

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 368**

**MINUTES OF BOARD OF DIRECTORS MEETING**

**July 21, 2005**

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 July 21, 2005, 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 at the commencement of the meeting with the exception of Director Ward. Also attending were Mike Plunkett of Eagle Water Management, Inc. ("Operator"); Bob D. Boozer, P.E., of Pate Engineers, Inc. ("Engineer"); David Summerlin of Paula J. Hargis & Associates ("Bookkeeper"); Craig Rathmann of Rathmann & Associates ("Financial Advisor"); Ben Pawlak of Bob Leared Interests Inc. ("Tax Assessor/Collector"); Brannon Boozer of D. R. Horton ("DR Horton"); Anthony White of W. W. Webber Inc. ("Webber"); Cecil Pearson, resident of the District; Lt. W. J. Frizzell and Deputy S. Hardin of Harris County Precinct 4 Constable's Department (the "Constable"); and Andrew P. Johnson, III, attorney and Marian D Henderson, paralegal 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 and declared it open for such business as may come before it at 6:40 p.m.

1. WATER PLANT NO. 2. Mr. Boozer presented the Board with Change Order No. 1 to the construction contract with Industrial TX Corp. for Water Plant No. 2, a copy of which is attached hereto as Exhibit "A," and explained that the main purpose of the revisions to the contract is to prevent large quantities of diesel fuel from being stored on-site, metal building modification, tank dome revisions, modifications to Tank No. 1 and electrical additions, which changes decrease the contract price by \$5,459.94 and extend the completion date of the contract to December 26, 2005. Upon motion by Director Moerbe, seconded by Director Lackey, after discussion and with all Directors present voting aye, the Board approved the Change Order. [Mr. Boozer departed the meeting at this time.]

2. BOND SALE. The President next recognized Mr. Rathmann who presented the Board with the results of the Bond Sale. Mr. Rathmann reported that the District received five (5) bids for its Series 2005 Bonds and qualified for insurance with the AA bond insurer and that each of the bidders had agreed to purchase the bond insurance. Mr. Rathmann then presented the Board with a Cashier's Check drawn on Frost Bank for \$197,800 which represents 2% of the principal amount of the bonds and which amount had been required to be deposited by the underwriters bidding on the bonds to insure that the District deals with serious bidders only. Mr. Rathmann next proceeded with the bid opening and determined that the bid received from the syndicate comprised of RBC Dain Rausher, CitiGroup, UBS Financial and Southwest Securities (collectively, "RBC Dain Rausher") is the lowest bid with a net effective interest rate of 4.74945%. (A copy of each bid is attached hereto as Exhibit "B".) Mr. Rathmann recommended that the District accept the low bid submitted by RBC Dain Rauscher. Finally, Mr. Rathmann stated that he will fill in the interest rates and name of the Underwriters and Bond Insurer and Rating affixed to the Bonds on the Official Statement and make other changes deemed appropriate by the District's Consultants prior to printing and distribution and requested that the Board also approve the final form of Official Statement along with the bid on the bonds. Upon motion by Director Bishop, seconded by Director Cook, after discussion and with all Directors present voting aye, the Board awarded the sale of the bonds to RBC Dain Rauscher and authorized the President and Secretary of the Board to execute and attest, respectfully, the bid sheet and approved the final form of the Official Statement.

With regard to the developers satisfying the requirements for reimbursement pursuant to the terms of their respective Reimbursement Agreements, Mr. Rathmann reported that he has determined that KB Home, DR Horton, and Lennar Homes have more than sufficient value on the ground to support reimbursement and that he is still reviewing the information regarding the New Quest Properties and JEC Texas Ltd. developments.

3. ADOPT BOND ORDER. Mr. Johnson next presented the Board with an Order Authorizing Issuance of \$9,890,000 Unlimited Tax Bonds, Series 2005; A Transfer and Paying Agent/Registrar Agreement; And Other Matters In Connection Therewith (the "Bond Order"), and explained that the Bond Order is the District's contract with the bondholders. Mr. Johnson further stated that the Board's adoption of the Bond Order also carries along with it the approval of various certificates and agreements all of which will be used to complete the sale of the bonds and to gain approval of the sale of the bonds from the Attorney General of the State Texas. Upon motion by Director Moerbe, seconded by Director Cook, after discussion and with all Directors present voting aye, the Board adopted the Bond Order and accompanying bond documents.

4. PUBLIC COMMENTS. The President next recognized Mr. Cecil Pearson, a resident of the District who stated that he just purchased a home at 18906 Piney Bend Court in Northpoint East, Section 2. Mr. Pearson requested that the District construct a concrete slab and wrought-iron fence at the back of his property along the drainage ditch to prevent small children from falling into the drainage ditch. Mr. Johnson stated that while the Board could listen to Mr. Pearson's comments, they could not take

any action because the matter is not on the agenda. Director Lackey requested that the matter be placed on the August 4<sup>th</sup> Agenda.

