

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 286

Minutes of Board of Directors Meeting
February 6, 2012

ACTIONS TAKEN

1. The Board of Directors ("Board") voted to approve the minutes of the January 9, 2012 meeting with minor corrections as addressed in the meeting.
 2. The Board approved the District's fiscal year 2011 audit as presented by Mark Roth, the District's auditor, and authorized the filing of same with the appropriate jurisdictional agencies.
 3. The Board approved the Tax Assessor-Collector's Report as presented by Michael Arterburn of Utility Tax Service, L.L.C. ("UTS"), including payment of the bills associated therewith.
 4. The Board approved the Operations and Maintenance Report as presented by Environmental Development Partners, L.L.C. ("EDP").
 5. The Board approved an increase in its fidelity bond coverage to no less than \$500,000.00, and potentially to \$1,000,000.00 subject to confirmation that the premium for same will not exceed \$1,400.00.
 6. The Board authorized the renewal of its insurance coverages with Aquasurance, L.L.C for the period expiring March 31, 2012.
 7. The Board approved the Bookkeeper's Report as presented by Claudia Redden of Claudia Redden & Associates, L.L.C., including the checks presented for payment; and
 8. The Board approved the Attorney's Report as presented by Spencer Creed of Schwartz, Page, & Harding, L.L.P. ("SPH").
 9. The Board approved the Engineer's Report as presented by Dennis Eby of Eby Engineering, Inc., including the payment of the pay estimate and invoices referenced therein.
 10. The Board adopted a Resolution Adopting a List of Qualified Brokers authorized to engage in investment transactions with the District.
 11. The Board authorized the lease of direct recording electronic voting equipment for use at the election to be held in May 2012, subject to the holding of such election.
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12. The Board adopted an order calling Directors Election to be held May 12, 2012 and established certain procedures for same.
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The Board of Harris County Municipal Utility District No. 286 ("District") met at the Board's regular meeting place, 8015 FM 1960 West, Houston, Harris, County, Texas 77070 on February 6, 2012 in accordance with the duly posted notice of meeting, and the roll was called of the duly constituted officers and members of said Board of Directors, as follows:

David Geaslen, President
Paul D. Nicosia, Vice-President
Jeffrey Carlyle, Director
Michael Rhodes, Secretary
Stephen Garner, Director

All of said persons were present, therefore constituting a quorum.

Also present were Sgt. Blackledge of the Harris County Constable's Office, Precinct No. 4; Mark Roth, C.P.A.; Claudia Redden of Claudia Redden & Associates L.L.C.; Dennis Eby of Eby Engineers, Inc. ("Eby"); Eric Thiry of Environmental Development Partners, L.L.C. ("EDP"); Mike Arterburn of Utility Tax Service, L.L.C. ("UTS"); Michael H. Arterburn, RTA of UTS; Spencer Creed of Schwartz, Page, & Harding, L.L.P. ("SPH"); Kevin Schmok of Trammell Crowe Co. Kevin Drewes of Genesis Capital Management ("Genesis"); Paul VanGrieken of Genesis Capital Partners L.L.C. ("Genesis"); Jessica Dixon of CBRE, Edward Jones of Hewlett Packard ("HP"); Jeff Greensage of CBRE, and Jacquelin Scott Harvell, administrative assistant.

The meeting was called to order at 6:00 p.m. by President Geaslen.

APPROVAL OF MINUTES

The President asked that the approval of past minutes be considered. After review and upon motion made by Director Carlyle, seconded by Director Garner, the Board voted unanimously to approve the minutes of the January 9, 2012 meeting after making discussed minor changes as per the final draft and page six (6) corrections.

PRESENTATION OF MANAGEMENT LETTER BY MARK ROTH CPA AND APPROVAL OF AUDIT

The President asked that Mr. Roth be given first consideration and Mr. Roth in turn, introduced himself to the Board and reviewed his correspondence dated February 6, 2012, and the District's draft audit report, copies of which are attached hereto and considered a part of these minutes as **Exhibit A**.

