

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

October 9, 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 9th day of October, 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: Representative Peggy Hamric; Mr. Ed Shackelford, P.E., General Manager for the Authority; Ms. Cynthia Plunkett, Financial Assistant for the Authority; Ms. Barbara Payne of Payne Communications, communications coordinator 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 consultants for the Authority; Mr. Gary Smith, P.E. of ARCADIS WSBC, Program Manager for the Authority; Mr. David Scholler, P.E. of Brown & Gay Engineers, Inc. ("Brown & Gay"), water conservation study engineering consultant for the Authority; Messrs. Bob Jones, P.E. and Bradley Jenkins, P. E. of Jones & Carter, Inc., on-call engineering consultant for the Authority; Mr. Gerry E. Pate, P. E. of Pate Engineers, Inc., on-call engineering consultant for the Authority; Messrs. Jim Dannenbaum, P.E. and Wayne Ahrens, P.E. of Dannenbaum Engineering Corporation ("Dannenbaum"), on-call engineering consultant for the Authority; Mr. Ray Zobel, a member of the City of Houston Regional Advisory Board; Ms. Kim Canon, reporter for the Houston Chronicle; and Ms. Robin S. Bobbitt and Mr. Andrew P. Johnson, attorneys, and Ms. Brooke T. Dold, paralegal, of Johnson Radcliffe Petrov LLP ("Johnson Radcliffe"), 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 first acknowledged the presence of Representative Peggy Hamric and thanked her for attending the meeting. Director Rendl then recognized Mr. Josh Kahn, attorney, representing West Harris County Municipal Utility District No. 11, who read a letter that had been sent to the Authority, urging the Authority to proceed with negotiations with the City of Houston (the "COH") as soon as possible. A copy of such letter is attached hereto.

Director Rendl next recognized Ms. Dianne Flynn of Postwood Municipal Utility District, who read a statement to the Board, a copy of which is attached hereto. Ms. Flynn's statement exhorted the Authority to proceed with negotiations with the COH without creating unrealistic contract terms such as a price cap.

Mr. Bob Koperwhats of Harris County Water Control & Improvement District No. 91 next commended the Board on its five (5) to zero (0) vote at the special October 2, 2001 meeting in favor of authorizing the General Manager to proceed with negotiations with the COH and noted that it took the Board eighteen (18) months and several hundred thousand dollars to agree to what had been advocated in this same room twelve (12) months ago.

Mr. Gordon Landwermeyer of Westador Utility District then commended the Board for its decision at the October 2nd meeting to proceed with negotiations with the COH and stressed that the Authority be earnest and realistic in such negotiations.

Mr. Mark Edwards of Bammel Utility District ("Bammel UD") then commended the Board and echoed the concerns of the previous speakers that it was important for the Authority to be realistic in its dealings with the COH and especially concerning price caps. Mr. Edwards proceeded to commend Mr. Shackelford on the excellent job he has done on due diligence and in the selection of his team members. Mr. Edwards concluded with a request that the Board promptly move forward with negotiations with the COH.

DIRECTOR COMMENTS

Director Rendl next opened the floor to comments from the Board. Director Sigler stated that he wished to correct the perception that some have that the Board has not been working diligently over the past eighteen (18) months with regard to its dealings with the COH. Director Sigler explained that the Board felt that no stone should be left unturned concerning the sources of water that may be available to the Authority. Director Sigler continued that there are other private sources available, but probably not as cost effective to the Authority as what may be available from the COH. Director Sigler concluded by stating that he would not waiver in his decision to earnestly negotiate with the COH and that he would not support any effort to place price caps in a COH term sheet.

Director Burke then read a prepared statement, a copy of which is attached hereto. Director Burke explained that his statement was in response to a call received from Director Moore asking if he was contacting members of the water districts located within Voting District 5 of the Authority. Director Burke explained that he was concerned with one Director's efforts to amend the COH term sheet with items that were not agreed upon at the Board's special meeting of September 26, 2001 or at the special meeting on October 2, 2001. Director Burke stated that in his opinion, the amendments were not realistic and would have a negative impact on negotiations with the COH. Director Burke added that the proposed term sheet additions are an attempt to kill negotiations with the COH and stressed the importance of allowing the General Manager and his negotiating team to bring the best proposal from the COH to the Board for consideration and a subsequent vote.

