

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

April 10, 2001

The Board of Directors (the "Board") of the North Harris County Regional Water Authority (the "Authority") met in regular session, open to the public, at 7:00 p.m. on the 10th day of April, 2001, at the Ponderosa Fire Station, 17061 Rolling Creek, Houston, Texas, the regular meeting place within the boundaries of the Authority, whereupon, the roll was called of the duly constituted officers and members of the Board, to-wit:

Alan J. Rendl	-	President
Jim Burke	-	Vice President
Lenox A. Sigler	-	Secretary
Jim Pulliam	-	Treasurer
Dwight "Clint" Moore	-	Assistant Secretary

All members of the Board were present, thus constituting a quorum. Also attending the meeting were: Mr. Ed Shackelford, P.E., General Manager for the Authority; Ms. Cynthia Plunkett, Financial Assistant for the Authority; Messrs. Alan Potok, P.E., and Michael Baugher, P.E., of Turner Collie & Braden, Inc. ("TC&B"), Program Manager and alternate source study engineering consultant for the Authority; Messrs. James Dannenbaum, P.E. and Wayne Ahrens, P.E. of Dannenbaum Engineering Corporation ("Dannenbaum"), on-call engineering consultant for the Authority; Messrs. Gene Shepherd and Duncan Lamme of Legg Mason Wood Walker, Inc., financial advisors for the Authority; Mr. Art Morales of Morgan Stanley; Mr. Ray Zobel, a member of the City of Houston (the "COH") Regional Advisory Board; Ms. Barbara Payne of Payne Communications, communications coordinator for the Authority; and Ms. Robin S. Bobbitt, attorney, and Ms. Brooke T. Dold, paralegal, of Winstead Sechrest & Minick P.C. and Mr. Andy Johnson of Johnson Radcliffe & Petrov LLP, attorneys for the Authority. Numerous members of the public were also present at the meeting. A copy of the sign-in sheets for those in attendance is attached hereto.

WHEREUPON, the meeting was called to order and evidence was presented that public notice of the meeting had been given in compliance with the law. The posted notices of the meeting are attached hereto.

PUBLIC COMMENT

Director Rendl then opened the floor for public comments. Director Rendl first recognized Mr. J. T. Levay, who asked several questions concerning the financial report that was presented at the February 13, 2001 meeting. Director Rendl suggested that Mr. Levay meet with Ms. Plunkett to review and discuss his questions in detail.

Director Rendl then noted that public comment cards had been turned in by Ms. Victoria Hawkins of Northwest Harris County Municipal Utility District No. 23 and Mr. Robert Bell of Fountainhead

Municipal Utility District ("Fountainhead") and that both questions were regarding the Authority's proposed Purchase and Sale Agreement with Chocolate Bayou Water Company ("Chocolate Bayou"). Director Rendl then requested that such questions be held until the matter was discussed by the Board later in the meeting.

CONSENT AGENDA

Director Rendl then briefly reviewed with the Board the items reflected on the Consent Agenda. Director Rendl explained that this portion of the agenda deals with routine matters of the Board, and that no separate discussion of such items will occur unless a Board member or a member of the public requests that an item be moved to the regular portion of the agenda.

Director Rendl then stated that the first item on the Consent Agenda is approval of the minutes of the regular meeting of March 22, 2001, and the certified agendas of the executive sessions of February 13, 2001 and March 1, 2001. Upon motion by Director Burke, seconded by Director Sigler, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of the regular meeting of March 22, 2001, and the certified agendas of the executive sessions of February 13, 2001 and March 1, 2001. Approval of the certified agendas of the executive sessions for March 5, 2001 and March 22, 2001 was deferred.

Concerning the approval of the pumpage fee audit policies and procedures, Director Rendl explained that the proposed policies and procedures would be reviewed by the newly formed Water User Advisory Committee and considered by the Board at the May meeting.

Upon motion by Director Burke, seconded by Director Sigler, after full discussion and the question being put to the Board, the Board voted unanimously to approve the renewal of the Public Officials Blanket Bond.

REVIEW OF AUDIT REPORT

Mr. Shackelford noted that approval of the audit report for the fiscal year ending December 31, 2000 would be deferred until the May meeting. Ms. Plunkett then distributed copies of the audit draft to the Board and briefly reviewed the draft. Ms. Plunkett requested that the Directors and consultants submit their comments to her on the audit draft prior to the May meeting.

REVIEW OF LEGISLATIVE MATTERS

Mr. Shackelford then reiterated that H.B. 1110 had been passed by the House with several floor amendments and that Senator Lindsay would sponsor the corresponding S.B. 503 in the Senate. Mr. Shackelford then reported briefly on S.B. 1775, 1776 and 1777 concerning creation of utility districts in North Harris County, but within the Authority's boundaries. Mr. Shackelford stated the bills will continue to be monitored.