He informed the board that there were no unexpected issues with the audit. He explained that he had reviewed the tax collector's procedures and the levying of taxes per the appraisal district and that he checked the Operator's billing rates and tap fees. He further noted that he analyzed the Bookkeeper's procedures and handling of funds. Mr. Roth requested that the Board thoroughly review his Management letter and address the issue of fidelity bond coverage. He expressed a desire to notate any action the Board may

intend to take in regards to increasing the fidelity bond amount. The Board noted that it intended to raise its coverage to at least \$500,000.00 and potentially more pending the awaited specific rate quotes. Mr. Roth declared that he would add that modification to his letter before submitting it to be filed with the Texas Commission on Environmental Quality ("TCEQ").

At this time the Board had some further discussion regarding its intent to raise the fidelity bond coverage. Mr. Creed and Mr. Geaslen reported that the increased cost for coverage up to \$500,000.00 was approximately \$100.00. Director Rhodes made the motion to proceed with Mr. Roth's notation in the audit of such increase to a minimum of \$500,000 coverage and potentially greater pending the outcome of the requested rate quotes. Director Carlyle seconded the motion, which carried unanimously.

Following some discussion, Director Carlyle motioned to approve the audit and authorize filing with TCEQ as presented and Director Rhodes seconded said motion, which unanimously carried.

Ms. Redden entered the meeting during Mr. Roth's presentation.

TAX ASSESSOR-COLLECTOR REPORT

Mr. Arterburn and Mr. Michael Arterburn were next recognized by the President for discussion of the District's tax matters.

Mr. Roth exited the meeting at this time.

Mr. Michael Arterburn then reviewed with the Board the Tax Assessor-Collector's Report including the Total Receivables, Receipts, Disbursements, and Cash Balance, dated as of January 31, 2012, a copy of which is attached hereto and considered a part of these minutes as **Exhibit B**.

Mr. Michael Arterburn informed the board that taxes are presently at 99% collected for 2011 and that all monies received have been posted to his report.

Mr. Michael Arterburn verified that the outstanding tax amount was approximately \$5,500 for the current year and that the 2010 collection issue was still present due to the previously discussed matter regarding the accounts of HP and Lonestar. He noted that the tax agent for HP is still waiting on the appraisal district to transfer certain previously made payments. He also noted that HP has made no formal request for the Board to modify the account and Edward Jones of HP verified that he would be working on a formal request in the near future.

Mr. Mike Arterburn noted that attached to the report the Board should find and review an aerial photo of its District area and verify that the borders are correct. He announced that a similar photographic comparison will be done yearly to maintain accurate records. The Board reviewed the photos and had discussion regarding the same.

President Geaslen inquired as to when Noble Energy would be placed on the reports for the Strategic Partnership Agreement and Kevin Schmok of Trammell Crowe informed the Board that the company just signed a lease and they should be moving in during May of 2013 after all renovations have been made.

After some discussion, Director Nicosia moved that the Tax Assessor-Collector Report be approved as presented, and that the checks, as identified in said report, be approved for payment. Director Rhodes seconded said motion, which carried unanimously.

Jessica Dixon, Jeff Greensage, and Edward Jones entered the meeting during Mr. Arterburn's presentation

OPERATIONS REPORT

The Board next considered the Operations and Maintenance Report. In connection therewith, Eric Thiry presented and reviewed with the Board the Operations and Maintenance Report dated February 3, 2012, a copy of which is attached hereto as **Exhibit C**.

Mr. Thiry first informed the Board that page one addresses the expenses invoiced to the District and the work done in the past few months. He verified that the third backflow preventor in the "Commons" area at Lonestar was completed on December 23, 2011. He noted that he sent a back charge invoice to HP and Mr. Jones stated that he should have a check to present shortly regarding the same. Mr. Jones also noted that this was the final backflow preventor associated with the Lonestar campus that HP would be paying for. Mr. Thiry explained that the backflow preventor is generally the customer's property and therefore future repairs to same are the financial responsibility of that party. Mr. Thiry verified that the backflow preventors are not included in the one-time tap fee paid to the District and noted that although he is installing it that is by request, not by necessity. He stated that they could have chosen any subcontractor to do the work, but that they requested that the Operator install it. He further verified that it would not be the District's responsibility in any way to maintain.

