

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 368

MINUTES OF BOARD OF DIRECTORS MEETING

August 19, 2004

The Board of Directors (the "Board") of Harris County Municipal Utility District No. 368 (the "District") met in regular session, open to the public, at 6:30 p.m., at Graceview Baptist Church, 22510 Tomball Parkway, Tomball, Texas, on August 19, 2004, pursuant to the notice of said meeting posted in accordance with Chapter 551 of the Texas Government Code; whereupon the roll was called of the members of the Board, to-wit:

Roy P. Lackey	President
Tiffani C. Bishop	Vice President/Investment Officer
Sharon L. Cook	Secretary
Drexel Moerbe	Assistant Secretary
Michael J. Ward	Treasurer

All members of the Board were present. Also attending were David Summerlin of P.J. Hargis & Associates ("Bookkeeper"); Ben Pawlak of Bob Leared Interests ("Tax Assessor/-Collector"); Mike Plunkett of Eagle Water Management ("Operator"); Craig Rathmann of Rathmann & Associates, L.P. ("Financial Advisor"); Jeff Moody of KB Home ("KB"), a developer in the District; Andrew Dunn, a resident of the District and District liaison with the Harris County Constable's Department (the "Constable's Department"); and Kaye C. Corprew of Johnson Radcliffe Petrov & Bobbitt PLLC ("Attorneys").

The President, after finding that notice of the meeting was posted as required by law and determining that a quorum of the Board was present, called the meeting to order at 6:42 p.m. and declared it open for such business as may come before it.

1. HARRIS COUNTY CONSTABLE'S DEPARTMENT REPORT. Director Lackey recognized Mr. Dunn, who reviewed the Constable's Report with the Board. Ms. Corprew then told Mr. Dunn that she is going to suggest to the Board later in the meeting that they consider obtaining a law enforcement legal liability rider to the District's general liability insurance policy and peace officer bonds for the deputies, especially since the District is now contracting directly with peace officers on a part-time basis and Mr. Dunn is the District's liaison with the Constable's Department. The Board deferred further discussion of this matter to the Attorney's Report.

Mr. Dunn then exited the meeting.

2. PUBLIC COMMENTS. Next, Director Lackey noted that no one from the general public was in attendance at tonight's meeting for public comment.

3. TAX ASSESSOR/COLLECTOR'S REPORT. Mr. Pawlak then presented the Tax Assessor/Collector's Report, a copy of which is attached hereto as Exhibit "A," and the Top Delinquent Taxpayer List, a copy of which is attached hereto as Exhibit "B," and explained that as of July 31, 2004, the District had collected 97.727% of the 2003 taxes. Mr. Pawlak then reported that the District's 2004 certified assessed property value as of this date is \$212,484,180. Mr. Pawlak then explained that the installment agreement with Antoinett Tinkham for the payoff of her 2003 delinquent taxes has been set up, as approved at the July 15, 2004 Board meeting. Upon motion by Director Cook, seconded by Director Bishop, after full discussion and with all Directors present voting aye, the Board approved the Tax Assessor/Collector's Report and the payment of checks reflected therein.

4. ANNUAL REVIEW OF CONSULTANTS' CONTRACTS. Ms. Corprew then explained that it is time for the District's annual review of the consultants' contracts and to consider whether there are any issues regarding any of the contracts that need to be addressed. The Board agreed that they are pleased with all of the District's consultants and that no further action is required on this matter at this time except to consider the proposed increase in Operator's fees later in the meeting.

