

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

November 13, 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 13th day of November, 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, except Director Moore, 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; Ms. Barbara Payne of Payne Communications, communications coordinator for the Authority; Mr. Michael Baugher, P.E. of Turner Collie & Braden, Inc., 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; Mr. Ray Zobel, a member of the City of Houston Regional Advisory Board; Mr. Fred Facker, editor of the 1960 Sun; and Ms. Robin S. Bobbitt and Mr. Andrew P. Johnson, attorneys, and Ms. Brooke T. Dold, paralegal, 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.

It was then noted that Director Moore was not present at the meeting due to a work-related commitment that required him to be out of town.

PUBLIC COMMENT

Director Rendl called the meeting to order and stated that public comments would be deferred until later in the meeting.

PUBLIC HEARING AND STATUS REPORT REGARDING TEXAS WATER DEVELOPMENT BOARD 2001 REGIONAL FACILITY PLANNING GRANT AND UPDATE ON 2000 REGIONAL PLANNING GRANT

Mr. Shackelford explained that the Texas Water Development Board (the "TWDB") grant application requires that the Authority hold three (3) public hearings on the application. Mr. Smith then

announced that this was the second of the three (3) public hearings regarding the 2000 Regional Planning Facility Grant and reviewed fact sheet concerning the 2000 and 2001 grant applications, a copy of which is attached hereto. Mr. Smith reported that the Water Conservation Plan, the GIS database and the utility district interconnection study have all been completed and submitted to the TWDB for review. Mr. Smith stated that the third public hearing would be scheduled after TWDB comments are received and the reports are finalized.

Mr. Smith next announced that this was the first of three (3) public hearings regarding the 2001 Regional Facility Planning Grant. Mr. Smith then reviewed the various tasks included in the grant application, including institutional arrangements comprised of water supply system issues, well ownership issues, fees and cost participation issues and contractual arrangement issues. Mr. Smith stated that the other tasks included in the application were distribution system alternatives and modeling for the groundwater reduction plan (the "GRP"), distribution cost estimates for the GRP and the GIS database update. Mr. Smith reported that Jones & Carter, Inc. had already reviewed the distribution system alternatives and modeling for the Authority's GRP. Mr. Smith reported that some of the work had also been completed regarding the distribution system cost estimates for the GRP. Mr. Smith then explained that the task of updating the GIS database included in the 2001 application would make it easier to use the GIS information. A member of the audience asked whether the costs for the tasks were the total amounts for each task. Mr. Smith responded that the costs reflected on the summary are the total amounts, half of which will be reimbursed with the grant funds received from the TWDB. Director Burke inquired whether the Authority was required to make the GIS information available without charge. Mr. Smith responded that a fee could be charged to obtain information from the GIS database.

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 regular meeting of September 18, 2001, previously distributed to the Board, and that Director Moore had requested action on the October 9, 2001 minutes be deferred. Upon motion by Director Pulliam, seconded by Director Burke, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of the regular meeting of September 18, 2001, as written.

Director Rendl then called for approval of the request to the TWDB for a time extension regarding the Authority's 2001 Regional Facility Planning Grant Contract. Mr. Shackelford explained that the time extension was requested by the TWDB and is necessary in order to provide the TWDB more time to review the final report for the Authority's 2001 grant application. A copy of the time extension request is attached hereto. 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 approve and authorize execution of the time extension.

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 ten (10) months ending October 31, 2001 and the checks being presented for payment, a copy of which is attached hereto. Ms. Plunkett noted that \$1,040 had been refunded to Lakes of Cypress Hill Homeowners Association ("Lakes of Cypress Hills") since such entity pumps less than ten (10) million gallons annually. A copy of the refund request, along with the Authority's correspondence to Lakes of Cypress Hill, is attached to the Report.

Ms. Plunkett next reported that 44 letters were mailed to certain well owners to notify them that their wells would no longer be exempt from the payment of pumpage fees as of January, 2002 as a result of the change in the well exemption provisions made in H.B. 2965. Mr. Shackelford reminded the Board that they had previously approved the levy of a pumpage fee on a single well and/or multiple wells that in the aggregate produce over 5 million gallons annually, to be effective January 1, 2002. A copy of the form letter and a list of the recipients of such letter are attached to the Report.