Mr. Thiry turned the Board's attention to the report and discussed the work done at the plant and the pictures on the second page of his report. He stated that the air diffusers had been replaced; old galvanized pipes had been removed and replaced with stainless steel because they do not corrode nearly as quickly. He also noted various items replaced while the tank was empty.

Mr. Thiry indicated that he had made further progress on the District's valve survey and that an additional 15 were located. He noted that these predominantly consisted of "blow off" 2" pipes that are used for flushing. He explained that over the years these pipes have been buried by sidewalks, flowerbeds, etc. He clarified the individual charges per his

report and stated that there are approximately half a dozen missing valves yet to be located at this time. Mr. Thiry explained that the reconciliation of the various plans and drawings has taken a significant amount of time, especially to research the appropriate construction drawings before removing sidewalks or digging. President Geaslen asked to be updated each month on the progress of this project until it has been completed. Mr. Thiry stated that report Item 4, a draft copy of which is included on page 3 & 4, is to be submitted prior to March 1, 2011.

Mr. Thiry next addressed the billing summary. He noted that water usage was down to approximately half of last month due to the rainfall. He also noted that, per his water quality report graph, the purple line should hopefully stabilize as the final “blow off” pipes are located and flushed during the valve survey. Mr. Thiry stated that the temporary fire hydrants have been returned. He reviewed the water accountability and distribution including the data tables and graphs.

He noted that there were no permit violations at the Wastewater Treatment Plant and that the plant is completely back in service as of the previous weekend. Mr. Thiry briefly discussed the customer service calls on page ten of his report and answered a question as to how and why the water was inadvertently turned off at the YMCA recently. Mr. Thiry noted that the Engineer would discuss the backflow preventors more in his report, but that Lonestar wants one installed at their Central Plant, TCH Northwest Associates needs them for Buildings 14 &15, and that the Centre at Cypress Creek (“The Centre”) requires one final installation.

Upon minimal further discussion, Director Carlyle made the motion to approve the Operators report. This motion was seconded by Director Rhodes and carried unanimously.

RENEWAL OF DISTRICT INSURANCE COVERAGE

At this time Mr. Creed addressed the requested renewal from Aquasurance, a copy of which is attached hereto as **Exhibit D**. He informed the Board that there was a premium increase and noted the claims that were paid out in recent years. The Board had some discussion as to the current insurance provider and the coverages. It was requested by President Geaslen that Mr. Creed request a proposal from Aquasurance for an increased consultant bond coverage amount of \$1,000,000.00. Upon further discussion of renewal of District insurance coverage, Director Carlyle made a motion to accept the proposal from Aquasurance, subject to confirming the cost of increased consultant bond coverage. Director Nicosia seconded the motion and it carried without dissent.

During this time the issue of fidelity bond coverage was once again addressed. Mr. Creed and Mr. Geaslen reported that the increased cost for coverage up to \$500,000.00 was approximately \$100.00. Director Nicosia motioned that a fidelity bond of \$1,000,000.00 be obtained at a cost not to exceed \$1,400.00, and that if cost for such did exceed the stated

price that it be raised to \$500,000.00. Director Carlyle seconded the motion which carried without dissent.

ENGINEERING REPORT

President Geaslen then recognized Mr. Eby for presentation of the Engineer's Report dated February 6, 2012, relative to the status of various projects within the District, a copy of which is attached hereto as **Exhibit E**.

Mr. Eby first informed the Board that the cleaning of the aeration basin and the clarifier is completed and that payment to the contractor is to be made of approximately \$46,000.00 including the retainage being held. Mr. Eby noted that this did include two items that were not a part of the original contract but that were discovered during the renovations. He explained that bolts and scraper brackets had to be replaced during the process of the work and that such work was discussed with the President before approval. He recommended that the Board make payment as approved. Director Garner motioned that payment be made for completed repairs, minus retainage. Director Rhodes seconded the motion, which carried without dissent.