5. TAX RATE RECOMMENDATION FOR 2004. Ms. Corprew explained that Mr. Rathmann had to attend another district's board meeting tonight prior to the District's meeting and since he had not yet arrived, she would present for the Board's review the tax rate recommendation for the 2004 tax year prepared by Mr. Rathmann. A copy of Mr. Rathmann's memorandum regarding the 2004 tax rate (the "Memorandum") is attached hereto as Exhibit "C." Mr. Pawlak explained that the Memorandum reflects a recommendation that the Board set a total tax rate of \$1.17 per \$100 of assessed valuation, comprised of \$1.05 for debt service purposes and \$0.12 for operations and maintenance purposes. Mr. Pawlak recalled that the District's 2003 tax rate was \$1.20 per \$100 of assessed valuation, comprised of \$1.08 per \$100 of assessed valuation for debt service purposes and \$0.12 per \$100 of assessed valuation for operations and maintenance purposes. Mr. Pawlak reported that he had calculated that the District could set a total tax rate of \$1.17 without the rollback provisions of Section 26.07(b)-(g) and 26.081, Texas Property Tax Code, as amended, being triggered. Ms. Corprew then explained that Section 49.236, Texas Water Code, had been amended effective September 1, 2003 to require utility districts to call a public hearing to discuss the proposed 2004 tax rate and to publish notice of the proposed tax rate before levying a tax rate. Ms. Corprew stated that such hearing could be held at the Board's regular September meeting and that the Order Setting Rate and Levying Tax for 2004 could be adopted at the same meeting subsequent to the public hearing. Upon motion by Director Cook, seconded by Director Ward, after full discussion and with all Directors present voting aye, the Board voted to propose a debt service tax rate of \$1.05 per \$100 of assessed valuation and an operations and maintenance tax rate of \$0.12 per \$100 of assessed valuation, for a total 2004 tax rate of \$1.17 per \$100 of assessed valuation, and to authorize Mr. Pawlak to publish notice of the proposed tax rate and the public hearing on such tax rate in a newspaper with general circulation in the area at least seven (7) days prior to the public hearing date of September 16, 2004.

Mr. Pawlak then exited the meeting.

6. BOOKKEEPER'S REPORT. Mr. Summerlin then presented the Bookkeeper's Report, a copy of which is attached hereto as Exhibit "D," and explained that check numbers 1304 and 3991 to CenterPoint Energy ("CenterPoint") being presented for approval are not included on the Report.

Next, Mr. Summerlin distributed for the Board's review the Summary of Security Cash Flow from September 2003 through July 2004, a copy of which is attached hereto as Exhibit "E."

Director Ward exited the meeting at this time.

Next, Mr. Summerlin directed the Board's attention to the draft of the Water Production Cost Analysis, a copy of which is attached hereto as Exhibit "F." Mr. Summerlin explained that it is in very rough draft and needs to be "fine-tuned." The Board discussed what costs should and should not be included, and Mr. Summerlin agreed to make the revisions for the Board's review at the September 16, 2004 meeting. The Board agreed, however, that they should not make a change in the District's water rates at this time.

Mr. Rathmann arrived at the meeting at this time.

Upon motion by Director Cook, seconded by Director Lackey, after full discussion and with all Directors present voting aye, the Board approved the Bookkeeper's Report, the checks presented for payment, and the investment report.

7. TAX RATE RECOMMENDATION FOR 2004 CONTINUED. The Board then informed Mr. Rathmann that they had already agreed to propose a total tax rate of \$1.17 per \$100 of assessed valuation for 2004, as recommended, and asked if had anything further to discuss. Mr. Rathmann further reviewed the Memorandum and explained that the District may levy this rate and still issue the proposed \$8.5 million bond issue without raising District taxes.

Upon motion by Director Cook, seconded by Director Moerbe, after full discussion and with all Directors present voting aye, the Board approved the Financial Advisor's Report.

Mr. Rathmann then exited the meeting.

8. ATTORNEY'S REPORT. Director Lackey then recognized Ms. Corprew, who presented the Attorney's Report, a copy of which is attached hereto as Exhibit "G." Ms. Corprew reviewed the Report as follows:

- a. Relocation Agreements with CenterPoint. Ms. Corprew explained that Director Lackey is more familiar with this matter and suggested he advise the Board of the need for the two (2) agreements with CenterPoint to relocate certain items. Director Lackey stated that one (1) agreement is for the relocation of the down-guy at the Wastewater Treatment Plant, and that the other agreement is for the relocation of the electrical pedestal in Northpointe East, Section Two subdivision, as previously discussed. Director Lackey explained that such charge for relocating the pedestal would be back-charged to Westin Homes since it was their error that

caused the need to relocate it. Upon motion by Director Cook, seconded by Director Bishop, after full discussion and with all Directors present voting aye, the Board approved the two (2) CenterPoint agreements, copies of which are attached hereto as Exhibit "H."

