

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 368

MINUTES OF BOARD OF DIRECTORS MEETING

October 20, 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 October 20, 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:

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

All members of the Board were present. Also attending were David Summerlin and Wendee Gamble of P. J. Hargis & Associates ("Bookkeeper"); Ben Pawlak of Bob Leared Interests ("Tax Assessor/Collector"); Mike McCall of McCall, Gibson & Company ("Auditor"); Andrew Dunn, Harris County Constable's Department ("Constable's Department") liaison; Allison Dunn, resident of the District; 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 6:43 p.m. and declared it open for such business as may come before it.

1. PUBLIC HEARING ON 2005 TAX RATE. The President then declared the public hearing open to discuss the District's proposed tax rate for 2005. Director Lackey recalled that at the September 15, 2005 meeting, the Board voted to propose a tax rate of \$1.02 per \$100 of assessed valuation for debt service purposes and \$0.12 per \$100 of assessed valuation for operations and maintenance purposes for a total 2005 tax rate of \$1.14 per \$100 of assessed valuation, and to authorize the District's Tax Assessor/Collector to publish notice (the "Notice") of the proposed tax rate and the public hearing on such tax rate in the "This Week" section of the *Houston Chronicle* at least seven (7) days prior to tonight's public hearing. Mr. Pawlak then distributed for the Board's review an Affidavit of Publication concerning the publication of the Notice, a copy of which is attached hereto as Exhibit "A", and reported that the Notice had been published as discussed. Director Lackey inquired if anyone from the general public desired to speak, to which no one responded. Ms. Corprew then explained that since there were no comments from the public concerning the proposed tax rate, the Board could close the hearing and proceed with setting the District's 2005 tax rate. Upon motion by Director Bishop, seconded by Director Cook, with all Directors present voting aye, the President declared the public hearing closed.

2. PUBLIC COMMENT. There was no public comment.

3. TAX ASSESSOR/COLLECTOR'S REPORT. The President then recognized Mr. Pawlak who presented and reviewed with the Board the Tax Assessor/Collector's Report, a copy of which is attached hereto as Exhibit "B". 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.

4. ORDER SETTING TAX RATE AND LEVYING TAX FOR 2005. Next, Ms. Corprew presented for the Board's approval an Order Setting Rate and Levying Tax for 2005 regarding the proposed levy of a tax rate of \$1.02 for debt service purposes and a tax rate of \$0.12 per \$100 of assessed valuation for operations and maintenance, for a total 2005 tax rate of \$1.14 per \$100 of assessed valuation, a copy of which is attached hereto as Exhibit "C". Ms. Corprew explained that due to Governmental Accounting Standards Board Statement No. 34 ("GASB 34") accounting requirements, it is necessary 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, 2006, and that the operations/maintenance tax to be levied will be for the District's fiscal year ending May 31, 2006. Upon motion by Director Cook, seconded by Director Bishop, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Order Setting Rate and Levying Tax for 2005, thereby levying a debt service tax rate of \$1.02 per \$100 of assessed valuation for the calendar year ending December 31, 2006, and an operations/maintenance tax rate of \$0.12 per \$100 of assessed valuation for the District's fiscal year ending May 31, 2006, for a total 2005 tax rate of \$1.14 per \$100 of assessed valuation.

5. AMENDED DISTRICT INFORMATION FORM. Ms. Corprew then explained that pursuant to Section 49.452 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 2005 tax rate has been adopted, an amendment to the District Information Form is necessary. Upon motion by Director Cook, seconded by Director Lackey, after discussion and with all Directors present voting aye, the Board approved the Amended District Information Form, a copy of which is attached hereto as Exhibit "D", and authorized the District's Attorney to file same in the Real Property Records of Harris County and with the Texas Commission on Environmental Quality, as required by law.

6. ORDER APPOINTING TAX ASSESSOR/COLLECTOR. Ms. Corprew next presented the Board with an Order Appointing Tax Assessor/Collector, a copy of which is attached hereto as Exhibit "E". Upon motion by Director Bishop, seconded by Director Cook, after discussion and with all Directors present voting aye, the Board adopted the Order Appointing Tax Assessor/Collector as presented.