Mr. Eby informed the Board that the second backflow preventor at the Centre was supposed to have been installed the previous week, but that it had been delayed. He noted that he hoped it would be completed by the end of the present week. He also verified that he is waiting on the TCEQ for the final wastewater permit. He clarified that everything has been published, provided, and approved, but that he is simply waiting on the physical issue of the permit.

Mr. Eby expressed that the District utility system maps are getting close to completion. He said that there were a few valves left to locate and that he needed to make sure that all HP property sales are reflected accordingly. He further described that the maps will be in a constant state of evolution as buildings and/or lands are sold or developed, etc.

Mr. Eby verified that the speed bumps have been installed at the entrance of the park and that Jones Road Tree Removal has been working to continue to remove dead trees as directed. In accordance with such, Mr. Eby requested that there be a motion for payment to be made on the invoices in his report. Director Rhodes made the motion to pay the appropriate invoices and Director Carlyle seconded same. The motion carried unanimously.

Mr. Eby addressed item 8 on his report and discussed the meter transfer between HP and Lonestar desired at the central plant. Mr. Eby reiterated that the main issue is the associated costs of putting in the two required backflow preventors. Edward Jones of HP requested that those meters be transferred based upon the letter of financial responsibility

which Lonestar has previously provided. The Engineer and the Developers communicated about tying up loose ends related to same. Director Garner verified that Lonestar has issued a letter of financial responsibility. Edward Jones asked that upon the District's receipt of a formal letter if the Board would transfer the meters in question to Lonestar. Motion to transfer the meters to Lonestar was made by Director Carlyle, seconded by Director Nicosia and carried without dissent.

Kevin Schmok of Trammell Crowe and the Engineer further discussed future intentions for their meter transfers and tenants. Mr. Schmok of Trammell Crowe noted that they will work on submitting a more formal request on their end for next month's Board meeting. Director Geaslen noted that he did not wish to approve the transfer of meter service from HP to Trammell Crowe for Buildings 14 and 15 until the Engineer's requirements are substantially complete.

Mr. Eby next directed the Board's attention to the pictures of recently completed work included in his report. He noted that he was very pleased with the paint/sealant job. After some discussion as to the age of the various facilities, Mr. Eby and Mr. Thiry noted that the new plant was recently drained and still looks fine so that maintenance does not need to be an immediate consideration. Mr. Eby did verify that due to an excessive amount of corrosion, damaged scrapers, and leaking diffusers that the maintenance and repairs were a very timely thing to have done recently.

At this point Mr. Eby noted that he had been dealing with Mr. Greensage of CBRE about a request to put in a new driveway for access to the Centre's generator. Mr. Greensage stated that he had sent a sketch to the Engineer but Mr. Eby clarified that he needs a drawing showing where the water lines are and how they will be protected. Mr. Creed asked if the District needs a "consent to encroachment" for this endeavor. Mr. Eby stated that he would review the underlying easement to see if that is necessary or if provisions are already included therein. The Board asks that this be reviewed and handled at the first possible opportunity. The Board noted that if the District's existing easement does not already allow for paving then it will require a consent to encroachment document as a condition to same.

Following some discussion, Director Carlyle moved that the Engineering Report be approved as presented and that the referenced consent to encroachment document be accepted if necessary and Director Nicosia seconded said motion, which unanimously carried.

Sargent Blackledge entered the meeting during the Engineering Report.

SECURITY PATROL REPORT BY THE CONSTABLE'S OFFICE

The President recognized Sergeant Blackledge. The officer then reported recent activities within the District, as noted on the Harris County Constable's Security Patrol Report for January 2012, attached hereto as **Exhibit F**.

Sgt Blackledge expressed his pleasure at returning from shoulder surgery and reported that it had been a fairly quiet month. He stated that the only real issues were a concern about telephone harassment and a high number of calls from HP for ticketing vehicles inappropriately parked in handicapped zones.

The officer exited the meeting at this time.

