2010 taxes. The Directors also reviewed and discussed the Delinquent Collections Listing, a copy of which is attached hereto. Ms. Engelbert noted that Wheeler was requesting approval for five checks written on the District's tax account, said checks including the transfer of \$894.70 in revenues from the tax for maintenance and operations to the District's Operating Fund, as well as the transfer by wire of \$10,369.48 to the District's 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. Engelbert 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.

### **DEVELOPMENT REPORTS/REQUESTS FOR SERVICE**

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

1. **Klein Independent School District ("KISD")**. Mr. Christopher reported on matters relating to the Klein High School ("KHS") reconstruction project. He stated that J&C had received the recorded water meter easement instrument and had approved the plan sets for the water line on Louetta Road and a new sanitary sewer connection on Lyons School Road.

2. **Stuebner Airline Veterinary Clinic (the "Veterinary Clinic")**. Mr. Christopher reported that J&C had provided the District's Attorney with a legal description of the tract in which the proposed Veterinary Clinic facility will be constructed. He noted that the owner of the proposed Veterinary Clinic is proceeding with the design of the facility.

3. **Whataburger Restaurant**. Mr. Christopher reported that construction of the new Whataburger restaurant on Louetta Road is in progress.

4. **Kids R Kids**. Mr. Christopher reported that the owner of the Kids R Kids daycare facility had requested a certificate of utility capacity from J&C in connection with the potential sale of the property. J&C informed the owner that this is not a customary request for an existing customer, he told the Board. Mr. Christopher added that if necessary, J&C would draft a letter to the owner stating that the District currently serves the Kids R Kids tract pursuant to the District's Rate Order and other rules and regulations of the District. He added that the letter would not state a specific amount of capacity for the property.

## **ENGINEER'S REPORT**

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

1. **Stuebner Airline Utilities**. The Directors discussed the status of the contract with AR Turnkey Construction Company, Inc. (called "AR Turnkey") for construction of the Stuebner Airline utilities. Mr. Unterreiner reported that AR Turnkey had completed installation of the sanitary sewer line and had installed a portion of the water line located north of the Bill Franks tract. He informed the Board that AR Turnkey had engaged a security service to provide security for the duration of the project and would likely submit a change order to the contract to cover the cost of the security service. Mr. Unterreiner remarked that Mr. Christopher had met with the owners of the properties adjacent to the Stuebner Airline tracts to inform them of the project. He added that J&C would work with the District's Attorney to notify the owners of the Stuebner Airline tracts and certain tracts on Cypresswood Drive of the estimated completion date for the project. He noted that some of the owners of the tracts on Cypresswood Drive that are located within the District's boundaries are required by contract to connect to the District's water supply system soon after completion of the project.

2. **Directional Flushing Plan**. Mr. Unterreiner reported that J&C worked with the District's Operator to finalize the survey of the water line valves in the District's water distribution system and to update the District's GIS system to reflect the results of the valve survey. J&C began preparation of the water model for the directional flushing plan last week, he told the Board.

3. **Sanitary Sewer Cleaning and Televising (2011)**. Mr. Unterreiner reported on the status of the contract with Quality Pipe Services, Inc. (called "QPS") for the cleaning and video inspection of certain sections of the District's wastewater collection system (the "Inspection"). He presented the Board with execution drafts of the contract for the Inspection. Mr. Green

submitted for the Board's review a memorandum from the District's Attorney regarding the bonds and insurance submitted by QPS in connection with the Inspection. A copy of the memorandum is attached hereto as an exhibit to these minutes. Mr. Unterreiner remarked that the bonds and insurance submitted by QPS were found to be in order. Director Ehmann then executed the Inspection contracts.

4. **Auxiliary Generators.** Mr. Unterreiner discussed with the Board the status of the contract with C. F. McDonald Electric, Inc. (called "McDonald") 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 Champion Woods Estates Lift Station (collectively, the "Generators"). He reported that McDonald had conducted the start-up testing during the previous week. The Generator at Water Plant No. 2 passed the start-up test, he continued, but the Generator for the Champion Woods Estates Lift Station failed the start-up test due to a problem with the natural gas line. Mr. Unterreiner stated that McDonald is conferring with Centerpoint Energy regarding this matter.

