

MINUTES OF MEETING OF THE  
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

April 25, 2001

The Board of Directors (the "Board") of the North Harris County Regional Water Authority (the "Authority") met in special session, open to the public, at 6:00 p.m. on the 25th day of April, 2001, at the Authority's office at 3648 FM 1960 West, Houston, Texas, a public 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. Barbara Payne of Payne Communications, communications coordinator for the Authority; Messrs. Gene Shepherd and Duncan Lamme of Legg Mason Wood Walker, Inc., financial advisors to the Authority; Mr. Al Morales of Morgan Stanley; 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; Mr. Wayne Ahrens, P.E. of Dannenbaum Engineering Corporation, on-call engineering consultant for the Authority; Mr. David Scholler of Brown & Gay Engineers, Inc., on-call engineering consultant for the Authority; Ms. Robin S. Bobbitt, attorney, and Ms. Brooke T. Dold, paralegal, of Winstead Sechrest & Minick P.C. and Mr. Andrew Johnson of Johnson Radcliffe Petrov LLP, attorneys for the Authority. A copy of the sign-in sheets for those in attendance at the meeting 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.

REVIEW OF RECENT NEWSPAPER ARTICLES

The meeting began with a discussion regarding articles that have appeared in the Houston Chronicle concerning the Authority's Purchase and Sale Agreement (the "Purchase Agreement") with the Chocolate Bayou Water Company (the "CBWC"), copies of which are attached hereto, and whether various statements made in such articles breach the confidentiality agreements executed by the Authority and other entities with the CBWC. Mr. Shackelford noted that Mr. Montague of the CBWC believes that statements made by the City of Houston (the "COH") and others in the newspaper articles concerning the availability of water from the Brazos River could possibly lower the value of the CBWC assets. Ms. Bobbitt noted that such statements may breach the confidentiality agreement and cautioned the Board against sending any kind of strong reaction to the Houston Chronicle or the 1960 Sun concerning the recent news articles in light of the confidentiality agreement.

## STATUS OF CHOCOLATE BAYOU WATER COMPANY PURCHASE AND SALE AGREEMENT

Mr. Shackelford next reported that the terms of the Purchase Agreement had recently been presented to the CBWC employees. The Board inquired as to how many employees would make the transition from the CBWC to the Authority. Mr. Shackelford responded that the CBWC would make recommendations concerning the employees and then it would be left up to the Authority to determine which CBWC employees would be retained by the Authority.

Mr. Shackelford then reported that a list of frequently asked questions ("FAQs") had been compiled following the Board's April 10<sup>th</sup> meeting and would be posted on the Authority's website, a copy of which is attached hereto. The Board requested that a copy of the Authority's press release concerning the Purchase Agreement with the CBWC, the FAQs from the April 10<sup>th</sup> meeting and a bullet point summary of the CBWC transaction be mailed to the constituency of the Authority in a separate mailing.

Mr. Johnson then reviewed with the Board a draft of the notification letter to districts, as required by H.B. 2965, to be sent to all of the utility districts within the boundaries of the Authority, a copy of which is attached hereto. A discussion ensued regarding the choices afforded to the utility districts to finance their share of the costs for the proposed purchase of the CBWC assets. Mr. Johnson acknowledged that, although the Authority is required to give the notice ninety (90) days prior to a proposed bond issuance by the Authority, in reality, such amount of time was likely not adequate under any circumstances for a utility district to get a bond application submitted to and approved by the Texas Natural Resource Conservation Commission (the "TNRCC"). Mr. Shackelford then noted that he and the Authority's attorneys would make a presentation at the Utility District Advisory Council meeting on Friday, April 27, 2001 at 9:00 a.m. to review and discuss the notification letter.

Mr. Shackelford next reported that May 25<sup>th</sup> was the first due diligence deadline concerning the availability/reliability of water under the terms and provisions of the CBWC Purchase Agreement. Mr. Shackelford stated that the Board would receive a draft of the water availability analysis from R.J. Brandes by May 15<sup>th</sup> and that the matter would be reviewed and discussed at the special meeting scheduled for May 21<sup>st</sup>. Mr. Shackelford went on to explain that the second due diligence deadline regarding the real estate issues related to the Purchase Agreement was June 8<sup>th</sup> and that another special meeting of the Board needs to be scheduled prior to such date. The Board then discussed various dates on which to hold such meeting. It was then determined that such meeting would be held on Thursday, June 8<sup>th</sup>.

## REVIEW AND DISCUSSION OF WATER COST ESTIMATES

The Board next reviewed a summary of the capital expenses for the purchase of Brazos River water rights, including the pipeline transmission costs to the Authority's water purification plant, a copy of which is attached hereto.

Mr. Potok then distributed three (3) cost summaries, including 1) a summary of groundwater and surface water rates with the purchase of Brazos River water rights and transmission by pipe to the Authority's water purification plant, assuming a \$0.40/1,000 gallons

groundwater credit; 2) a summary of groundwater and surface water rates with the purchase of Brazos River water rights and transmission by pipe to the Authority's plant, assuming a \$.25/1,000 gallons groundwater credit; and 3) a summary of groundwater and surface water rates with the purchase of treated surface water from the COH and participation in the construction costs for an 84-inch waterline along Beltway 8. Copies of such cost summaries are attached hereto. Mr. Potok then reviewed the summaries further with the Board. Extensive discussion ensued concerning the cost summaries, including the water costs, the construction costs and the rates utilized in the analyses.

#### PUBLIC COMMENT

Director Rendl then opened the floor for questions from the public.

Mr. Garey Nelson of Bammel Utility District asked whether it was the Board's intention to maintain a flat rate for water or will there be a stair-step rate based on actual usage to encourage water conservation. Mr. Shackelford responded that it was conceivable that a stair-step rate will be phased in to encourage water conservation farther down the road, but would be dependent on the Authority's groundwater reduction plan ("GRP"). Mr. Potok added that the TNRCC will require certain trigger points to be established regarding water conservation and drought contingency, but that the utility districts will prepare their own drought contingency plans.

#### EXECUTIVE SESSION

Director Rendl then adjourned the meeting at 7:05 p.m. and announced that the Board would convene in executive session, pursuant to Sections 551.071(1)(A) and 551.071(2), Texas Government Code, as amended, to consult with its attorneys regarding pending or contemplated litigation and regarding matters covered by the attorney-client privilege.

#### RECONVENE IN OPEN SESSION

Director Rendl then reconvened the meeting in open session at 7:30 p.m., at which time the following action was taken by the Board. Upon motion by Director Burke, seconded by Director Pulliam, after full discussion and the question being put to the Board, the Board voted unanimously to authorize the Authority's attorneys to proceed with the filing of a bond validation suit in District Court.

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

PASSED, APPROVED AND ADOPTED this 10th day of July, 2001.

/s/Lenox A. Sigler

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Secretary, Board of Directors

(SEAL)