HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 368

MINUTES OF BOARD OF DIRECTORS MEETING

September 16, 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 September 16, 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"); Andrew Dunn, a resident of the District and District liaison with the Harris County Constable's Department (the "Constable's Department"); Richard Lewis of American Enerpower; Johnny Smith of Republic Waste Services, Inc. ("Republic"); 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 6:45 p.m. and declared it open for such business as may come before it.

1. PUBLIC HEARING ON 2004 TAX RATE. The President then declared the public hearing open to discuss the District's proposed tax rate for 2004. Director Lackey recalled that at the August meeting, the Board had voted to propose a debt tax rate of $1.05 per $100 of assessed valuation and an operations/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 the Tax Assessor/Collector to publish notice of the proposed tax rate and the public hearing on such tax rate in a newspaper of general circulation in the area at least seven (7) days prior to tonight's public hearing. Mr. Pawlak then distributed for the Board's review an Affidavit of Publication of 2004 Tax Rate, a copy of which is attached hereto as Exhibit "A," and reported that the tax rate notice had been published as discussed. Ms. Corprew then explained that since there was no public to ask questions concerning the proposed tax rate, the Board could close the hearing and proceed with setting the District's 2004 tax rate. Director Lackey then declared the public hearing closed.

2. ORDER SETTING RATE AND LEVYING TAX FOR 2004. Next, Ms. Corprew presented for the Board's approval an Order Setting Rate and Levying Tax for 2004 regarding the

proposed levy of a debt service tax rate of $1.05 per $100 of assessed valuation and an operations/maintenance tax rate of $0.12 per $100 of assessed valuation, for a total tax rate for the year 2004 of $1.17 per $100 of assessed valuation, a copy of which is attached hereto as Exhibit "B." Ms. Corprew explained that due to new GASB 34 accounting requirements, it is necessary this year to reflect in the minutes at the time such Order is adopted the applicable accounting period for the taxes being levied. Ms. Corprew explained that the debt service tax to be levied at tonight's meeting will be for the calendar year ending December 31, 2005, and that the operations/maintenance tax to be levied will be for the District's fiscal year ending May 31, 2005. Upon motion by Director Bishop, seconded by Director Lackey, after full discussion and with all Directors present voting aye, the Board adopted the Order Setting Rate and Levying Tax for 2004, thereby levying a debt service tax rate of $1.05 per $100 of assessed valuation for the calendar year ending December 31, 2005 and an operations/maintenance tax rate of $0.12 per $100 of assessed valuation for the District's fiscal year ending May 31, 2005, for a total 2004 tax rate of $1.17 per $100 of assessed valuation. Mr. Pawlak then recommended that the Board authorize the Tax Assessor/Collector to forward the District's 2004 tax bills to both the property owners in the District as well as their mortgage companies. Upon motion by Director Bishop, seconded by Director Ward, after full discussion and with all Directors present voting aye, the Board authorized the District's Tax Assessor/Collector to forward the District's 2004 tax bills to both the property owners in the District as well as their mortgage companies.

3. AMENDED DISTRICT INFORMATION FORM. Ms. Corprew then explained that pursuant to Sections 49.452 and 49.455 of the Texas Water Code, as amended, the District is required to amend its District Information Form any time information in such form is revised or updated and, therefore, since the District's 2004 tax rate has been adopted, an amendment to the District Information Form is necessary. Upon motion by Director Bishop, seconded by Director Ward, after full discussion and with all Directors present voting aye, the Board authorized execution and filing of the Amended District Information Form, a copy of which is attached hereto as Exhibit "C," and the District's attorneys to file such amendment in the Harris County Real Property Records and with the Texas Commission on Environmental Quality, as required by law.

4. HARRIS COUNTY CONSTABLE'S DEPARTMENT REPORT. Next, Director Lackey recognized Mr. Dunn, who reviewed the Constable's Report with the Board. Mr. Dunn reported that they are still having problems with theft of the builders' supplies from developer tracts and that KB Home has never provided them with the necessary information or filed any claims for losses.

Mr. Dunn then exited the meeting.

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

6. TAX ASSESSOR/COLLECTOR'S REPORT. Mr. Pawlak then presented the Tax Assessor/Collector's Report, a copy of which is attached hereto as Exhibit "D," and the Top Delinquent Taxpayer List, a copy of which is attached hereto as Exhibit "E," and explained that as of July 31, 2004, the District had collected 98.276% of the 2003 taxes. Mr. Pawlak then

reported that subsequent to the preparation of the Delinquent Taxpayer List, the account listed as A-S 45 Hwy 249 had been paid in full. Further, explained Mr. Pawlak, the Jackson account is showing up with an agricultural exemption although there is a home being constructed and, therefore, he will look into this matter.