Ms. Plunkett then reported that correspondence had been sent to Pinewood Place, Inc. regarding a request for payment of additional interest on late pumpage fee payments, a copy of which is attached hereto. Ms. Plunkett also reviewed the summary of the 2001 pumpage fee receipts, a copy of which is attached hereto.

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 approve the Financial Report and the payment of the checks reflected therein.

AMENDMENT TO PROGRAM MANAGEMENT BUDGET

Mr. Shackelford then explained that the Board was being asked to approve an amendment to the Program Management budget in the amounts of \$6,837 and \$8,000, respectively, in connection with the provision of additional services requested by a Board member to prepare the City of Houston (the "COH") raw/treated water rate graphs and the investigation of TWDB fund availability for a proposed groundwater longevity study. Summary memorandums regarding each item are attached hereto. Mr. Shackelford stated that both items were not programmed tasks. Director Burke then stated that it was his recommendation that if an individual Board member requests something from Authority consultants that is not already included in the budget, the matter should be brought to the Board for approval before any work is performed. Director Burke stated that individual unauthorized work requests to Authority consultants need to stop and that the Authority's consultants need to be cognizant of the Board's position on this matter. Upon motion by Director Pulliam, seconded by Director Sigler, after full discussion and the question being put to the Board, the Board voted unanimously to approve the amendments to the Program Management budget, with the understanding that the Board does not want consultants to perform tasks not included in the budget without the prior approval of the Board.

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION
COORDINATOR

Ms. Payne then reported that the Authority's Web site had approximately 20,696 hits since October 9, 2001, which is an average of 600 hits per day and represents 2,339 unique visitors this month. Ms. Payne reported that the Water Users Advisory Group (the "WUAG") and Communications Committee held a joint meeting last week. Mr. Ron Koval of Cypress Klein Utility District then briefly reported on the meeting. Director Rendl expressed the Board's appreciation for the time spent by the WUAG and the Communications Committee members.

Ms. Payne then acknowledged the presence of Mr. Facker at tonight's meeting.

Ms. Payne also reported that the Import Fee Committee had recently met and their recommendation to the Board concerning the levy of import fees is being finalized.

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 then reviewed with the Board the status of the various engineering studies currently in progress. Mr. Baugher reported that the final draft of the GIS Project Manual and 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 such items.

Mr. Baugher then reported that Dannenbaum Engineering Corporation had submitted their final draft report on the Reliant Energy reuse study to the advisory consultant team on September 24, 2001, which report is currently under review.

Mr. Baugher next reported that Alexander Engineering, Inc. ("AEI") had submitted a revised draft of the Water Reclamation/Reuse Study for review on October 9, 2001, and that the Program Management team's review comments were returned to AEI on October 23, 2001. Mr. Baugher noted that the Board would consider a proposed revision to the AEI scope of services later in the meeting.

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

Mr. Baugher then reviewed the status of the Authority's GRP and stated that the goal is to have the draft GRP ready to submit to the Board for review by February, 2002. Director Burke inquired if Task 6 under Section 1A of the Program Management Summary regarding utility district interconnection assistance has had any time billed to such task recently. Mr. Baugher responded that it had been months since any time had been billed to such task.