FINANCIAL REPORT

Director Rendl then recognized Ms. Plunkett, who reviewed with the Board the Financial Report, including the monthly investment report, a budget comparison and the checks being presented for payment, copies of which are attached hereto. Ms. Plunkett noted that the Authority's expenses for the first three (3) months of the current fiscal year remain under budget. Mr. Shackelford noted that the budget included the \$487,000 deducted from engineering expenses for the Early Action Plan and has been reallocated to other budget categories. Ms. Plunkett next reviewed a summary of pumpage fee collections for the first quarter of 2001, a copy of which is attached hereto. Ms. Plunkett noted that delinquent letters had been mailed.

Upon motion by Director Burke, seconded by Director Moore, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Financial Report and the payment of the checks reflected therein.

PURCHASE AND SALE AGREEMENT BY AND BETWEEN CHOCOLATE BAYOU WATER COMPANY AND THE AUTHORITY

Mr. Shackelford then reviewed the history of the negotiations between the Authority and Chocolate Bayou to acquire the water rights owned by Chocolate Bayou for 155,000 acre-feet of water from the Brazos River and all of the related assets owned by Chocolate Bayou. Mr. Shackelford stated that Chocolate Bayou had confirmed approval and execution of the proposed Purchase and Sale Agreement (the "Agreement") earlier in the day by the Board of Directors of International Paper Company, parent company of Chocolate Bayou. Mr. Shackelford explained that the Agreement provides for the purchase of the Chocolate Bayou water rights and related assets for \$100 million. Ms. Bobbitt was then asked to explain the limitations and ramifications placed on the Authority by the Confidentiality Agreement previously required to be executed by the Authority in connection with the Chocolate Bayou transaction. In response to an inquiry from Mr. Shackelford, Ms. Bobbitt explained that it would be a violation of the Confidentiality Agreement to hold a public hearing prior to approving and executing the Agreement. Ms. Bobbitt stated that after the Agreement is approved and executed by the Board, the terms of the Confidentiality Agreement would no longer be in effect.

Mr. Shackelford continued to explain that the Authority has a 45-day due diligence period to verify the quality/quantity of the Chocolate Bayou water and begin the permitting process, a 60-day due diligence period on the real property matters and a 120-day period in which to finance the purchase of the water rights. Director Sigler then stated it was an honor and privilege to move that the Board approve and authorize execution of the Agreement. Director Moore seconded such motion. Director Pulliam then asked legal counsel if there were adequate exit strategies in the Agreement. Mr. Johnson responded that there are several provisions in the Agreement that would allow the Authority to terminate the transaction at various points, including, but not limited to, determining that the water availability is not there, finding significant title problems with the real property, or inability to obtain the necessary permits. Director Moore then called the question to a vote. The Board voted unanimously to approve and authorize execution of the Purchase and Sale Agreement with Chocolate Bayou. A copy of the Agreement is attached hereto.

Mr. Bell of Fountainhead then stated that the audience had not been given sufficient time to ask questions or make public comment on the Agreement before the Board took action on the Agreement. Ms. Bobbitt and Mr. Shackelford again outlined the terms of the Confidentiality Agreement by which the Authority was bound.

Mr. Shackelford then read a prepared media release concerning the Chocolate Bayou transaction. Copies of the media release were distributed to the audience and a copy is attached hereto. Director Rendl noted that the media release will be posted on the Authority's Web site.

Director Rendl then received questions from the audience, recognizing Mr. Bell of Fountainhead. Mr. Bell asked how long the due diligence period could be extended and whether the Authority would be restricted in its negotiations with the COH under the terms of the Agreement. Mr. Shackelford responded that the due diligence period could not be extended and that as long as the Authority was negotiating for a supply of water in addition to that to be provided by the Chocolate Bayou Agreement and not in lieu of such water, there were no constraints on other negotiations.

Mr. Garey Nelson of Bammel Utility District ("Bammel") then questioned whether the Authority could obtain the necessary permits within the 45-day due diligence period. Mr. Shackelford responded that the permitting process would take considerably more time and none of the necessary permits can be obtained during the due diligence period, other than transferring ownership of the water rights from Chocolate Bayou to the Authority. Mr. Shackelford noted that under the terms of the Agreement, the Authority can obtain a refund of \$50 million from Chocolate Bayou if it is determined that all of the necessary permits cannot be obtained. Mr. Shackelford added that the Authority would be requesting a second diversion point on the Brazos River, seeking approval of an interbasin transfer, and changing the use of the water rights. Director Rendl then stated that the proposed transaction with Chocolate Bayou provided the Authority with an opportunity to purchase water rights and if the transaction fails for any reason, the Authority could return to negotiations with the COH.

Mr. Mark Edwards of Bammel then asked about the cost to purchase the water rights and whether Mr. Shackelford could provide a worse case scenario. Mr. Shackelford again explained several of the exit strategies available to the Authority under the terms of the Agreement.

Mr. Nelson inquired regarding the cost to conduct the due diligence on the proposed transaction. Mr. Shackelford responded that the Authority had budgeted \$250,000 for conducting the due diligence.

