

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

September 26, 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 7:00 p.m. on the 26th day of September, 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. Robin S. Bobbitt and Mr. Andrew Johnson of Johnson Radcliffe Petrov LLP, attorneys for the Authority; and several members of the public. A copy of the sign-in sheets for those in attendance at the meeting are 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 AND DISCUSS PROPOSED TERM SHEET TO THE CITY OF HOUSTON

Director Rendl announced that tonight's meeting was being held to review and discuss a proposed term sheet to the City of Houston (the "COH") for the purchase of surface water. 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 remain in open session to discuss the proposed term sheet.

Mr. Shackelford then reviewed the draft of the proposed term sheet with the Board, a copy of which is attached hereto. Mr. Shackelford explained that it was similar to the term sheet used by West Harris County Regional Water Authority (the "WHCRWA") in its negotiations with the COH, but with certain revisions to address specific issues related to the Authority. Ms. Bobbitt explained that the Texas Water Code provision to be cited in Principle III sets forth provisions and requirements for handling water supply in times of emergency and system failure. Director Moore then questioned problems the COH had recently experienced with providing water to Galveston. Mr. Shackelford and Mr. Johnson stated that Galveston experienced water supply problems due to a line failure and insufficient sizing of lines, and not due to the inability of the COH to supply water. Director Moore suggested that the Authority include some specific provisions in the term sheet to prevent the COH from treating the Authority differently in times of shortages or supply failures based on the fact that entities within the Authority have extensive groundwater

supply systems. Ms. Bobbitt explained that the applicable provisions of the Texas Water Code take care of that issue and that any contract the Authority would negotiate with the COH would also address such matter. Director Moore then reiterated that he believed additional provisions should be included in the term sheet to protect the Authority from being treated differently during emergency periods or at times of water shortages.

Director Moore then returned to Principle II concerning the inclusion of the term "COH ordinance rate" stating that he would like an annual limit or some type of price cap protection on the ordinance rate reflected in the term sheet. Director Moore stated that any increase in the ordinance rate should be limited to 1-2% annually according to the analysis prepared by Pate Engineers, Inc. Director Moore added that the Authority should also have the option to discontinue its contract with the COH at any time. Director Burke commented that a methodology for increasing the ordinance rate needed to be determined and included in the contract so that the Texas Natural Resource Conservation Commission (the "TNRCC") is not the Authority's only option for appealing rate increases. Extensive discussion regarding the ordinance rate issue and provision for future rate increases in a COH contract then ensued. Director Rendl emphasized that the COH has not shown a history of increasing rates on a frequent or unfair basis. Director Moore continued to stress the need to include a specific percentage limit for future ordinance rate increases in the term sheet.

Director Burke then expressed the need and importance of the Authority initiating negotiations with the COH and getting them to the same level as that of the WHCRWA. Director Moore then stated that the WHCRWA term sheet may not be the model for the Authority to follow. Director Rendl stressed the need for the Authority to be reasonable in order to get to the negotiating table and for details of a contract to be formulated and negotiated. Director Moore stated that the proposed term sheet does not address the big issues of price, rate increases and rationing and is no different from the contract the COH has with other jurisdictions. Director Rendl then stated that in his opinion, it would be extremely difficult for the COH to discriminate against the Authority. Director Moore stated that the Board should want to get the best deal possible for its constituents. Mr. Johnson interjected that the term sheet is a beginning point for negotiations and that all of the details will be included in a draft contract document. Director Moore then suggested that "the ordinance rate" be deleted and replaced with "an agreed rate" or "a not to exceed ordinance rate." Further discussion of the matter then ensued. Mr. Johnson then suggested that "the ordinance rate" in Principle II be replaced with "an ordinance rate." The Board agreed to such revision.

Discussion then ensued concerning the usage of a "system-wide" rate by the COH. Mr. Shackelford noted that the COH was looking into the concept of using "area rates," but that no determination had yet been made. Director Burke added that the Authority should work with the WHCRWA in negotiating with the COH. Mr. Johnson stated that determining a methodology for implementing future rate increases will be a critical negotiation issue.

The Board next discussed the "take or pay" concept reflected in the term sheet. Director Moore stressed that he did not want the Authority to be stuck with a "take or pay" term and asked if there was language that could be included in the term sheet that would provide the Authority with flexibility to obtain its water from another source at some point in the future.

Director Moore then reminded the Board of Mr. Oradat's comments during the January AWBD Conference in San Antonio that the COH might be willing to consider putting the water revenue funds into a separate account so that the usage of such funds by the COH can be appropriately monitored. Mr. Johnson then pointed out that having a "system-wide" rate somewhat negates the need for this type of separate fund accounting. Director Moore emphasized that he wanted to have a way to monitor what the COH does with the dollars raised from the ordinance rates paid by the Authority so that such funds can be utilized for the construction of future infrastructure and capital projects for the system that serves the Authority.

Director Sigler then expressed concern regarding the Authority being totally dependent on the COH for its source of water and stated that having another source of water would be the best scenario for the Authority. Director Sigler added that a dual system of supply would also be optimal, but may be too costly.

Director Moore then asked the attorneys to review the possibility of having the COH establish a "set aside fund" or "lock box" for revenues received from water rates paid by the Authority to insure that the Authority's money is not used on other COH projects. Extensive discussion regarding such issue then ensued. Mr. Johnson then suggested that the Authority may want Mr. Stowe, a rate consultant, to review the rate information prepared by the engineering consulting team. After a brief discussion, it was determined that a rate consultant was not a good use of Authority funds.

All members of the audience exited the meeting with the exception of Ms. Bland, Ms. Malek and Ms. Milne.

After further discussion of the proposed term sheet, the Board requested that the Authority's attorneys prepare a revised term sheet for distribution at the Board's October 2nd meeting. Director Rendl then requested that a microphone be available at the October 2nd meeting. Mr. Shackelford stated that Ms. Payne had made arrangements to have the October 2nd meeting videotaped.

There being no further business to come before the Board, the meeting was adjourned at 9:10 p.m.

PASSED, APPROVED AND ADOPTED this 9th day of October, 2001.

/s/Lenox A. Sigler

Secretary, Board of Directors

(SEAL)