

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 368

MINUTES OF BOARD OF DIRECTORS MEETING

October 7, 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, 25510 Tomball Parkway, Tomball, Texas on Thursday, October 7, 2004, pursuant to 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
Michael J. Ward	Treasurer
Drexel Moerbe	Assistant Secretary

All members of the Board were present. Consultants attending were: Mike Plunkett of Eagle Water Management, Inc. ("Operator"); Bob D. Boozer, P.E. of Pate Engineers, Inc. ("Engineer"); Mike McCall of McCall, Gibson & Company, PLLC ("Auditor"); and Kaye C. Corprew, attorney, and Marian D. Henderson, paralegal, of Johnson Radcliffe Petrov & Bobbitt PLLC ("Attorney").

Developers in attendance were: Jeff Moody of KB Home ("KB"); A.J. Sullivan and Justin Chapman of Sam Yager Inc./Willow Falls Development, Ltd. ("Willow Falls"); and Erik Haaland of RPDC, Inc. Also attending the meeting was Richard Lewis of American EnerPower, an electricity service broker.

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 6:50 p.m. and declared it open for such business as may come before it.

1. PUBLIC COMMENT. There were no members of the general public present to address the Board.

2. AUDIT REPORT. The Board first directed their attention to Mr. McCall, who presented and reviewed a draft of the Annual Audit Report for the fiscal year ended May 31, 2004, a copy of which is attached hereto as Exhibit "A." Mr. McCall explained that he had determined that there had been overpayments to the Texas Commission on Environmental Quality (the "TCEQ") in the amount of \$472.00 and to AquaConn for installation of the generator and that refunds and/or credits had been requested on the District's behalf. Mr. McCall also reported that the Texas State Bank account had not been properly identified as a debt service account and that this had been brought to the attention of the Bookkeeper and the matter has been corrected. Finally, Mr. McCall reported that when Republic Waste Services, Inc. ("Republic") bought out Century Waste last year, during the transition the District had been

billed twice for the month of August in the amount of \$11,000 and that Republic should be crediting the District for the \$11,000 overpayment. Upon motion by Director Cook, seconded by Director Ward, after full discussion and with all Directors present voting aye, the Board approved the Audit Report as presented and authorized the Auditor to file same with the TCEQ.

3. ELECTRICITY SERVICES. The Board next recognized Mr. Lewis, who reported that he had projected the District's per month electricity usage to be \$13-14,000. Mr. Lewis then distributed a chart, a copy of which is attached hereto as Exhibit "B," and reported that natural gas prices were up by 30% this year and that due to the very high increase in the futures market during the last week, the District would not realize a savings from switching to another electricity provider at this time. Mr. Lewis recommended that the District take no action until the natural gas price falls again.

[Mr. Lewis departed the meeting at this time.]

4. OPERATOR'S REPORT. The President next recognized Mr. Plunkett, who presented the monthly Operations Report, a copy of which is attached hereto as Exhibit "C." Mr. Plunkett first reviewed the monthly Operations Report and then presented the Termination List and the following discussion items:

a. Superior Water Rating. Mr. Plunkett reported that he had received notification from the TCEQ in Austin that they have referred the District's request for superior water rating to the Region 12 office in Houston and the inspection and approval would probably occur by the end of the year.

b. Water Conservation Flyer. Mr. Plunkett reported that the North Harris County Regional Water Authority would provide water conservation brochures for mail outs at no charge to the District.

c. Water Plant No. 1. Mr. Plunkett next requested the Board's approval to repair Booster Pump No. 1, including the installation of mechanical seals as opposed to conventional packing, at a cost of \$2,965.00.

d. Wastewater Treatment Plant. Mr. Plunkett reported that the clarifier drive unit on the old clarifier failed and that NTS installed a rental drive unit to keep the Plant in service since it was not economically feasible to repair the old drive unit.

e. Water Well No. 4 Water Transmission Line. Mr. Plunkett explained that the contractor has repaired the leak on the well collection line located in the gas pipeline easement near the Stewart tract.

f. Miscellaneous Matters. Mr. Plunkett added that the pest control company had taken care of the army worm invasion of the detention pond over the Labor Day weekend.

