

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 368

MINUTES OF BOARD OF DIRECTORS MEETING

February 2, 2006

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 February 2, 2006, 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
Michael J. Ward	Treasurer
Allison Dunn	Assistant Secretary

All members of the Board were present. Also attending were Mike Plunkett of Eagle Water Management, Inc. ("Operator"); Teague Harris, Eric Johnson and Mark Stendahl of Pate Engineers, Inc. ("Engineer"); David McGowen and Teala Hurley of KB Home Houston ("KB"); A. J. Sullivan of Willows Falls Development, Ltd. ("WFD"); Cary Dunham of Dungrove, LLC ("Dungrove"); Craig Rathmann of Rathmann & Associates ("Financial Advisor"); David Haynes of Industrial TX Corp. ("Industrial"); Eric Stevens, resident of the District; and Andrew P. Johnson, III and Kaye C. Corprew, attorneys, 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 7:00 p.m.

1. APPROVE MINUTES. The Board first considered approval of the minutes of the January 5, 2006 meeting. Upon motion by Director Bishop, seconded by Director Cook, after discussion and with all Directors present voting aye, the Board approved the minutes as presented.

2. PUBLIC COMMENTS. There were no public comments.

3. PAYMENT OF INVOICES. No invoices were presented for payment.

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 "A". Mr. Plunkett reviewed the monthly Operations Report and then presented the Termination List and the following discussion items:

a. Repairs. First, Mr. Plunkett reported that the sidewalk and gate access walk has been installed at the District's Wastewater Treatment Plant; however he is still waiting on quotes for the repairs to the roofs of the control buildings at the Water Plant and the Wastewater Treatment Plant. Mr. Plunkett also reported that the repairs to booster pump no. 2 at Water Plant No. 1 are just about complete and recalled that such work is under warranty.

b. Request for Service. Next, Mr. Plunkett reported that he had had spoken with David Roe of Water District Management, the operator for Harris County Municipal Utility District No. 281 ("No. 281"), who stated that No. 281 is preparing to undertake some rehabilitation work on its water well (the "Rehab Project") that will take 10 to 30 days to complete and that they would like to obtain water through the District's interconnect with Northwest Harris County Municipal Utility District No. 15 ("NW15") to serve its 1700 connections while the Rehab Project is being done. Mr. Plunkett stated that the District should have sufficient capacity to serve No. 281 without any problems. Ms. Corprew stated that she had received a letter from the No. 281 attorney to NW15 regarding the request, a copy of which is attached hereto as Exhibit "B". Ms. Corprew added that according to the letter, No. 281 is requesting only a portion of the water they will need from the District and that they will obtain the rest from NW15. Discussion ensued regarding the nature of the Rehab Project by No. 281 and the duration. Upon motion by Director Bishop, seconded by Director Cook, after discussion and with all Directors present voting aye, the Board authorized the Attorney to communicate that the District is willing to supply a maximum of 600,000 gallons per day of water through the NW 15 interconnect for the benefit of No. 281 pursuant to the terms of the Emergency Water Supply Agreement by and between the District and NW15 for a period not to exceed 60 days commencing Monday, February 6, 2006.

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

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

a. Engineer's Action Items. Mr. E. Johnson explained that the District's Engineer is requesting the following actions be taken by the Board at tonight's meeting: (1) approve addition of Ashford Place Detention Basin for the District's maintenance program; (2) approve Pay Application No. 2 and Pay Application No. 3 for Ashford Place, Section 3, water distribution, sanitary sewer and drainage facilities submitted by Clearwater Utilities in the amount of \$26,007.58 and \$8,931.81, respectively; (3) approve Progress Payment No. 11 and Final in

the amount of \$15,697.08 submitted by Kenneth Lamb Construction Company for Northern Point, Section 3, water distribution, sanitary sewer and drainage facilities; and (4) approve Progress Payment No. 4 in the amount of \$18,989.95 submitted by C. E. Barker, Ltd. for Northern Point, Section 5, water distribution, sanitary sewer and drainage facilities (collectively referred to herein as the "Engineer Action Items").

b. Water Plant No. 2. Next, Mr. E. Johnson reported that as of February 1, 2006, the project had been approximately 85% complete with only minor electrical work on the Motor Control Center, programming of the SCADA system and installation of exhaust fans at the ground storage tank needing to be done.

c. Water Quality Monitoring. Mr. E. Johnson then directed the Board's attention to the Summary Table for Water Well Nos. 2, 3 and 4 attached to the Engineer's Report and explained that the Table shows that there had been no detectable amounts of benzene, ethyl benzene, toluene or xylene in the water samples taken on January 11, 2006.