Director Moore then responded that he did not have any prepared remarks, but is offended by Director Burke's comments that he is trying to undermine negotiations with the COH. Director Moore

averred that Director Burke's accusations were lies. Director Moore commented that he had every right to state his own thoughts and opinions and seek his own goals with regard to a water supply source and that he in no way made any demands on the Board or the General Manager regarding additions to the COH term sheet. Director Moore stated that he wanted to further discuss the proposed terms, but that the other Board members had quashed any further discussion of the matter. Director Moore further expressed that his concerns for the Authority had not changed and that he still wanted a long-term supply of clean, affordable, available water at a fair price for the Authority since he expected to live in the area for many years to come.

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 Board was only considering the approval of the minutes of the special meetings of September 5, 2001 and September 26, 2001, previously distributed to the Board.

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 items on the Consent Agenda as follows: the minutes of the special meetings of September 5, 2001, as written, and September 26, 2001, as corrected; to adopt an Order Regarding Annual Review of Rules, Policies and Code of Ethics for the Investment of Funds; to adopt an Amended and Restated Order Designating Investment Officer and Establishing Policies, Code of Ethics for the Investment of Authority Funds and Review of Investments; and to approve Amended Agreements for Professional Services with Brown & Gay, Cobourn Linseisen & Ratcliff, Inc. and ARCADIS WSBC regarding compliance with the Authority's Texas Water Development Board (the "TWDB") grant contract. Copies of the Orders and the Amended Agreements for Professional Services are attached hereto.

FINANCIAL REPORT

Director Rendl then recognized Ms. Plunkett, who reviewed with the Board the Financial Report, including the monthly investment report, the budget comparison for nine (9) months ending September 30, 2001 and the checks being presented for payment, a copy of which is attached hereto. Ms. Plunkett noted that the Authority is currently \$2.4 million under budget for the 2001 fiscal year. Ms. Plunkett then reviewed a summary of quarterly pumpage fee receipts for 2001, a copy of which is attached hereto, noting that there was a negative balance in the account due to several refunds that have been made. Ms. Plunkett then discussed correspondence to and from CNP Utility District ("CNP"), copies of which are attached hereto, and explained that CNP had been given the option to receive a refund or a credit on their next quarterly pumpage fee payment in connection with their payment of pumpage fees on a well located outside of the Authority. Ms. Plunkett stated that CNP had opted to receive a credit for such pumpage fees. Mr. Shackelford noted that Ponderosa Forest Utility District and Westador Municipal Utility District also had requested refunds from the Authority on wells that are located outside of the Authority's boundaries.

Upon motion by Director Sigler, 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.

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

Ms. Payne then reported that the Authority's Web site had approximately 35,000 hits since September 11, 2001, which is an average of 1,229 hits per day. Ms. Payne reported that certain notices and information about the Authority are sent out to directors electronically and encouraged the audience to notify her of any changes in e-mail addresses. Ms. Payne stated that the Authority had the alternate source presentation at the October 2, 2001 meeting videotaped, which may be made available at a later time on the Internet. Mr. Shackelford asked whether Ms. Payne could pinpoint a certain area of concentration regarding the use of the Authority's Web site. Ms. Payne responded that the redistricting maps of the Authority were the most utilized items of the Web site.

GENERAL MANAGER'S REPORT

The Board next recognized Mr. Shackelford, who presented the General Manager's Report, a copy of which is attached hereto. Mr. Shackelford first asked Mr. Baugher to present the Program Manager's Progress Report, a copy of which is attached hereto.

Mr. Baugher noted that on the first page of his Report, the 92% completion percentage in Section I, Item A1 was incorrect and would be corrected. Mr. Baugher then reviewed the status of the various engineering studies with the Board. Mr. Baugher reported that the final draft of the GIS Project Manual and Authority database had been submitted to the TWDB on August 30, 2001 for review and that they were now waiting for TWDB comments prior to finalizing the report.