Mr. Pawlak next reported that he has received no payments pursuant to the installment agreement with Antoinett Tinkham for the payoff of her 2003 delinquent taxes and asked what action the Board desired. The Board agreed that the District's Delinquent Tax Attorney should call Ms. Tinkham to discuss this matter and make a recommendation to the Board at the October meeting. With regard to the account listed as N O C Inc., Mr. Pawlak reported that although he and the Delinquent Tax Attorney believe such account is actually an old NDC account, the Harris County Appraisal District will not take it off the District's tax roll and that he, therefore, suggests the District pay off such account in order to clear it off the District's books and since the money goes back to the District, it will not cost the District any money. Upon motion by Director Ward, seconded by Director Moerbe, after full discussion and with all Directors present voting aye, the Board approved the Tax Assessor/Collector's Report, the payment of checks reflected therein, and authorized the termination of service for non-payment of delinquent taxes.

7. ORDER APPOINTING TAX ASSESSOR/COLLECTOR. Ms. Corprew then distributed for the Board's consideration the Order Appointing Tax Assessor/Collector, a copy of which is attached hereto as Exhibit "F." Upon motion by Director Bishop, seconded by Director Moerbe, after full discussion and with all Directors present voting aye, the Board adopted the Order Appointing Tax Assessor/Collector.

8. RESOLUTION CONCERNING TAX COLLECTION PROCEDURES. Ms. Corprew then distributed for the Board's consideration the Resolution Concerning Tax Collection Procedures, a copy of which is attached hereto as Exhibit "G," and reviewed the options for the payment of taxes allowed by the Tax Code. Upon motion by Director Bishop, seconded by Director Moerbe, after full discussion and with all Directors present voting aye, the Board adopted the Order Appointing Tax Assessor/Collector.

Mr. Pawlak then exited the meeting.

9. BOOKKEEPER'S REPORT. Mr. Summerlin then presented the Bookkeeper's Report, a copy of which is attached hereto as Exhibit "H," and explained that check numbers 3480 and 3993 being presented for approval are not included on the Report.

Next, Mr. Summerlin suggested amending the District's budget for the fiscal year ending May 31, 2005 at the October Board meeting in order to more closely reflect the District's revenues, and the Board agreed. Director Moerbe then requested Mr. Summerlin include a line item on the Bookkeeper's Report to track the oil royalties.

Mr. Summerlin then distributed for the Board's review the Summary of Security Cash Flow from September 2003 through August 2004, a copy of which is attached hereto as Exhibit "I," and the Estimated Treatment Cost Analysis for the period covering June 2003 through May 2004, a copy of which is attached hereto as Exhibit "J."

Mr. Summerlin then reported that there is no unclaimed property that needs to be reported to the State of Texas this year, and the Board decided to defer the annual review of the District's Investment Policy to the October meeting.

Upon motion by Director Cook, seconded by Director Bishop, 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.

10. ELECTRICITY SERVICE BROKERS. Ms. Corprew then distributed for the Board's review a memorandum regarding electric service brokers, a copy of which is attached hereto as Exhibit "K," and introduced Mr. Lewis of American Enerpower. Mr. Lewis explained the services that his company provides and distributed for the Board's review a handout regarding American Enerpower, a copy of which is attached hereto as Exhibit "L," and a comparison of retail electric provider proposals, a copy of which is attached hereto as Exhibit "M." Mr. Lewis reviewed the materials and explained that should the Board decide to engage his company, the Board should appoint one (1) Director as the District liaison with authority to approve a contract for electric services and execute a Letter of Authorization in order for him to obtain the necessary information to obtain proposals for service. Upon motion by Director Ward, seconded by Director Moerbe, after full discussion and with all Directors present voting aye, the Board authorized the engagement of American Enerpower to obtain bids from electricity service providers and appointed Director Lackey to be the District's liaison and to execute the Letter of Authorization, a copy of which is attached hereto as Exhibit "N."

Mr. Lewis then exited the meeting.

11. REPUBLIC WASTE SERVICES ("REPUBLIC") AGREEMENT. Ms. Corprew next explained that the District had received a request from Republic to include a fuel surcharge on the District's garbage collection services agreement (the "Agreement"), a copy of which is attached hereto as Exhibit "O," and that Mr. Smith had been invited to tonight's meeting to discuss the proposed surcharge and to discuss customer complaints. Director Lackey then recognized Mr. Smith, who presented a Customer Service Work Order List, a copy of which is attached hereto as Exhibit "P." The Board then discussed their concerns about the late night pickup of trash since the Agreement requires all trash be picked up before 7:00 p.m. and that garbage had been left in the street. Mr. Smith agreed to look into the matter and to take any necessary action to correct the problems. Ms. Corprew explained that should the Board approve the surcharge, they should consider amending the District's Rate Order to include the increase. The Board decided to defer a decision regarding the fuel surcharge and to amend the District's Rate Order until the October Board meeting.