Mr. Shackelford then continued with the presentation of his General Manager's Report. Mr. Shackelford noted that the Authority has received a number of verbal inquiries and a written inquiry from Malcomson Road Utility District ("Malcomson Road"), a copy of which is attached hereto, regarding the Authority's timeline to begin construction of the master water distribution system and for the distribution of surface water to the utility districts. Mr. Shackelford explained that many of the inquiries are due to the recent revision of the maximum contaminant levels for arsenic in drinking water adopted by the Environmental Protection Agency (the "EPA") from 15 parts per billion to 10 parts per billion, effective in 2006. Mr. Shackelford further stated that an implementation plan for the supply and distribution of water is not part of the Authority's GRP. Mr. Shackelford then requested authorization to prepare an implementation plan that identifies the following: 1) what ultimate lines of the master water distribution system should be constructed first and the approximate schedule for such construction; 2) the cost of such construction; 3) the impact of construction costs on the pumpage fee; and 4) how much water could be distributed prior to the 2010 conversion date. Director Burke inquired regarding what the estimated cost for the preparation of the proposed implementation plan. Mr. Shackelford responded that the estimated cost would not exceed \$300,000. Director Rendl stated that he was somewhat surprised by the Malcomson Road request and stated that it appears to be a request for an early action plan that was previously turned down by the utility districts in the Authority. Mr. Shackelford concurred with Director Rendl's observation and stated that the recent change in attitude is likely due to the change in arsenic level requirements by the EPA. Director Rendl then asked whether any of the proposed work would be related to the GRP development. Mr. Shackelford stated that some of the work will assist with the finalization of the GRP, but that some of the work to be included in the implementation plan will not be GRP related. Director Pulliam inquired whether any of the data from the earlier work on the early action plan could be used in the proposed project. Mr. Shackelford indicated that some information such as the contaminated well information would be used in the implementation plan project. Mr. Shackelford noted that the letter from Malcomson Road referred to approximately two (2) dozen districts with arsenic level concerns. Director Rendl stated that perhaps it would be helpful for the Authority to facilitate a meeting of utility districts with arsenic level problems. Director Burke added that a newspaper article in the Houston Chronicle several months ago listed the districts and entities with arsenic level problems. 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 General Manager to proceed with the preparation of an implementation plan for the supply and distribution of water prior to the mandated conversion date. Director Sigler then questioned whether the Authority might qualify for EPA grant funds for the project. Mr. Shackelford responded that it would likely be several years before grant funds would be available from the EPA for these types of projects, but that he would look into the matter.

Mr. Shackelford next reviewed the request from AEI for a change in the scope of services in connection with the preparation of a water reuse/reclamation study to add additional representative reuse projects, a copy of which is attached hereto. Mr. Shackelford clarified that the change in scope provides AEI with additional time to complete the study, but does not request a fee increase. 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 approve the change in the scope of services requested by AEI.

Mr. Shackelford then discussed the proposed fees and criteria for well owners/utility districts desiring to become a part of the Authority by contract or petition after the December 31, 2001 deadline

reflected in H.B. 1110. Mr. Shackelford then reviewed with the Board his memorandum regarding such matter, a copy of which is attached hereto. Mr. Shackelford reviewed the three (3) options set forth in the memorandum, explaining that the first option of imposing a flat rate, plus pumpage fees incurred after January 1, 2002, was presented to the WUAG last Thursday. Mr. Shackelford explained that the WUAG members suggested the Authority consider implementing an option that would address the size of a joining district and increase the cost of joining the Authority. Mr. Shackelford explained that the second option was developed in response to such recommendations. Mr. Shackelford explained that the third option addresses the various categories of users and assesses a flat fee per quarter, along with assessing a pumpage fee against a district's total volume pumped since January 1, 2002. Extensive discussion regarding the three (3) options then ensued. Mr. Shackelford then recommended that the Board approve and implement option no. 3.

Director Rendl stated that since the creation of the Authority, it has been the Board's intent to be as fair as possible to all districts within the Authority. Director Rendl then briefly outlined the prior policy of the Authority for districts to join/rejoin the Authority and stressed that H.B. 1110 allows districts to become part of the Authority prior to December 31, 2001 without any penalty or payment of past pumpage fees. Director Burke questioned what new information would be available after January 1st that is not available now that would cause districts to join the Authority after December 31, 2001.

Ms. Victoria Hawkins of Northwest Harris County Municipal Utility District No. 23 ("NW No. 23") then stated that knowing who would be on the Board after the February 2nd election is important in making a decision on whether or not to join the Authority and added that the Authority should be offering incentives, rather than penalties, to become part of the Authority.

