

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 368

MINUTES OF BOARD OF DIRECTORS MEETING

March 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 March 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 Denise Braeboy of Eagle Water Management, Inc. ("Operator"); Eric Johnson of Pate Engineers, Inc. ("Pate" or "Engineer"); David McGowen and Teala Hurley of KB Home Houston ("KB"); Cary Dunham of Dungrove, LLC ("Dungrove"); and Andrew P. Johnson, III and Kaye C. Corprew, attorneys, and Marian D. Henderson, paralegal, of Johnson Radcliffe Petrov & Bobbitt PLLC ("JRPB" or "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 6:52 p.m.

1. PUBLIC COMMENTS. There were no public comments.
2. APPROVE MINUTES. The Board first considered approval of the minutes of the February 2, 2006 meeting. Upon motion by Director Cook, seconded by Director Bishop, after discussion and with all Directors present voting aye, the Board approved the minutes as presented.
3. PAYMENT OF INVOICES. No invoices were presented for payment.
4. OPERATOR'S REPORT. The President next recognized Ms. Braeboy who presented the monthly Operations Report, a copy of which is attached hereto as Exhibit "A". Ms. Braeboy reviewed the monthly Operations Report, reporting that the District had a water accountability of 98.27% with 2,653 connections, and then presented the Termination List. Director Lackey updated the Board on the status of the quotes from Shaw Services to replace the roofs at the Wastewater Treatment Plant and Water Plant No. 1 as well as the rotted wood under

the eaves. Director Lackey stated that the Operator had requested a couple of more bids and that they had not received the bids prior to the meeting as expected. Discussion ensued and it was the consensus of the Board that they table approval of the bids for both the roof at the Water Plant and Wastewater Treatment Plant until the April meeting. Upon motion by Director Cook, seconded by Director Dunn, 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 "B". 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 revised Pay Estimate No. 3 in the amount of \$8,931.81 submitted by Clearwater Utilities for Ashford Place, Section 3, water distribution, sanitary sewer and drainage facilities; (2) approve Progress Payment No. 24 and Final in the amount of \$59,103.08 submitted by Reddico Construction Company for Northern Point, Section 1, water distribution, sanitary sewer and drainage facilities; and (3) approve Utility Commitment request for Phase 1 of the Northpointe East Commercial Development (collectively referred to herein as the "Engineer Action Items").
- b. Wastewater Treatment Plant Expansion. Mr. E. Johnson reported Mr. Mark Stendahl, P.E., of Pate is currently working on the proposal for the next phase of the Wastewater Treatment Plant Expansion and will forward it to the Board prior to the mid-month meeting.
- c. Water Plant No. 2 (Industrial TX Corp.). Discussion regarding the Water Plant No. 2 construction project by Industrial TX Corp. ("Industrial") was tabled for Executive Session later in the meeting.
- d. Emergency Interconnects.
 - i. Harris County Municipal Utility District No. 367 ("No. 367"). Mr. E. Johnson reported that he had contacted the engineer for Glennloch Farms (No. 367) and that he had no objection to an interconnect with the District. No. 367's engineer stated that the District would have to cross the existing railroad in order to make the interconnect with No. 367.
 - ii. Harris County Water Control and Improvement District No. 119 (Memorial Springs) ("WCID 119"). Mr. E. Johnson also reported that he had contacted the engineer for WCID 119 and that he was also very favorable to having an interconnect with the District.

- e. District Maintenance Building. Mr. E. Johnson stated that he is still waiting on certain specifications before advertising for bids for the project.

[Ms. Braeboy departed the meeting at this time.]

Upon motion by Director Dunn, seconded by Director Bishop, after discussion and with all Directors present voting aye, the Board approved the Engineer's Report and the Engineer Action Items.

6. DEVELOPERS' REPORTS. Mr. McGowen reported that construction and home sales in Northern Point were on schedule in that there had been 322 sales and a total of 292 starts to date.

Mr. E. Johnson stated that Santikos Investments, Inc. is proceeding with plans for development of the 11.33-acre commercial tract. Discussion ensued regarding the businesses that the developer is negotiating with to lease space to in the commercial center.

Mr. Dunham reported that he has a hotel interested in a portion of the 33-acre tract that he and Mr. Hargrove are developing.

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

7. ATTORNEY'S REPORT. The President next recognized Ms. Corprew, who presented the Attorney's Report, as follows:

- a. Agreement with Harris County Relating to Lease of Electronic Voting Machines. Ms. Corprew reminded the Board that the new federal voting requirements provide that the District must utilize electronic voting machines in conducting its elections and in order to comply with the law, the most economical way to comply is to lease the machines from Harris County. Ms. Corprew went on to report that Harris County has not yet determined the costs at which they will lease the equipment to the District nor has it furnished a copy of the Agreement. Therefore, Ms. Corprew suggested that the Board table this matter, as well as the next agenda item, authorizing payment to Harris County for the lease of the voting machines until the next meeting.

[Director Ward entered the meeting at this time.]

- b. Reimbursement to Developer of the Parkway Chevrolet Property. Ms. Corprew stated that there continues to be an issue with a lien placed on the entire tract by a contractor and the District cannot accept the detention pond with the lien. Ms. Corprew went on to explain that the developer reimbursement is, therefore, still being held by the District until the matter can be resolved.

c. Annexation Agreement with Respect to 33-acre Hargrove Tract. Ms. Henderson stated that the Agreement is not ready and asked that the Board defer this item along with the next agenda item until the next meeting.

d. Series 2006 Refunding Bonds. Mr. A. Johnson updated the Board on the status of the refunding, particularly the Internal Revenue Service's stance on a District's Debt Service Funds exceeding the 100% coverage limit. Mr. A. Johnson further explained that he along with Ann Levy, JRPB's tax attorney, are working with Mr. Craig Rathmann of Rathmann & Associates, the District's Financial Advisor, to resolve the issues.

e. Negotiations with Contractor for Water Plant No. 2. Ms. Corprew stated that the Board should discuss this matter in Executive Session.

f. Application to City of Houston for a Strategic Partnership Agreement. Ms. Corprew stated that there is nothing to report on this matter.

8. EXECUTIVE SESSION. At 7:50 p.m., the President called an Executive Session pursuant to 551.071(a) (1) to seek advice from counsel regarding contract negotiations 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 9:31 p.m., the President declared the Executive Session over, reconvened the meeting in open session to vote on matters discussed in Executive Session. Upon motion by Director Ward, seconded by Director Cook, with all Directors present voting aye, the Board authorized the Attorneys to pursue negotiations with Industrial and authorized Directors Lackey and Dunn to attend a settlement conference, if needed.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, upon motion by Director Cook, seconded by Director Bishop, the meeting was adjourned at 9:45 p.m.

Passed and approved this 6th day of April, 2006.

Secretary, Board of Directors

EXHIBITS:

- A - Operator's Report
- B - Engineer's Report