BOOKKEEPING REPORT

The Board considered the Bookkeeper's Report. In connection therewith, Ms. Redden reviewed with the Board the Bookkeeping Report dated February 6, 2012, a copy of which is attached hereto as **Exhibit G**, including the checks presented for payment.

Upon request, Ms. Redden clarified for the Board charges listed on the report. She noted that sales tax from October was received, the listed Harris County Treasurer charges are for the Constable, and that a refund from the Houston Chronicle were all included in her write up.

Ms. Redden next discussed the checks for the month. She noted one voided check, and reviewed the checks from last month's meeting that totaled \$3353.00. Ms. Redden drew the Board's attention to the large checks for Blastco and Aquasurance that are to be signed for this month. She verified that she will hold the Aquasurance check until Mr. Creed notifies her of the final amount due to the consultant bond increase.

Ms. Redden addressed the regulatory assessment fees for both the District's main public water system account and the Certificate of Convenience and Necessity account obtained for Chasewood, and stated that since she does not have the ability to split them out she took the percentage previously used and wrote checks based on those for the 2011 payment amounts. The Board asked Mr. Thiry to look into obtaining the specific fee division for future years.

Ms. Redden explained that January revenue is not in yet and so the numbers reflect such in the way of a deficit. The Board had some discussion as to electricity charges and providers when reviewing page 9 of her report. Ms. Redden informed the Board that per page ten of her report, the first chloramination reduction came off the December North Harris County Regional Water Authority's bill. Finally Ms. Redden reviewed the budget comparison on pages 17 & 18 of her report.

Following some discussion, Director Carlyle moved that the Bookkeeping Report be approved as presented and that expenses incurred by President Geaslen and Director Nicosia for the attendance at the recent Association of Water Board Directory Conference be accepted and reimbursed. Director Rhodes seconded said motion, which unanimously carried.

ADOPTION OF LIST OF QUALIFIED BROKERS

Mr. Creed presented and reviewed with the Board a Resolution Adopting List of Qualified Brokers Authorized to Engage in Investment Transactions with the District, and a list of financial institutions, brokers and dealers attached thereto, together with a comparison of the list submitted and the list previously adopted by the Board, copies of which are attached hereto as **Exhibit H**. After discussion on the matter Director Carlyle moved that the attached Resolution be approved and that the President and Secretary be authorized to execute same. Director Rhodes seconded the motion, which unanimously carried.

2012 DIRECTOR ELECTION

The Board next considered the calling of a Directors Election. There was presented an Order calling such election to be held on May 12, 2012, which is attached hereto as **Exhibit I**. It was noted that the terms of office of Directors Geaslen, Nicosia, and Rhodes would expire in May of 2012. After Discussion on the matter Director Carlyle moved that said Order be passed and adopted, that the President and Secretary be authorized to execute the Order, that the attorneys for the District be instructed to make necessary arrangements for said election and that notice of the election be given by posting at the location where notice of District meetings are posted, as this meets all legal requirements and that the attorneys for the District be authorized to arrange for said notice to be posted. Director Garner seconded said motion, which unanimously carried.

Mr. Creed advised the Board that in accordance with Section 2.052 of the Election Code, the District may cancel the election if each candidate whose name appears on the ballot is unopposed in such election as of 5:00pm on March 5, 2012, and the Board of Directors of the District can declare such unopposed candidates to be elected.

Mr. Creed next advised the Board that an agent should be appointed to perform election duties in connection with the Director Election. After discussion, Director Carlyle moved that Ms. Thai of SPH be appointed to serve as the District's appointed agent with regard to said Election. Director Garner seconded the motion, which carried unanimously.

The Board next considered the establishment of fees to be paid to election officials. Mr. Creed advised the Board that it may fix the compensation to be paid to election officials at its discretion, provided that the rate is no less than the federal minimum hourly wage.

After discussion on the matter, Director Carlyle moved that judges and clerks including early voting clerks be paid \$12.00 per hour. Director Garner seconded motion, which unanimously carried.