- b. Proposed Engagement of Security Liaison. Ms. Corprew then recalled that the Board had requested at the July 15, 2004 meeting that an item be included on the August 19, 2004 agenda to consider compensating Mr. Dunn for his services as the District's liaison to the Constable's Department. Ms. Corprew went on to explain that in order to prepare for this discussion, she contacted the District's insurance agent, Floyd Mechler of AquaSurance, Inc., to discuss the District's liability. Ms. Corprew reported that Mr. Mechler suggested the District purchase a law enforcement legal liability rider and peace officer bonds. The Board discussed this suggestion and agreed that it would be in the District's best interest to purchase such rider and bonds but to defer the decision regarding compensation for Mr. Dunn to the September meeting. Upon motion by Director Cook, seconded by Director Bishop, after full discussion and with all Directors present voting aye, the Board approved the purchase of the law enforcement legal liability rider and the peace officer bonds.
- c. Northern Point, Section Three, Water, Sewer and Drainage Facilities Construction Contract. Next, Ms. Corprew explained that Turner Collie & Braden Inc. ("TC&B") has requested that the Board authorize TC&B to advertise for bids for the water, sewer and drainage facilities construction project for Northern Point, Section Three. Upon motion by Director Bishop, seconded by Director Cook, after full discussion and with all Directors present voting aye, the Board authorized TC&B to advertise for bids for the Northern Point, Section Three project.
- d. Annual Review of Operator's Contract. Ms. Corprew then continued the discussion of the annual review of the Consultants' contracts from earlier in the meeting and deferred to Mr. Plunkett, who explained that the Operator is requesting an increase of the Operator's fees, as shown on Exhibit "I" attached hereto. Ms. Corprew asked if such increase would require any amendments to the District's Rate Order, and Mr. Plunkett stated that it would not. Upon motion by Director Cook, seconded by Director Lackey, after full discussion and with all Directors present voting aye, the Board approved the increase in the Operator's fees.
- e. Annual Review of District Rate Order. Ms. Corprew recalled that the annual review of the District's Rate Order was deferred to tonight's meeting from the last meeting. The Board then reconsidered the possibility of revising the water rates but decided not to make any changes at this time. Mr. Plunkett then recommended that the fee for residential

taps be increased to \$725. Upon motion by Director Cook, seconded by Director Lackey, after full discussion and with all Directors present voting aye, the Board approved the amendment to the Rate Order to increase the residential tap fee to \$725.

- f. Republic Waste Services Agreement. Ms. Corprew next reported that the District had received a notice from Republic Waste Services ("Republic"), a copy of which is attached hereto as Exhibit "J," about a rate increase for garbage collection services. Ms. Corprew then explained that pursuant to the terms of the District's contract with Republic, the rate cannot be increased for two (2) years. Ms. Corprew suggested she write a letter to Republic reminding them of this term and notifying them that the District would not accept a rate increase. The Board agreed, and authorized Ms. Corprew to forward such letter to Republic.

9. MINUTES. The Board then discussed approval of the minutes of the July 15, 2004 Board meeting. Upon motion by Director Cook, seconded by Director Lackey, after full discussion and with all Directors present voting aye, the Board approved the July 15, 2004 minutes, as presented.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, upon motion by Director Cook, the President adjourned the meeting at 9:15 p.m.

PASSED AND APPROVED this 16th day of September, 2004.

/s/ Secretary, Board of Directors

(SEAL)

**EXHIBITS TO MINUTES OF AUGUST 19, 2004 MEETING
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 368**

- A - Tax Assessor/Collector's Report
- B - Top Delinquent Taxpayer List
- C - Memorandum regarding 2004 tax rate prepared by Mr. Rathmann
- D - Bookkeeper's Report
- E - Summary of Security Cash Flow
- F - Draft of Water Production Cost Analysis
- G - Attorney's Report
- H - Two (2) agreements with CenterPoint to relocate certain items
- I - Proposed increase in Operator's fees
- J - Notice from Republic Waste Services regarding rate increase