Mr. Baugher then reported that Dannenbaum received a response from Reliant Energy ("Reliant") confirming Reliant's interest in pursuing the acquisition of reclaimed water from the Authority. Mr. Baugher also reported that Dannenbaum had submitted their final draft report to the advisory team on September 24, 2001 for review.

Mr. Baugher next reported that Alexander Engineering, Inc. had submitted the draft of the Water Reclamation Reuse Study for review on September 14, 2001. Director Burke again asked that the Board be provided with copies of each of the studies/reports.

Mr. Baugher then reported that the Program Management team is waiting for comments from the TWDB concerning the Authority's Water Conservation Plan prepared by Brown & Gay.

Director Burke then inquired when Mr. Baugher thought the Authority's groundwater reduction plan (the "GRP") could be completed. Mr. Baugher responded that the goal is to have the GRP ready to submit to the Harris-Galveston Coastal Subsidence District (the "HGCSA") by June or July, 2002, which would mean having a preliminary draft of the GRP to the Board in February, 2002. Mr. Shackelford suggested that time be set aside to present the proposed GRP for public comment. Mr. Shackelford explained that

monies had been budgeted to hold several town hall meetings to present the proposed GRP to constituents within the Authority. Director Burke then asked whether a decision has to be made concerning the location at which water will be taken to supply the Authority with surface water before January 15, 2002 in order to complete the GRP. Mr. Baugher responded that not having a definitive "take" point by such date would make completion of the GRP difficult. Director Moore inquired what would happen with the GRP preparation and finalization if the Authority did not have a signed contract with the COH. Mr. Baugher explained that the water supply contract must be in place for the HGCSO to take action on the Authority's GRP.

Mr. Shackelford explained that the HGCSO wants a preliminary engineering report prepared in connection with the GRP and that such report must be submitted by November, 2002. Mr. Shackelford added that while it is preferable to submit the engineering report along with the GRP, there may be some latitude allowed by the HGCSO. Director Burke stated that the Authority could not afford to waste any time in negotiating a contract for a supply of water. Director Rendl stated that the fact that the Authority does not have a signed contract for water does not mean the Authority is not making progress toward such goal.

Director Sigler then asked Mr. Shackelford to give an update of previous contacts and negotiations with the COH. Mr. Shackelford responded by reviewing the number of conversations and meetings the Authority has had with the COH representatives since May, 2000. Mr. Shackelford reported that he and Ms. Bobbitt have a meeting scheduled with the COH next week. Mr. Shackelford stressed that Mr. Haines of the COH had not wanted to initiate negotiations with the Authority unless the negotiations were serious and in earnest. Director Moore commented that Mr. Haines also did not want to talk with the Authority while it was pursuing other sources of water.

Continuing his report, Mr. Shackelford stated that the Import Fee Committee met last week with the new members who had replaced Directors Moore and Sigler, who resigned from the Committee. Mr. Shackelford added that the recommendations of the Import Fee Committee will be brought to the Board for consideration at the November meeting.

Mr. Shackelford next reported that his assistant, Lisa Sagstetter, would be on vacation next week, that he would be attending a conference on Thursday and Friday of next week and that there would be a meeting held at Johnson Radcliffe on Wednesday October 10, 2001, at 12:30 p.m. to brief the utility district attorneys on the outcome of the alternate source study.

Director Pulliam asked Mr. Shackelford if there was anything to prevent the Authority from reworking the COH's basic water supply contract now. Mr. Shackelford indicated that he and the negotiating team were in the process of reviewing the contract in light of the proposed contract terms discussed at the Board's September 26, 2001 meeting.

At Director Sigler's request, Mr. Shackelford then reviewed the concepts of "area" and "system-wide" rate structures and stated that the proposed contract the COH has offered to the West Harris County Regional Water Authority reflects a "system-wide" rate structure.