Mr. Unterreiner reported that McDonald had submitted Pay Estimate No. 4 in the amount of \$130,922.10 in connection with the Generators project. After discussion, upon a motion duly made and seconded, the Board voted unanimously to authorize payment of Pay Estimate No. 4. A copy of Pay Estimate No. 4 is attached hereto as an exhibit to these minutes.

5. **Water Plant Improvements.** Mr. Unterreiner discussed with the Board the status of the Contract with Blastco Texas, Inc. ("Blastco") for improvements at Water Plant Nos. 1 and 2 (the "Water Plant Improvements"), consisting of: (1) recoating the interior and top-coating the exterior of the three hydropneumatic tanks (the "HPTs") at Water Plant No. 1; (2) recoating the interior of the 10,000-gallon HPT at Water Plant No. 2; and (3) recoating the booster pump discharge heads at Water Plant Nos. 1 and 2. Mr. Unterreiner stated that the pre-construction meeting with Blastco was conducted earlier this week. Mr. Unterreiner stated that Water Plant No. 2 would have to be removed from service in order to perform the Water Plant Improvements at that site because it has only one hydropneumatic tank. Accordingly, he continued, the contractor would coordinate with the District's Operator, Engineer, and the North Harris County Regional Water Authority (the "NHCRWA") with regard to the optimum time for removing Water Plant No. 2 from service. He added that this phase of the project might be deferred until autumn 2011 when water demand should be lower.

6. **Texas Water Development Board ("TWDB") Final Project Source and Use of Funds Report (Series 2001 Bonds).** Mr. Unterreiner reported that the TWDB had sent a request for a final accounting regarding the use of proceeds from the District's Series 2001 Bonds. J&C worked with the District's Bookkeeper to prepare the final loan accounting report and forwarded a copy of the draft report to the District's Attorney and Financial Advisor for their review, he told the Board.

7. **Water Monitoring and Operations Plan (the "Operations Plan").** The Board discussed the status of the Operations Plan being prepared by the District's Engineer for submission to the Texas Commission on Environmental Quality (the "TCEQ"). Mr. Unterreiner stated that following a conference with TCEQ officials, it appears that the TCEQ is no longer requiring the District to submit the Operations Plan. Mr. Unterreiner recommended that the District have an updated Operations Plan on file for use by the District's Operator.

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.

## **IDENTITY THEFT PREVENTION PROGRAM / ANNUAL REVIEW**

The Board then discussed matters relating to the District's Identity Theft Prevention Program (the "Program"), including the annual review of actions taken by the District's consultants in connection with the Program. Ms. Oliver submitted for the Board's review a letter dated 25 May 2011 from Wheeler, stating that Wheeler's review of the tax records for the District for the period of 1 May 2010 through 30 April 2011 indicated that there were no "Red Flag" items for the time period indicated with respect to the Program. A copy of the letter is attached hereto as an exhibit to these minutes. Ms. Oliver noted that EDP had previously submitted its report regarding the annual review of its implementation of the Program.

## **LITIGATION SETTLEMENT**

The Board discussed matters relating to the settlement of the litigation relating to the Development, Financing and Annexation Agreement by and between the District and Raveneaux. Ms. Oliver reported that Fred Stumpf of Boyer Jacobs Short, PC (called "BJS"), special Attorney for the District, had received a check (the "Settlement Check") from Raveneaux for the first of 15 installment payments due jointly to the District and to BJS pursuant to the settlement of the Raveneaux litigation. Ms. Oliver stated that she had endorsed the Settlement Check to Mr. Stumpf on behalf of the District. Mr. Stumpf in turn had drafted a check payable to the District for the District's share of the settlement payment. Mr. Green informed the Board that he had presented the check from BJS to Mr. Schuett earlier this date for deposit to the District's account.

After discussion, upon a motion duly made and seconded, the Board authorized the District's Attorney to continue handling and endorsing the Settlement Checks as described above.