Mr. Ron Koval of Cypress-Klein Utility District inquired when the transaction will close and the timing of the closing with the obtainment of the necessary permits from the Texas Natural Resource Conservation Commission. Mr. Shackelford explained that the permitting process could take up to two (2) years but that the Authority must complete the financing of the purchase within 120 days of the execution of the Agreement. Ms. Bobbitt interjected that the Authority will have obtained ownership of the water rights prior to the funding of the bonds to finance the water rights purchase.

A member of the audience then asked when the utility districts will begin paying their share of the water rights purchase. Mr. Shackelford responded that the Authority is required to give a 90-day notice to the utility districts to enable them to fund their respective share of the project cost if they so desire under the provisions of the Authority's creation legislation. Mr. Shackelford added that the Authority will have to work out the financing/cost details and provide such notice as soon as possible.

Mr. Levay then asked if the water rights were being purchased from the Brazos River Authority. Mr. Shackelford responded that the Agreement was with Chocolate Bayou, a private source that owns water rights in the Brazos River. Mr. Levay expressed concern over the salinity of the water from the Brazos River. Mr. Shackelford explained that water would not be diverted by the Authority during periods of high salinity.

Ms. Kathy Ware of Fountainhead asked if the Authority's groundwater reduction plan (the "GRP") was still due by January, 2003, if the Authority may not yet have all of the necessary permits for the Chocolate Bayou water rights by that time. Mr. Shackelford responded that the GRP must be approved before that date and that a source of water has to be identified in the GRP.

Mr. David Millikan of Bammel expressed concern that if the GRP would be regional, the utility districts should have some input to determine which districts get water and the timing and source for obtaining water.

Mr. Nelson inquired about the term of the debt to finance the purchase of the Chocolate Bayou water rights. Mr. Shepherd responded that the bonds would likely have a 30-year term.

Director Rendl then ended the question-and-answer session at 7:50 p.m. and announced a fifteen (15) minute recess. Director Rendl reconvened the meeting at 8:10 p.m.

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

The Board next recognized Ms. Payne, who reported that the Authority's Web site had approximately 11,500 hits over the past forty-five (45) days. Ms. Payne reported that the first meeting of the newly formed Communications Committee had been held, and the Committee would meet on the first and third Wednesday of each month at noon in the Authority's offices. Ms. Payne further reported that the next issue of the Authority's Action Report would be combined for the months of March and April.

GENERAL MANAGER'S REPORT

The Board next recognized Mr. Shackelford, who presented the General Manager's Report. Mr. Shackelford first asked Mr. Baugher to present the Program Manager's Progress Report, a copy of which is attached hereto. Mr. Baugher reviewed the status of various engineering studies. Mr. Baugher reported that the GIS data collection project by Cobourn, Linseisen & Ratcliff was approximately 80% complete, that the Reliant Energy reuse study by Dannenbaum was 85% complete and that the water reclamation/reuse study by Alexander Engineering needs the GIS data to proceed with such study. Mr. Baugher also reported that the various advisory engineering consultants have been authorized to initiate

various GRP assignments as specifically outlined in his report. Mr. Baugher then reported that a revised draft of the alternate source study had been submitted to Mr. Shackelford for review.

Mr. Shackelford then reported that Director Pulliam and Mr. Baugher had met last week with representatives of Jersey Village regarding the Authority's offer to purchase their water line interconnect with the COH. Mr. Shackelford summarized Jersey Village's position as wanting to wait until such time that the Authority had actual costs available, rather than conceptual numbers.

Mr. Shackelford next reported that the Water User Advisory Committee members were working on completion of the questionnaire provided at the last meeting and were reviewing various matters of the Authority. Director Burke stated that he would like to have the Water User Advisory Committee activities featured at a future Authority meeting.

Mr. Shackelford then presented correspondence from the Authority to Mr. James Baker of the City of Humble, a copy of which is attached hereto. Mr. Shackelford explained that the City of Humble had expressed concern over the Authority's ability to exercise eminent domain powers with the passage of H.B. 1110.

Mr. Shackelford next distributed copies of the Greater Houston Partnership's newsletter, At Work, to the Board, a copy of which is attached hereto.

Mr. Shackelford concluded his report with the announcement that the office of the Authority will be closed on Good Friday.

NEXT MEETING DATE AND MISCELLANEOUS MATTERS

Director Rendl then announced that the next regular meeting of the Board would be held on Tuesday, May 8, 2001, at 7:00 p.m. at the Ponderosa Fire Station.

PUBLIC COMMENT

An unidentified person asked Mr. Shackelford if he had received a sample of water from the Brazos River. Mr. Shackelford responded that a sample of Brazos River water had been provided to his office by a member of the Board of Harris County Fresh Water Supply District No. 61.

There being no further business to come before the Board, the meeting was adjourned.

PASSED, APPROVED AND ADOPTED this 8th day of May, 2001.

/s/Lenox A. Sigler

Secretary, Board of Directors

(SEAL)