d. Proposed Emergency Water Interconnect with NW15, No. 281 and Harris County Municipal Utility District No. 282 ("No. 282"). With regard to the proposed emergency water interconnect, Mr. E. Johnson reported that NW15's engineer has agreed to determine a suitable site for the meter vault on the west side of Hwy 249 and that he will also prepare the construction plans and bid the work required to upsize the meter and vault. Ms. Corprew explained that this is premature since there is no written agreement between NW15, No. 281 and No. 282 regarding the relocation of the water meter and vault and the upgrade of the interconnect to allow service to No. 281 and No. 282.

e. Proposed Emergency Water Interconnects with Harris County Municipal Utility District No. 119 and No. 367. Director Lackey then inquired about the status of discussions with Harris County Municipal Utility District No. 119 and No. 367 regarding proposed emergency interconnects with the District. Mr. E. Johnson stated that he would have to look into the matter.

Director Ward then asked about the status of the Engineer since Mr. Bob D. Boozer is no longer with Pate Engineers, Inc. ("Pate") and since there are three (3) engineers from Pate present at this meeting. Mr. Stendahl responded that he would be handling matters involving the District's water plants and wastewater treatment plant and that Mr. E. Johnson would be handling the land development side under the guidance of Mr. Harris. Upon motion by Director Bishop, seconded by Director Ward, after discussion and with all Directors present voting aye, the Board approved the Engineer's Report and the Engineer Action Items.

6. DEVELOPERS' REPORTS. Director Lackey then recognized the developers in attendance, and Mr. Sullivan reported that 158 houses have been completed and/or are under construction in Sections 1 and 2 in the Willow Falls Subdivision. Mr. McGowen introduced

Ms. Teala Hurley of KB in the sales department and stated that she would be attending the Board's meetings with him from time to time. Mr. McGowen then reported that KB has closed a total of 246 homes in the Northern Point Subdivision as of January 31, 2006, and has added a park to such subdivision.

7. ATTORNEY'S REPORT. Director Lackey next recognized Ms. Corprew, who yielded the floor to Mr. Rathmann to discuss the District's proposed Series 2006 Refunding Bond Issue (the "Refunding Bonds"). Mr. Rathmann presented and reviewed with the Board, cash flows detailing the effects the proposed Refunding Bonds would have on the District's debt service and tax rate, a copy of which is attached hereto as Exhibit "D". Discussion ensued regarding the timing of the refunding and the true savings generated as a result. Mr. Rathmann next directed the Board's attention to the draft of the Preliminary Official Statement ("POS"), a copy of which is attached hereto as Exhibit "E". Director Lackey noted several corrections to the section describing the facilities. Mr. Rathmann encouraged the Directors to read over the document over the next few days and call, fax or email him with any changes they deemed appropriate. At this time, Mr. Rathmann yielded the floor to Mr. A. Johnson who continued with the Attorney's Report as follows:

a. Order Adopting Preliminary Official Statement ("POS"), Authorizing Distribution Thereof; and Other Matters Relating to Issuance of Series 2006 Refunding Bonds. Mr. Johnson first explained that in order for the District to proceed with the Refunding Bonds, the Financial Advisor requires authorization from the Board to distribute the POS which will serve as a marketing tool for underwriters to attract prospective bondholders. Upon motion by Director Lackey, seconded by Director Bishop, with all Directors present voting aye, the Board adopted the Order Adopting Preliminary Official Statement, Authorizing Distribution Thereof, a copy of which is attached hereto as Exhibit "F".

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

b. Resolution Appointing Authorized Representative and Alternate Authorized Representative to Act on Behalf of the Board in Connection with the Sale of the Series 2006 Refunding Bonds. Mr. Johnson next explained that due to the nature and timing of the transactions surrounding the bond issuance, the Board should designate one (1) or two (2) Directors to approve the price, interest rates, interest payment periods and other terms and procedures relating to the Refunding Bonds. Discussion ensued as to the availability of each of the Directors to perform on short notice. Upon motion by Director Cook, seconded by Director Lackey, with all Directors present voting aye, the Board adopted the Resolution, a copy of which is attached hereto as Exhibit "G", naming Director Dunn as the Authorized Representative, with Directors Bishop and Lackey as Alternate Authorized Representatives.

c. Bond Order With Respect to Sale of Series 2006 Refunding Bonds. Mr. Johnson next explained that the Bond Order is the District's contract with the bondholders in that it sets forth the deal points, price, interest rates, interest

payment dates and maturity schedule for the Refunding Bonds as well as the covenants of the District relating to operations and to continuing financial disclosure. To that end, Mr. Johnson presented the Board with an Order Authorizing Issuance of \$6,880,000 Unlimited Tax Refunding Bonds, Series 2006, a copy of which is attached hereto as Exhibit "H". Upon motion by Director Lackey, seconded by Director Cook, after discussion and with all Directors present voting aye, the Board adopted the Order as presented.