5. APPROVE MINUTES. The Board deferred approval of the minutes until the August 4, 2005 meeting.

6. TAX ASSESSOR/COLLECTOR'S REPORT. The President next recognized Mr. Pawlak who presented the Tax Assessor/Collector's Report, a copy of which is attached hereto as Exhibit "C". Mr. Pawlak reported that the District's 2004 taxes had been 97.1% collected as of June 30, 2005. Upon motion by Director Cook, seconded by Director Bishop, after discussion and with all Directors present voting aye, the Board approved the Tax Assessor/Collector's Report as presented.

7. BOOKKEEPER'S REPORT. Mr. Summerlin next presented the Bookkeeper's Report, a copy of which is attached hereto as Exhibit "D". Mr. Summerlin reported that the District added approximately 35-40 connection so that the security cash flow is improving. Mr. Summerlin also reported that he is still holding the refund to DR Horton since Mr. Boozer indicated that there was still a small amount to be billed against the deposit. Upon motion by Director Bishop, seconded by Director Cook, after discussion and with all Directors present voting aye, the Board approved the Bookkeeper's Report as presented.

8. TEMPORARY SERVICE REQUEST. The President next recognized Mr. White who requested temporary water service from the District for the Webber construction project outside the boundaries of the District. Mr. White requested a tap with a 2" meter and stated that his best guess is that he will need the tap for 12 to 18 months. Director Lackey stated that Mr. Boozer has indicated that providing the temporary water service could prove beneficial to the District as it will keep the water circulated in that particular loop and provide fresher water to the end users. Mr. Johnson reviewed the District's Rate Order and determined that it will need to be amended to provide for this type of service and suggested he prepare a letter agreement between the District and Webber for out-of-district service.

9. INTERCONNECT AGREEMENT WITH NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 15 ("NW15"). Mr. Plunkett next presented the Board with a spreadsheet showing the estimated treatment costs for water supplied by the District for the period covering June 2003 through May 2004, a copy of which is attached hereto as Exhibit "E". Mr. Plunkett explained that the spreadsheet shows that the cost of water being provided through the interconnect is more expensive than the rate charged by the District pursuant to its Agreement with NW15. Discussion ensued, and the Board directed the District's Attorney to amend the Agreement and suggest a \$1.25 rate on a per 1000 gallon basis plus regulatory fees. [Director Ward entered the meeting during the discussion.]

10. RESOLUTION ADOPTING POLICIES FOR CAPITALIZATION AND DEPRECIATION OF DISTRICT ASSETS. Mr. Johnson next presented the Board with a Resolution Adopting Policies for Capitalization and Depreciation of District Assets, a

copy of which is attached hereto as Exhibit "F". Upon motion by Director Bishop, seconded by Director Ward, after discussion and with all Directors present voting aye, the Board adopted the Resolution as presented.

11. REPAIRS. Mr. Plunkett reported that there had been some type of communication problem with the equipment and repairs had to be made to the booster pumps. Mr. Plunkett also noted that there have been problems with the motors continuously coming on and off.

12. CONSTABLE'S REPORT. Director Lackey then recognized Lt. Frizzell who introduced himself and reported that he is the new lieutenant on duty during the evening shift. Lt. Frizzell then reviewed the Constable's Report with the Board.

[Lt. Frizzell and Deputy Harding then exited the meeting.]

13. OLD BUSINESS. The Board discussed the following:

- a. District Maintenance Building. Director Moerbe reported the plans are almost ready for approval.
- b. District Website. The Board agreed that they should include an announcement on the District's website about the TCEQ awarding the District's water supply with a superior water rating.

14. MISCELLANEOUS. Director Lackey addressed the Board regarding pending changes in the diesel operating fuel regulations and stated that he had received a letter from a law firm in Austin that is trying to get the legislation deferred. Director Lackey stated that there are two critical areas of concern with respect to the impact the proposed diesel fuel requirement might have on the District's diesel engines: (1) no documentation from the engine manufacturer that the new blended diesel fuel would produce the same power; and (2) there is no data given on the wear and tear the new blended diesel fuel would have on the engine and how it would affect warranties. Discussion ensued and it was the consensus of the Board that they should request Cummings Manufacturing to run an analysis to see what effect the new blended fuel would have on the District's motors. The Board also requested Mr. Johnson to make inquiries regarding the legislation.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, upon motion by Director Cook, seconded by Director Bishop, with all Directors present voting aye, the President adjourned the meeting at 8:59 p.m.

Passed and approved this 4th day of August 2005.

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Secretary, Board of Directors

**EXHIBITS:**

- A - Change Order
- B - Bids for Series 2005 Bonds
- C - Tax Assessor/Collector's Report
- D - Bookkeeper's Report
- E - Estimated Water Treatment Costs
- F - Resolution Adopting Policies For Capitalization and Depreciation of District  
Assets