Ms. Kathie Ware of Fountainhead Municipal Utility District then asked how new developments within the Authority would be treated with regard to the payment of a joining fee and/or pumpage fees. Mr. Shackelford responded that a separate fee structure will be determined for such entities at a later time. Director Rendl added that fees for newly created districts will need to be reviewed using two (2) scenarios, including those utility districts near distribution lines and those utility districts located far from a distribution line or a point of connection.

Director Burke then asked whether the utility districts joining the Authority would be eligible to vote in the February 2, 2002 Director Election. Ms. Bobbitt responded that it is not certain whether the residents of new districts joining the Authority will be able to vote in the February 2nd election. Ms. Bobbitt explained that a submission letter regarding the addition of new districts would be submitted to the U.S. Department of Justice.

Mr. Kerry Simmons of Post Wood Municipal Utility District commented that there had to be a stopping point and that H.B. 1110 had designated December 31, 2001 as the deadline for becoming part of the Authority without the payment of any penalties or fees. Several members of the audience then commented on the large amounts of pumpage fees their districts had paid to the Authority since its creation.

Ms. Hawkins stated that NW No. 23 has high levels of arsenic and must comply with the new EPA requirements by 2006. Ms. Hawkins stated that NW No. 23 was ready to join the Authority until they

learned of the proposed fees to join the Authority after December 31, 2001, which makes it appear that the Authority does not want them to join.

Mr. Larry LaHaie of Northwest Harris County Municipal Utility District No. 14 responded that NW No. 23 was not being realistic to expect all decisions regarding the implementation of the GRP to be decided before they join the Authority.

Ms. Gloria Malek of Northwest Harris County Municipal Utility District No. 10 commented that the districts already in the Authority have been paying pumpage fees for two (2) years and the only fair and reasonable approach was to implement option no. 3.

Mr. Mark Edwards of Bammel Utility District ("Bammel") noted that several districts within the Authority had problems with arsenic levels in their water supplies and that there are no guarantees that the Authority will be able to provide an alternate source of water by the 2006 EPA deadline.

Mr. Dan Meacham of Timber Lane Utility District noted that his district had paid over \$100,000 of pumpage fees over the last two (2) years.

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 option no. 3 for the fees to join the Authority after December 31, 2001, as recommended by Mr. Shackelford. Mr. Shackelford explained that option no. 3 includes the establishment of various volume categories and a corresponding joining fee based on differentiating the size of the district joining the Authority. The volume categories and fees are as follows:

Petitioning

District/Well Owner Volumes	1st Qtr 2002	2nd Qtr 2002	3rd Qtr 2002	4th Qtr 2002 & Later
5 – 20 mg/y	\$ 5,000	\$ 8,750	\$ 12,500	Case by Case
> 20 – 50 mg/y	\$ 7,500	\$13,125	\$ 18,750	Case by Case
> 50 – 100 mg/y	\$15,000	\$26,250	\$ 37,500	Case by Case
>100 – 150 mg/y	\$20,000	\$35,000	\$ 50,000	Case by Case
>150 – 200 mg/y	\$25,000	\$43,750	\$ 62,500	Case by Case
>200 – 300 mg/y	\$30,000	\$52,500	\$ 75,000	Case by Case
>300 mg/y & up	\$45,000	\$78,750	\$112,500	Case by Case

Mr. Shackelford then noted his response letter to Senator Buster Brown concerning possible legislation for the 2003 legislative session, a copy of which is attached hereto.

Mr. Shackelford then reviewed his memorandum concerning correspondence received from Representative Peggy Hamric that suggested the name of Jerry Coffey as an individual to assist him in his negotiations with the COH, a copy of which is attached hereto.

Mr. Shackelford next announced that several draft reports were now on file in the Authority's offices and are available for public review, including the draft Water Conservation Plan, the MUD

Interconnection Report and the GIS Project Manual. Mr. Shackelford's memorandum regarding this matter is attached hereto.