[Mr. Rathmann, Mr. McGowen and Ms. Hurley departed the meeting at this time.]

d. Reimbursement to NewQuest Properties for Development of the Parkway Chevrolet Property. Ms. Corprew stated that there are still some issues that need to be resolved prior to releasing the reimbursement to the developer.

e. Public Hearing on Petitions for Annexation With Respect to the 33-Acres. Ms. Corprew next presented to the Board for approval a Petition for Annexation of Land Into District from Dungrove, L.L.C. and Douglas Lloyd, LP, owners of title to three (3) tracts totaling 33.005 acres. Ms. Corprew explained that such Petition is addressed to the District and requests that the District agree to annex the 33.005 acres. After noting that no one from the general public was in attendance at the hearing to discuss the proposed annexation of the 33.005 acres, upon motion by Director Cook, seconded by Director Bishop, after discussion and with all Directors present voting aye, the Board agreed to annex the 33.005 acres into the District and to approve the Petition for Annexation of Land Into District, a copy of which is attached hereto as Exhibit "I." Ms. Corprew then presented for the Board's approval a Petition for Consent to Annex Land into the District, a copy of which is attached hereto as Exhibit "J," and explained that such Petition is addressed to the City of Houston (the "COH") and is from the owners of the 33.005 acres and the District. Upon motion by Director Cook, seconded by Director Bishop, after discussion and with all Directors present voting aye, the Board approved the Petition for Consent to Annex Land into the District and authorized the Attorneys to forward such Petitions to the COH for approval.

f. Negotiations with Contractor for Water Plant No. 2. The President next recognized Mr. Haynes who stated that he would like to try and resolve the aesthetics issue the Board has with regard to the ground storage tanks (the "GSTs") at the new Water Plant No. 2 and to see whether or not he and the District could come to some sort of resolution of the situation without litigation. Mr. Haynes stated that he had received a quote from a very reputable paint company and that he proposes to paint the two (2) GSTs for a cost of \$12,000 per GST, plus he is willing to give the District an additional \$24,000 for a second paint job in the future. Discussion ensued regarding the painting that Mr. Haynes proposed to do, and Director Ward asked about the life expectancy of the proposed paint job to which Mr. Haynes replied 10-15 years. Mr. Johnson stated

that the Board would discuss the matter in closed session and get back to him.
[Mr. Haynes departed the meeting at 9:02 p.m.]

g. Amendment to Emergency Water Supply Agreement with NW15.
Ms. Corprew stated that, as discussed above, the Agreement will not be amended in order to serve No. 281 with temporary service; however, should NW15, and Nos. 281 and 282 desire to share an emergency interconnect, a new Emergency Water Supply Agreement will need to be drafted. No such Agreement has yet been discussed between the attorneys for the district's, Ms. Corprew explained, although she has informed such attorneys that the engineers for the districts have discussed such an agreement.

h. Application to City of Houston for a Strategic Partnership Agreement.
Ms. Corprew stated that she has nothing new to report.

8. EXECUTIVE SESSION. At 9:14 p.m., the President called an Executive Session pursuant to 551.071(a)(1) to seek advice from counsel regarding a settlement offer and potential litigation concerning the District's contract with Industrial to construct Water Plant No. 2. All attendees were dismissed, with the exception of the Board, Engineers and Attorneys. At 9:35 p.m., the President declared the Executive Session over, reconvened the meeting in open session with no action being taken .

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, upon motion, the meeting was adjourned at 9:36 p.m.

Passed and approved this 2nd day of March, 2006.

Secretary, Board of Directors

EXHIBITS:

- A - Operator's Report
- B - SPH letter re No. 281 regarding temporary service
- C - Engineer's Report
- D - Cash Flows
- E - Preliminary Official Statement
- F - Order Adopting Preliminary Official Statement
- G - Resolution Appointing Authorized Representative
- H - Order Authorizing Issuance of Refunding Bonds
- I - Petition to Annex Land Into District (33.005 acres)
- J - Petition for Consent to Annex Land into the District (33.005 acres)