Mr. Shackelford next reported that a number of additional letters and resolutions had been received from utility districts within the Authority, requesting that the Authority immediately initiate good faith negotiations with the COH. The districts submitting such letters and resolutions include: West Harris County Municipal Utility District No. 11, Harris County Municipal Utility District No. 26, Harris County Municipal Utility District No. 180 and Klein Public Utility District. A complete list of districts that have submitted letters and resolutions is attached hereto.

ATTORNEY'S REPORT

Ms. Bobbitt then reported that she is in the process of preparing the Voters Rights Act submission letter to the U. S. Department of Justice in connection with the upcoming 2002 Director Election.

ADDITIONAL DIRECTOR COMMENTS

Director Burke then read a prepared statement, a copy of which is attached hereto. Director Burke's comments explained how he became involved with the Authority, how the Authority has evolved since it's creation and his disappointment over the behavior of certain Board members, which has been counterproductive to the goals of the Authority.

Director Moore then responded to Director Burke's statements that he had been the recipient of death threats and subjected to accusations, lies and abuse while serving on the Board. Director Moore stated that he viewed Director Burke's statements as political gamesmanship and a blatant campaign statement. Director Moore again vehemently denied all of Director Burke's accusations and stated they were all lies. Director Moore denounced Directors Rendl and Burke for their abusive, unprofessional and gross tactics and behavior.

Director Sigler then moved that the meeting be adjourned. Director Moore seconded the motion. Director Rendl then called for order in the meeting and stated that there is one (1) additional item on the agenda for the Board's consideration. Director Sigler withdrew his motion, explaining that he did not realize there was another item to be considered.

Director Rendl then commended the diligent efforts of the General Manager and read a statement to such effect, a copy of which is attached hereto. Director Rendl then moved that the Board amend the General Manager's contract to include a six (6) month severance pay in the event that there is less than a unanimous vote to terminate his contract, but that no severance package be provided in the event that there is a unanimous vote of the Board to terminate such contract. Director Burke seconded the motion. Director Rendl explained that the severance package was necessary for the security of Mr. Shackelford and his family and would be viewed as a vote of confidence for the General Manager. Director Moore then made a motion to table the item indefinitely. Director Sigler seconded such motion. Director Sigler stated that this sort of major revision in the General Manager's contract needed to be reviewed and discussed and he had not had adequate time to consider the matter. Director Moore then explained his reasons for moving to postpone the amendment to the General Manager's contract and stated that he would deal with his own mother in precisely the same manner. Director Moore stated that it was a terrible precedent to require a 5/0 vote to terminate an employment contract without severance pay. Director Moore stated that he was certain that none of the utility districts offer such severance packages to their employees and/or general

managers. It was then noted that utility districts did not typically have general managers or employees. Director Moore stated that he would not vote for this type of "giveaway". Director Burke commented that after he heard Director Moore say, "I have the votes to get someone who will," he was in favor of the proposed severance package. Director Moore denied that he had made any threats against the General Manager. Director Rendl then called for a vote on the question. The Board voted there (3) votes in favor and two (2) votes opposed, with Directors Rendl and Burke voting in opposition, to table Director Rendl's motion indefinitely.

Director Moore then moved that the meeting be adjourned. Mr. Koperwhats then asked that the Board hear additional comments from the public. Several members of the audience stated that severance packages are often provided for upper management employees in the public sector because of the volatile nature of political offices and alliances. Mr. Mark Edwards of Bammel UD stated that many contracts for engineers in the public sector include severance packages. Mr. Edwards suggested that the Board check with other public entities regarding the handling of severance packages. Director Moore disagreed with Mr. Edwards' statements and stated that things are done differently in the public sector. Mr. Edwards replied that the Edwards Aquifer Authority has a severance package for its general manager as do several other similar entities.

NEXT MEETING DATE AND MISCELLANEOUS MATTERS

Mr. Shackelford then announced that the Board's next regular meeting will be held on Tuesday, November 13, 2001, at the Ponderosa Fire Station.

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

PASSED, APPROVED AND ADOPTED this 13th day of November, 2001.

Secretary, Board of Directors

(SEAL)