DEVELOPERS' REPORTS

HEWLETT-PACKARD COMPANY

The Board acknowledged Edward Jones of HP at this time. Mr. Jones requested that the TCH Northwest Associates ("TCH") water meter issue be monitored until it is resolved and he notified the Board that he had spoken with the Operator about irrigation meters. He noted that he has previously separated the meters between HP and TCH and that he will provide the Board with that list. Mr. Jones also expressed his satisfaction at the Board's agreement to transfer the applicable meters to Lonestar.

GENESIS

Paul VanGrieken next addressed the Board and provided an updated amortization schedule, with date of revision listed as December 31, 2011, a copy of which is attached hereto as **Exhibit J**.

Mr. VanGrieken noted that he is still in discussions with the previously mentioned hotel developer. He stated that they have begun the exchange of contract versions and are currently drafting new ones. He expressed hope that all such proceedings would be settled in the next few weeks. Mr. VanGrieken declared that reclamation work was approved by flood control in late December, FEMA approved in January, and that Genesis sent its comments back during the third week of January 2012. He stated that he expects to receive that letter back in March or April. Finally, Mr. VanGrieken noted that he was working on one small land transaction with the Centre at Cypress Creek. He stated that they are buying the water tank and that they hope to complete that sale in the very near future and be able to clean that corner up nicely.

CENTRE AT CYPRESS CREEK

The President recognized Ms. Jessica Dixon for the Centre who cited no new business aside from the previously mentioned considerations.

LONE STAR COLLEGE SYSTEM ("LONESTAR")

The Board cited no new business of Lonestar at this meeting.

TCH NORTH WEST ASSOCIATES L.P. (Trammell Crowe)

At this time the Board welcomed Kevin Schmok of Trammell Crowe. Mr. Schmok stated that he is working with Lonestar, HP, and the Engineer to get their utilities transferred into their name. He further informed the Board that the lease with Noble Energy was executed and that construction will start this summer. Mr. Schmok also mentioned that in addition to that lease they may wish to develop the 4.7 acre parcel of land across the street which happens to be in Malcomson MUD. Mr. Eby advised that until Mr. Schmok has gone through the appropriate channels and addressed the Malcomson MUD about providing service that MUD 286 can do nothing in connection with that tract. The Board did advise that if Malcomson MUD is unable to provide utilities to that parcel that Mr. Schmok was welcome to readdress the issue and work out a proposal and potentially an agreement for service between MUD 286 and Malcomson MUD.

UTILITY COMMITMENT REQUESTS

There were no utility commitment requests presented for consideration.

ATTORNEY'S REPORT

The Board next considered the attorney's report as presented by Mr. Creed. Mr. Creed noted that the District had received correspondence from the TCEQ about some drought emergency workshops being held. He also noted that the District had received another letter from the Department of Commerce asking for participation in a survey. Mr. Creed stated that the Board has historically declined such request and so that he was prepared to follow suit on such issue. The Board concurred with that approach.

WEBSITE

At this time Mrs. Harvell presented the Board with a list of things that she suggested be revised concerning the District's website functionality. The Board authorized Mrs. Harvell to have Don Dulin make the changes as advised at a cost not to exceed \$500.

AUTHORIZE LEASE OF DIRECT RECORDING ELECTRONIC MACHINE

As the next order of business, Mr. Creed advised that the District is required to supplement the paper balloting process by providing a direct recording electronic ("DRE") voting system that is accessible to disabled individuals at its elections to be held on May 12, 2012. In that regard, Mr. Creed advised that among other options, the District may purchase DREs from a vendor, or it may contract to lease DREs from Premier Election Solutions, Inc. ("Premier") for an estimated cost of \$5,450.00. After discussion on the matter, the Board agreed to pursue the option of leasing DREs from Premier and requested that SPH notify Premier as to same. Director Carlyle then moved to authorize the President

of the Board to execute a DRE lease contract with Premier on behalf of the District, if necessary. Director Rhodes seconded the motion, which carried unanimously.

ADJOURNMENT OF BOARD MEETING

Citing no further business to come before the Board at this time, Director Rhodes made a motion to adjourn at 7:33 p.m., duly seconded by Director Nicosia, which carried without dissent.

Secretary

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