## **NHCRWA / SURFACE WATER USAGE**

Next, the Directors discussed matters relating to the quantity of surface water being purchased each month by the District from the NHCRWA (the "Surface Water Usage"). Mr. Phelps reviewed with the Board a draft letter (the "Response Letter") prepared by the District's Operator, Engineer, and Attorney in response to an article from the 14 April 2011 edition of the Houston Chronicle Ultimate Section (Zone 14), which presented certain information regarding the District's surface water usage. A discussion ensued regarding the Response Letter. The Board directed Mr. Phelps to make minor revisions to the Draft Letter, including a statement emphasizing that the District understands the need to reduce groundwater use and is committed to doing its part to help meet the NHCRWA's groundwater reduction targets.

After discussion, upon a motion duly made and seconded, the Board voted unanimously to authorize Director Ehmann to execute and the District's Operator to transmit the Response

Letter to the NHCRWA, as amended. A copy of the Response Letter is attached hereto as an exhibit to these minutes.

### **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 reported that there had been no additional inquiries received from persons or entities regarding the possible purchase of the Credits since the last regular meeting of the Board. She added that the HGSD had notified Coats Rose that the District is being issued an additional Groundwater Banking Certificate of Deposit (Series B) in connection with the District's sponsorship of the "Learning to be Water Wise" program at Greenwood Forest Elementary School.

### **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 preparing the requisite documents for the annexation of the tract owned by Stuebner Airline Vet Associates, LLC (the "Vet Clinic Tract"). She added that the District's Engineer is verifying the legal description of the Vet Clinic Tract.

### **CYPRESSWOOD TRACTS**

The Directors then discussed matters relating to certain tracts located on Cypresswood Drive (the "Cypresswood Tracts") that are owned by Kwik Industries, Landmark Industries LTD, J&MB, LP, and P&M Tankers. Ms. Oliver remarked that the District's Engineer and Attorney would provide notification to those owners of the Cypresswood Tracts who are required by contract to connect to the District's water distribution system upon completion of the Stuebner Airline utilities project. She added that the Board would need to consider the amount of the tap fee to charge each owner to connect to the system.

### **PROPOSED IMPROVEMENTS TO SWIMMING POOL / AMERICANS WITH DISABILITIES ACT ("ADA")**

Next, the Directors discussed matters relating to the swimming pool at the District Office (the "Pool"). Ms. Oliver reported that Director Bryl had informed her of a discussion at a recent meeting of the Kleinwood Maintenance Fund ("KMF") at which a representative of Southwest Pool Management stated that it would be necessary to install a lift mechanism or a long ramp in the Pool in order to be in compliance with the ADA. Ms. Oliver stated that according to the Lease Agreement between the District and KMF, the cost to construct any improvements to the Pool would be borne by KMF, rather than the District. After further discussion, the Board directed Ms. Oliver to transmit an electronic mail message regarding this matter to Larry Chamberlin for distribution to the KMF.

### **82ND TEXAS LEGISLATURE**

The Board briefly discussed matters relating to the 82nd Texas Legislature. Ms. Oliver reported on the status of several pending bills that might affect the operation of water districts.

**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 95.3% and that the District has 834 service connections, including 10 vacant single-family residences. He noted that surface water received from the NHCRWA accounted for 98% of the water distributed to the District's customers during April 2011.

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.**

7923 Heathrow	Service line leak	\$ 1,453.55
6 addresses	Install residential taps & meters	3,990.00
Whataburger	Tap, meter & fire hydrant installation	20,070.00
Water Plant No. 1	Replace booster pump (sub)	6,775.00
Water Plants	Test wells (sub)	1,150.00

B. **Commercial Taps.** Mr. Phelps reported that EDP had received the tap fee in the amount of \$43,510 in connection with the Whataburger restaurant on a 1.145-acre tract in Restricted Reserve A, Kleinwood Shopping Center, Section 2. Installation of the service tap, water meter, and new fire hydrant is scheduled for 6 June 2011, he told the Board.

C. **KISD Water Meter and Water Line Extension (the "Meter and Extension").** Mr. Phelps reported that EDP had received the tap fee in the amount of \$74,605.72 from KISD. He added that the District's Operator is working with KISD to schedule the installation of the Meter and Extension. The tentative start date for the project is 13 June 2011, he told the Board.

D. **Water Valve Repairs.** Mr. Phelps reported that the authorized repair of eight valves on the District's water distribution system (the "Valve Repairs") is in progress. He stated that the estimated cost for the Valve Repairs is \$8,000.