Mr. Smith then exited the meeting.

12. CHANGE ORDERS. Next, Ms. Corprew presented the following Change Orders from the District's Engineer, Pate Engineering Inc., for the Board's approval:

a. Water Plant No. 1 Booster Pump Improvements. Director Lackey explained that Change Order No. 1 to the contract with Nunn

Constructors, Ltd. for the Water Plant No. 1 booster pump improvements, a copy of which is attached hereto as Exhibit "Q," is for $4,560 for the changes to the pump room building. Upon motion by Director Ward, seconded by Director Cook, after full discussion and with all Directors present voting aye, the Board approved Change Order No. 1 to Nunn Constructors, Ltd. for the Water Plant No. 1 booster pump improvements.

b. Wastewater Treatment Plant Expansion to .9 Million Gallons Per Day. Next, Director Lackey presented Change Order No. 2 for $47,828.23 and Change Order No. 3 for $4,700.00 to N&S Construction Company, L.L.C. for the Wastewater Treatment Plant expansion to .9 million gallons per day, copies of which are attached hereto as Exhibits "R" and "S," respectively. Upon motion by Director Ward, seconded by Director Cook, after full discussion and with all Directors present voting aye, the Board approved Change Order Nos. 2 and 3 to N&S Construction Company, L.L.C. for the Wastewater Treatment Plant expansion to .9 million gallons per day.

13. ORDER ANNEXING LAND INTO THE DISTRICT. Next, Ms. Corprew presented for the Board's consideration an Order Annexing Land Into the District, a copy of which is attached hereto as Exhibit "T," and explained that the City of Houston has approved the annexation of the 30-acre Claiborne tract into the District and, therefore, such Order is being presented to the Board in order to finalize the annexation of such tract into the District. Upon motion by Director Cook, seconded by Director Ward, after full discussion and with all Directors present voting aye, the Board adopted the Order Annexing Land Into the District.

Mr. Summerlin then exited the meeting.

14. OLD BUSINESS. Ms. Corprew then directed the Board's attention to the following matters for further consideration:

a. Engagement of Andrew Dunn as Security Liaison. The Board discussed compensating Mr. Dunn for the services he provides to the District as the liaison with the Constable's Department. Upon motion by Director Lackey, seconded by Director Ward, after full discussion and with all Directors present voting aye, the Board approved the official engagement of Andrew Dunn as the Security Liaison at a rate of $150 per month.

b. Generator Storage Facility. The Board then discussed the size and location of the District's generator storage facility and the possibility of having a special meeting to visit the proposed site. No action was taken.

c. District Facilities. Director Lackey then reviewed with the Board pictures of the expansion of the District's Wastewater Treatment Plant.

d. Klare Sanitary Control Easement. Next, Ms. Corprew explained that Marvin Klare has requested a letter from the District stating that it would

be willing to consider the annexation of his 6.5-acre tract at some future date as part of the consideration for the acquisition of the sanitary control easement from him. Ms. Corprew presented such letter, a copy of which is attached hereto as Exhibit "U," and the Board authorized her to forward such letter to Mr. Klare upon the receipt of the fully executed easement document.

15. MINUTES. The Board then discussed approval of the minutes of the August 19, 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 August 19, 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 10:30 p.m.

PASSED AND APPROVED this 21st day of October, 2004.

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Secretary, Board of Directors

(SEAL)

EXHIBITS TO MINUTES OF SEPTEMBER 16, 2004 MEETING
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 368

A - Affidavit of Publication of 2004 Tax Rate
B - Order Setting Rate and Levying Tax for 2004
C - Amended District Information Form
D - Tax Assessor/Collector's Report
E - Top Delinquent Taxpayer List
F - Order Appointing Tax Assessor/Collector
G - Resolution Concerning Tax Collection Procedures
H - Bookkeeper's Report
I - Summary of Security Cash Flow
J - Water Treatment Cost Analysis
K - Memorandum from attorneys regarding electric service brokers
L - Handout regarding American Enerpower
M - Comparison of retail electric provider proposals from American Enerpower
N - Letter of Authorization for American Enerpower to obtain necessary information to obtain proposals for service
O - Garbage Collection Services Agreement with Republic
P - Customer Service Work Order List from Republic
Q - Change Order No. 1 to contract with Nunn Constructors, Ltd.
R - Change Order No. 2 to contract with N&S Construction Company, L.L.C.
S - Change Order No. 3 to contract with N&S Construction Company, L.L.C.
T - Order Annexing Land Into the District
U - Letter from Marvin Klare regarding possible future annexation of his 6.5-acre tract