Upon motion by Director Bishop, seconded by Director Ward, after full discussion and with all Directors present voting aye, the Board approved the Operator's Report, authorized the

repair to Booster Pump No. 1 at Water Plant No. 1 and authorized the termination of delinquent accounts listed on the Termination List in accordance with the District's Rate Order.

5. ENGINEER'S REPORT. The President next recognized Mr. Boozer, who presented the Engineer's Report, a copy of which is attached hereto as Exhibit "D." Attached to the Engineer's Report are copies of the pay estimates, change orders, utility commitments, and the recommendation of award of contracts discussed therein. Mr. Boozer reviewed the Report as follows:

a. Engineer's Action Items. Mr. Boozer explained that the District's Engineer is requesting the following actions be taken by the Board at tonight's meeting: (1) approve Pay Application No. 9 in the amount of \$85,396.65 to N&S Construction Company ("N&S") for Wastewater Treatment Plant Expansion from 0.575 MGD to 0.90 MGD; (2) award the contract for Outfall Drainage Channel Rehabilitation Project to the low bidder, Rebel Contractors, Inc., in the amount of \$256,155; (3) approve Pay Application No. 2 and Final to Pace Services, LP in the amount of \$5,766.18 for Stonepine Offsite 12-Inch Water Line along Boudreaux and Huffsmith-Kohrville Roads to serve Stonepine Subdivision; (4) authorize advertisement for bids for water, sewer and drainage facilities to serve Stonepine, Section 2; (5) approve Pay Application No. 3 to Lecon, Inc. for Ashford Place Detention Facilities in the amount of \$178,782.30; (6) approve Pay Application No. 3 for water distribution, sanitary sewer and drainage facilities to serve Ashford Place, Section 1 from Triple B Services, LLP ("Triple B") in the amount of \$266,298.93; (7) approve Pay Application No. 1 from R+B Group, Inc. for Ashford Place Lift Station in the amount of \$53,280.00; (8) approve Pay Application No. 1 in the amount of \$33,480.00 from Triple B for Northern Point, Section 2 water, sewer and drainage facilities; and (9) approve award of contract to Kenneth Lamb Construction, the low bidder, for Northern Point, Section 3 water, sewer and drainage facilities in the amount of \$254,022.50 (collectively referred to herein as the "Engineer Action Items").

b. Outfall Drainage Ditch Improvements. Mr. Boozer reported that the low bid of \$256,155 compares to the low bid of \$288,000 received when the project had been previously bid.

c. Water Plant No. 1. Mr. Boozer reported that the booster pump improvements were just about finished.

d. Water Plant No. 2. Mr. Boozer reported that he had issued a notice to proceed to Industrial TX Corporation in order to commence the construction of the new Water Plant No. 2.

e. District Maintenance Building. Mr. Boozer then presented a preliminary plan for the proposed District maintenance building, a copy of which is attached to the Engineer's Report.

f. Application for Eighth Issue of Bonds. Mr. Boozer reported that the application is nearly complete and that he is waiting for additional information from KB and Focus Development Properties.

g. Developer Projects. Mr. Boozer then updated the Board on the status of the various developer projects. Mr. Boozer reported that the Harris County inspection of the Willow Falls, Section One, water, sewer and drainage facilities is scheduled for October 28th. Director Lackey reported that there is about 6 or 7 feet of silt in the bottom of the Northern Point detention facilities, and the Engineer made a note to have the contractor clear the silt from the detention pond.

Upon motion by Director Ward, seconded by Director Moerbe, after full discussion and with all Directors present voting aye, the Board approved the Engineer's Report, as presented, and the Engineer's Action Items, as discussed, and authorized the Engineer to prepare an Application for Release of Funds from Escrow for the Water Plant No. 2 project.

6. DEVELOPERS' REPORT. The Developers provided the following information regarding their respective projects:

a. Willow Falls Subdivision. Mr. Sullivan reported that sales are going strong.

b. Northern Point Subdivision. Mr. Moody reported that KB will start Section 4 in mid-2005.

c. Stonepine Subdivision. Mr. Haaland reported that construction is scheduled for Section 2 in December. Director Lackey suggested that they notify the residents of the outfall channel maintenance project between Stonepine and Willow Falls out of courtesy.