7. RESOLUTION CONCERNING TAX COLLECTION PROCEDURES. Ms. Corprew then presented the Board with a Resolution Concerning Tax Collection Procedures, a copy of which is attached hereto as Exhibit "F", explaining that the Resolution provides that the District may reject certain billing and collection practices such as split payments, discounts

for early payments and minimum bills, while authorizing the Tax Assessor/Collector to send duplicate bills to properties where the statement is addressed to a mortgage company rather than the homeowner. Upon motion by Director Cook, seconded by Director Bishop, after discussion and with all Directors present voting aye, the Board adopted the Resolution as presented.

8. AUDIT REPORT. The President next recognized Mr. McCall who presented and reviewed with the Board a draft of the Annual Financial Report for Fiscal Year Ended May 31, 2005 (the "Audit Report"), a copy of which is attached hereto as Exhibit "G". Mr. McCall explained that due to the new requirements of GASB 34, there have been several changes in the audit format, the most significant being that the District is required to report its financial activity on a full accrual and consolidated basis instead of a cash basis on its governmental-wide financial statements and the addition of the Managements Discussion and Analysis which begins on page 3 of the Audit Report. Mr. McCall then reviewed the Audit Report with the Board. Upon motion by Director Bishop, seconded by Director Cook, after discussion and with all Directors present voting aye, the Board approved the Audit Report, to authorize the President to execute the Annual Filing Affidavit and to authorize the District's attorney to file such audit and Affidavit with the appropriate governmental authorities.

[Andrew Dunn entered the meeting at this time.]

9. CONSTABLE'S REPORT. The President next recognized Mr. Dunn, who presented and reviewed with the Board the Harris County Constable's Report of security patrols in the District.

[Mike McCall departed the meeting during this report.]

Director Lackey then informed the Board that the water meter at the home of Ms. Jenkins, the resident who attended the September 15th meeting inquiring about special provisions for residents who had taken in Hurricane Katrina evacuees in their homes, had been tampered with and apparently broken. Director Lackey explained that the meter has been replaced and the Operator is going to bill Ms. Jenkins for the new meter and bill her for service based on her average water usage since the meter only registered 1000 gallons since the last read.

[Director Ward entered the meeting at this time.]

10. EXECUTIVE SESSION. At 7:40 p.m., the President called an Executive Session pursuant to 551.071(a)(1) to seek legal advice from the Attorney. All attendees were dismissed, with the exception of the Board, the Attorney and Mr. Dunn. At 7:52 p.m., the President declared the Executive Session over and reconvened the meeting in open session, whereby Director Lackey announced that the Board has decided, and Mr. Dunn has agreed, that Mr. Dunn will no longer be paid for his services as the District's liaison to the Constable's Department.

11. LETTER TO CUSTOMERS. Director Lackey next suggested he write a letter to be included in the Customers' next water/sewer service bills and to be posted on the District's website regarding the reduction in the water rate and tax rate, the new superior water rating of the District's water supply, and how well the District's facilities held up during Hurricane Rita. Director Bishop stated that she would like the opportunity to review such letter prior to it going

out and that she would also like for the Attorney to review it before it is sent out and included on the District's website.

12. BOARD VACANCY. With respect to the vacancy on the District's Board, Director Lackey informed Ms. Dunn that since she is related to Mr. Dunn, the District's liaison to the Constable's Department, there is a potential issue relating to the nepotism laws. Ms. Corprew explained that in order for her to be appointed to the Board, she will need to follow certain requirements, including abstaining from voting on any matters involving Mr. Dunn. Upon motion by Director Cook, seconded by Director Ward, after discussion and with all Directors present voting aye, the Board voted to appoint Allison Dunn to the Board to fill the vacancy created by Drexel Moerbe's disqualification. Ms. Corprew stated that the matter would be placed on the next agenda and Ms. Dunn's official appointment and swearing in would take place at the November 3, 2005 meeting.

13. MINUTES. The Board next considered approval of the minutes of the September 15, 2005 Board meeting. Upon motion by Director Bishop, seconded by Director Cook, after discussion and with all Directors present voting aye, the Board approved the minutes subject to corrections.

[Andrew and Allison Dunn departed the meeting at this time.]

14. BOOKKEEPER'S REPORT. Director Lackey next recognized Mr. Summerlin, who presented the Bookkeeper's Report, a copy of which is attached hereto as Exhibit "H". Mr. Summerlin reported that he is still holding the check to A-S 45 Hwy. 249 – Boudreaux, L.P. ("A-S 45") from the District's Capital Projects Fund for their reimbursement under the Series 2005 Bonds. Ms. Corprew reported that A-S 45 still has not cured the title issues and that Craig Rathmann, the District's Financial Advisor, informed her earlier this week that he has not received sufficient information from A-S 45 to prove that they qualify for the reimbursement. Furthermore, Ms. Corprew explained that her office has determined that the District does not have legal access to the Parkway Detention Basin due to a 1' reserve around three (3) sides of the property and there being no road on the other side. Discussion ensued and it was decided that it would better for the District not to maintain the Basin until these matters are resolved. Also, the Board stated that it would like to put a time limit on the reimbursement to A-S 45 from the Series 2005 Bond funds.