Mr. Shackelford then noted copies of response letters sent to Harris County Fresh Water Supply District No. 52, Bilma Public Utility District and West Harris County Municipal Utility District No. 11 that were included in the Board's meeting packets, copies of which can be found in the Authority's files.

Mr. Shackelford went on to report that he had attended meetings with several of the split districts to clarify the criteria and procedures to join the Authority prior to December 31, 2001. Mr. Shackelford also reported on his meeting with the COH and stated that he had recently reminded Mr. Haines that a draft water supply contract from the COH had not yet been provided to the Authority.

Mr. Shackelford then noted that an open house at the offices of the Authority is planned for December 13, 2001 from 5:00 p.m. to 7:00 p.m. and invited a representative from each utility district in the Authority to attend the event. Mr. Shackelford stated that the various chambers of commerce that the Authority has joined will also be invited.

Mr. Shackelford noted that a revised list of letters/resolutions received from districts had been included in the meeting packets, a copy of which is attached hereto.

Mr. Shackelford then announced that he would be on vacation November 20th and November 21st.

Mr. Shackelford next reported that Harris County Municipal Utility District No. 191 ("HCMUD No. 191") located west of Cutten Road and east of Willowbrook Mall, has approached the Authority concerning a proposed interim water supply contract between the COH and the Authority. Mr. Shackelford explained that the HCMUD No. 191 has new development activity and does not have adequate water supply capacity to serve such development. Mr. Shackelford stated that such an agreement would be similar to the agreement Jersey Village has with the COH and would be an example of how the Authority and the COH can work together.

Director Pulliam then inquired whether Mr. Shackelford has reviewed the various COH water supply contracts and proposed term sheets. Mr. Shackelford responded that he had reviewed all of the COH contracts. Mr. Shackelford indicated that he was not opposed to the Authority drafting its own contract to submit to the COH.

IMPORT FEE COMMITTEE REPORT

Mr. Shackelford then reported that the Import Fee Committee (the "Committee"), including the two (2) new members of such Committee, had recently met and their recommendations have been prepared and submitted to the Committee for review and final approval before being submitted to the Board. Director Rendl stated that he wanted the import fee matter resolved prior to year-end. Mr. Shackelford clarified that it is being proposed that the imposition of the import fees would coincide with the implementation of the GRP.

AMENDMENTS TO ASSOCIATION OF WATER BOARD DIRECTORS-TEXAS BYLAWS

Mr. Shackelford noted that the Board meeting packets included information concerning proposed amendments to the Association of Water Board Directors – Texas (the "AWBD") bylaws and recommended that the Board approve such changes. 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 approve the amendments to the AWBD bylaws. A copy of the proposed amendments is attached hereto.

PETITION FOR CONSENT TO INCLUDE ADDITIONAL LAND IN THE AUTHORITY

Ms. Bobbitt reported that the Authority has received a Petition for Consent to Include Additional Land from Ponderosa Forest Utility District ("Ponderosa Forest"), a copy of which is attached hereto. Ms. Bobbitt explained that a portion of Ponderosa Forest is not included within the Authority. 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 accept such Petition. Ms. Bobbitt stated that she anticipates that several other districts will submit petitions to the Board prior to December 31st and that a special meeting of the Board may be necessary.

DIRECTOR ELECTION

Ms. Bobbitt announced that December 19, 2001 is the deadline for candidates to file for a place on the ballot for the February 2, 2002 Director Election.

ADDITIONAL PUBLIC COMMENT

Mr. Garey Nelson of Bammel then requested more information concerning the request from HCMUD No. 191 for an interim water supply contract with the Authority. Mr. Shackelford explained that HCMUD No. 191 had a water well that had reached its maximum capacity and that the district wished to enter a water supply contract to provide water capacity to a new development.

NEXT MEETING DATE AND MISCELLANEOUS MATTERS

Mr. Shackelford then announced that the Board's next regular meeting will be held on Tuesday, December 11, 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 11th day of December, 2001.

Secretary, Board of Directors

(SEAL)

K:\NHCRWA\Minutes\11-13-01.DOC
#853.0000