7. ATTORNEY'S REPORT. The President next recognized Ms. Corprew, who presented the Attorney's Report, a copy of which is attached hereto as Exhibit "E," and reported as follows:

a. Order Authorizing Application to TCEQ for Eighth Issue of Bonds. Ms. Corprew presented the Board with the subject Order, a copy of which is attached hereto as Exhibit "E-1."

b. Republic's Fuel Surcharge Increase. Discussion ensued regarding Republic's letter requesting an increase in the District's garbage collection rate, a copy of which is attached as Exhibit "E-2," due to the increase in the price of diesel fuel. Ms. Corprew stated that the attorney's recommendation is to approve a maximum increase of 2%, subject to receipt of the credit for the \$11,000 overpayment the Auditor disclosed and their making the increase temporary until such time as the price of diesel fuel decreases.

c. Harris County Emergency Service District No. 11 ("ESD#11"). Ms. Corprew reported that the District had received a letter from the ESD#11 requesting that the District continue its voluntary contributions through the end of the year. A copy of the letter is attached hereto as Exhibit "E-3."

d. Order Amending Rate Order. Ms. Corprew stated that should the Board agree to implement the garbage fuel surcharge, an amendment of the District's Rate Order is necessary in order to increase the residential sanitary sewer rate for the District to offset the amount of the surcharge. Discussion ensued and it was the consensus of the Board that the fuel surcharge amount should be rounded up to the nearest \$0.05 and then added to the residential sewer rate. A copy of the Order Amending Rate Order is attached hereto as Exhibit "E-4."

e. Authorize Preparation of Continuing Disclosure. Ms. Corprew stated that the District had an obligation to update on an annual basis certain financial information contained in the Official Statements for the bond issues, which information would serve to keep bondholders and other interested parties apprised of the financial strength of the District, and requested the Board's authorization to prepare such materials.

Upon motion by Director Cook, seconded by Director Ward, after full discussion and with all Directors present voting aye, the Board: (1) approved the Attorney's Report; (2) approved the Order Authorizing Application to Texas Commission On Environmental Quality for Approval of District's Eighth Bond Issue; (3) approved a temporary fuel surcharge increase from Republic, subject to receipt of credit for the \$11,000 overpayment; (4) authorized continuance of the voluntary contributions for the ESD#11 through the end of the year; (5) approved the amendment of the Rate Order to offset the amount of the fuel surcharge by Republic; and (6) authorized preparation of the annual Continuing Disclosure materials.

8. APPROVAL OF MINUTES. Upon motion by Director Ward, seconded by Director Cook, after discussion and with all Directors present voting aye, the Board approved the minutes of the September 2, 2004 meeting with the correction noted by Director Ward.

9. EXECUTIVE SESSION. At 9:00 p.m., the President called an Executive Session pursuant to Section 551.072, Texas Government Code, as amended, to discuss real estate negotiations with its Attorney and receive legal advice. All attendees to the meeting were dismissed, with the exception of Mr. Boozer, Ms. Corprew and Ms. Henderson. At 9:45 p.m., the Board reconvened in open session to vote on matters considered in Executive Session. Upon motion by Director Ward, seconded by Director Cook, after full discussion and with all Directors present voting aye, the Board authorized the Attorney to write a letter responding to Ms. Stewart's demands for granting a water line easement to the District.

THERE BEING NO FURTHER BUSINESS BEFORE THE BOARD, upon motion by Director Bishop, seconded by Director Cook, the meeting was adjourned at 9:55 p.m.

PASSED and APPROVED this the 4th day of November, 2004.

Secretary, Board of Directors

(SEAL)

EXHIBITS

- A - Draft Annual Audit Report
- B - 12-month Natural Gas Price Chart
- C - Operator's Report
- D - Engineer's Report
- E - Attorney's Report
- E-1 - Order Authorizing Bond Application
- E-2 - Republic Waste Services, Inc. Letter
- E-3 - Emergency Service District No. 11 Letter
- E-4 - Order Amending Rate Order