Then, Director Bishop suggested that the District's funds be diversified. The Board agreed that Mr. Summerlin should set up an account with JP Morgan Chase Bank ("Chase") and move \$500,000 from the District's General Fund account with TexPool and \$900,000 from the District's Capital Projects Fund account with Wells Fargo Bank into such account with Chase.

Upon motion by Director Bishop, seconded by Director Ward, after discussion and with all Directors present voting aye, the Board approved the Bookkeeper's Report, as presented, and the moving of the District's funds, as discussed.

[Mr. Summerlin and Ms. Gamble departed the meeting at this time.]

15. ANNUAL CONTINUING DISCLOSURE FILING. Next, Ms. Corprew stated that the District has an obligation under its Bond Orders, which serve as a contract between the District and its bondholders, to provide an annual update of the District's financial condition to the national and state repositories designated for same. Ms. Corprew stated that she is requesting that the Board authorize the Attorney and Financial Advisor to prepare the annual filing which has to be filed not later than 180 days after the District's fiscal year end. Upon motion by Director Cook, seconded by Director Bishop, after discussion and with all Directors present voting aye, the Board authorized the preparation of the Annual Continuing Disclosure Filing.

16. COBBLESTONE ANNEXATION PETITIONS. Ms. Corprew reported that her office is still awaiting comments from Cobblestone Construction, Inc. ("Cobblestone") to complete the annexation documents relating to the proposed annexation of a 33-acre tract.

17. STRATEGIC PARTNERSHIP AGREEMENT. Ms. Corprew then reported that the City of Houston (the "City") is entertaining another round of Strategic Partnership Agreement ("SPA"), then explained the advantages and disadvantages available to the District of pursuing an SPA. Ms. Corprew explained that a SPA would provide for: (1) the City to annex the commercial areas of the District for limited purposes only; (2) the City to impose a \$0.01 sales and use tax in commercial areas within the District, of which the District would receive a rebate of fifty percent (50%); and (3) the City's agreement not to annex the District for thirty (30) years. Ms. Corprew asked the Directors if they would be interested in participating in an SPA with the City. Discussion then ensued. Upon motion by Director Cook, seconded by Director Bishop, after discussion and with all Directors present voting aye, the Board authorized the Attorney to proceed with the SPA and the Engineer to prepare the map of the commercial areas.

18. MAINTENANCE OF CHAMPIONS GLEN SANITARY FORCE MAIN EASEMENT. Director Lackey then reported that he has received customer complaints regarding the tall grass along the easement. Director Lackey further reported that he went by the easement and that there is no fence along the property. The Board decided to take no action since the District does not have surface rights to maintain the easement.

19. COBBLESTONE UTILITY COMMITMENT. Ms. Corprew next presented the Board with a Utility Commitment Letter prepared by the District's Engineer for the Cobblestone development project. Upon motion by Director Bishop, seconded by Director Cook, after discussion and with all Directors present voting aye, the Board approved the Utility Commitment Letter, a copy of which is attached hereto as Exhibit "I".

20. BOUNDARY MAP. Finally, Ms. Corprew presented the Board with a new boundary map showing the latest annexations and including the proposed 33-acre Cobblestone Annexation tract as prepared by the District's Engineer. Upon motion by Director Ward, seconded by Director Bishop, after discussion and with all Directors present voting aye, the Board approved the new boundary map and authorized the execution of same.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, the meeting was adjourned at 9:07 p.m.

Passed and approved this 17th day of November, 2005.

Secretary, Board of Directors

EXHIBITS:

- A - Affidavit of Publication of Notice of Hearing
- B - Tax Assessor/Collector's Report
- C - Order Setting Rate and Levying Tax for 2005
- D - Amended District Information Form
- E - Order Appointing Tax Assessor/Collector
- F - Resolution Concerning Tax Collection Procedures
- G - Draft Audit Report
- H - Bookkeeper's Report
- I - Utility Commitment Letter for Cobblestone