E. **Sanitary Sewer Line at 8100 Cypresswood Drive.** Mr. Phelps reported that Source Point Solutions, LLC, had cleaned and performed a video inspection on the section of the 10-inch sanitary sewer line under Cypresswood Drive from The Lodge Apartments to the Kleinwood Regional Wastewater Treatment Plant. The video inspection indicates a sag in the sanitary sewer line under Cypresswood Drive that could cause grease to accumulate, he told the Board. Mr. Phelps stated that a copy of the video inspection had been forwarded to the District's Engineer for review. He added that this section of sanitary sewer line would be scheduled for periodic cleaning.

F. **2010 Drinking Water Quality Report.** Mr. Phelps then reviewed with the Board the 2010 Drinking Water Quality Report for the District (the "DWQR") as prepared by EDP, a copy of which is attached hereto as an exhibit to these minutes. After discussion, upon a motion duly made and seconded, the Board voted unanimously to approve the DWQR.

## **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.

A discussion then ensued regarding the security deposit required by the District when new residential utility service accounts are established (the "Security Deposit"). In response to comments from the Board, Mr. Phelps stated that he would look into whether an amendment to the Rate Order to adjust the Security Deposit would be prudent.

## **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 discussed with the Board the major activities undertaken during the past month, including:

- termite control;
- cleaning the primary drain line on the air conditioning unit; and
- replacement of two toilets in the outside restrooms.

Mr. Schuett informed the Board that the electrical service line on the electrical box for the tennis court lighting system had overheated to the point that the insulation had burned off. An electrician replaced both the service line and the electrical box, he told the Board. Mr. Schuett reported that the Champion Pines Condos Association had accepted the District's offer to conduct its monthly meetings at the District Office at an annual cost of \$300, pursuant to the provisions of the District's Office Use Agreement dated 23 April 2009.

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

## **BOOKKEEPER'S REPORT**

Mr. Schuett 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.

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.

## **DISTRICT'S INVESTMENTS**

The Directors entered into a brief discussion regarding the District's investments (the "Investments"). Mr. Schuett reported that he had discussed the Investments with Bill Blich with

Blitch Associates, Inc., the District's Financial Advisor. Mr. Schuett stated that Mr. Blitch had offered to prepare a report on the Investments, as well as a financial analysis of the District, at no additional charge to the District (collectively, the "Analysis"). Mr. Unterreiner suggested that Mr. Blitch defer presentation of the Analysis, pending completion by the District's Engineer of a Capital Improvements Plan for the District.

**SAVEWATERTEXAS.COM**

Mr. Green submitted for the Board's review a letter from SaveTexasWater.com requesting the sponsorship by the District of water conservation education programs at Mittelstadt Elementary School in KISD. A copy of the letter is attached hereto. After discussion, the Board declined to take any action in connection with this matter.

**KLEINWOOD JOINT POWERS BOARD ("KJPB")**

Director Fratangelo presented a report on the activities of the KJPB.

**KMF**

Director Bryl presented a report on the activities of the KMF.

**NHCRWA**

Mr. Green distributed copies of a memorandum from the District's Attorney regarding the 2 May 2011 meeting of the NHCRWA board of directors. A copy of the memorandum is attached hereto.

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



  
Secretary, Board of Directors

Kleinwood Municipal Utility District  
Meeting of 26 May 2011  
Attachments

1. Security Patrol Report;
2. Development Report;
3. Tax Assessor/Collector's Report;
4. Delinquent Tax Report;
5. Engineer's Report;
6. Pay Estimate No. 1 / Stuebner Airline utilities;
7. Coats Rose memo / bonds and insurance on contract with Quality Pipe Services;
8. Pay Estimate No. 4 / Generators project;
9. Coats Rose memo / status of ongoing projects;
10. ID Theft Prevention Program report / Wheeler & Associates;
11. Letter from KMUD to NHCRWA / re Houston Chronicle article;
12. Operator's Report;
13. 2010 Drinking Water Quality Report;
14. District Office Management Report;
15. Bookkeeper's Report;
16. Letter from SaveWaterTexas.com; and
17. Coats Rose memo / NHCRWA meeting.