

MINUTES OF MEETING OF THE  
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

August 19, 2002

The Board of Directors (the "Board") of the North Harris County Regional Water Authority (the "Authority") met in special workshop session, open to the public, at 6:00 p.m. on Monday, the 19<sup>th</sup> day of August, 2002, 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:

Lenox A. Sigler	-	President
Jim Pulliam	-	Vice President
Ron Graham	-	Secretary
Kelly Fessler	-	Treasurer
Alan J. Rendl	-	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; 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., Program Manager and alternate source study engineering consultant for the Authority; Mr. Gary Smith, P. E. of ARCADIS, Program Manager for the Authority; Mr. Ray Zobel, a member of the City of Houston Regional Advisory Board; Ms. Robin S. Bobbitt, attorney, and Ms. Brooke T. Dold, paralegal, of Johnson Radcliffe Petrov & Bobbitt PLLC, attorneys for the Authority. 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.

CORRESPONDENCE FROM CITY OF JERSEY VILLAGE

Mr. Shackelford reported that he had recently received a response from Councilmember Greg Holden, Council Position 2 of the City of Jersey Village ("Jersey Village") to the Authority's letter notifying Jersey Village of the Board's decision to withdraw its offer to acquire the City of Houston (the "COH") water line interconnect and proposed assignment of the Water Supply Agreement between Jersey Village and the COH to the Authority. A copy of such response letter is attached hereto.

WATER SYMPOSIUM

Mr. Shackelford then reported that he would be speaking at a symposium entitled "Water Essential to Life" sponsored by the North/West Economic Forum of Harris County to be held on Tuesday, August 20, 2002, at 11:00 a.m., at the Willowbrook Hilton Hotel. Directors Rendl and

Graham stated that they would attend the symposium. A copy of the information to be presented at the symposium about the Authority is attached hereto.

### REVIEW OF PROPOSED BUDGET FOR FISCAL YEAR ENDING DECEMBER 31, 2003

Mr. Shackelford first presented and reviewed with the Board a summary of the proposed budget for the fiscal year ending December 31, 2003, previously distributed to the Board and consultants, a copy of which is attached hereto. A copy of the complete draft Budget Report (the "Report") is on file in the Authority's records. Mr. Shackelford then reviewed the Report with the Board in a PowerPoint presentation format and noted that the 2002 budget revenue was \$6,203,499 and that the proposed budget revenue for 2003 is projected to be \$5,525,500. Mr. Shackelford explained that several new budget categories were added to the 2003 budget, including Interim Water Sales, Interim Water Purchases and Water Purchases. Mr. Shackelford further explained that he was offering a balanced budget based on the revenues projected to be received during the 2003 fiscal year and a fund transfer from the investment account to the General Fund. Mr. Shackelford added that the proposed budget for 2003 includes an operating reserve of \$750,000 and a 2003 pumpage fee of \$0.25 per 1,000 gallons. Mr. Shackelford explained that if the Authority sells bonds for funding any of the Integrated Water System Plan (the "IWSP") projects, it will be toward the end of the second quarter or the third quarter of 2003, and it is at that point that the pumpage fee will likely need to be increased.

Director Rendl commented that the Authority needs to communicate to the utility districts that certain activities and projects of the Authority will require an increase in the pumpage fee in the latter part of 2003. Director Rendl inquired what information can be given to the public about the budget and proposed pumpage fee prior to the budget hearing on September 5, 2002. Mr. Shackelford responded that the summary sheets of the proposed budget and his budget summary memo can be posted on the Authority's Web site.

Mr. Shackelford next explained that the terms of the proposed Water Supply Contract with the COH (the "COH Contract") will require an annual interest payment of approximately \$3.4 million to the COH within 60 days of signing the agreement for the purchase of the Authority's pro rata share of Treated Water Facilities capacity and capacity in the 84" transmission line. Director Graham inquired why the Authority would want to pay the \$3.4 million so late in the year rather than wait until 2003. Mr. Shackelford explained that obtaining certification of the Groundwater Reduction Plan (the "GRP") would be delayed if the COH Contract is not signed this year. Mr. Shackelford further explained that the execution of the COH Contract triggers the COH to proceed with construction of Phase 2 of the Northeast Purification Plant. Ms. Bobbitt noted that the annual interest payments for Treated Water Facilities capacity will be due on the anniversary date of the initial interest payment and not on the anniversary date of the COH Contract execution.

Mr. Potok then entered the meeting at 6:28 p.m.

A discussion then ensued concerning the scheduling of a special workshop meeting on September 6<sup>th</sup> or September 7<sup>th</sup> to review the proposed COH Contract. The Board requested that Mr. Shackelford check on the availability of the Ponderosa Volunteer Fire Department for a meeting at 9:00 a.m. on Saturday, September 7, 2002. Director Pulliam asked that an executive

summary of the proposed COH Contract be provided to the Board prior to the workshop meeting. Mr. Shackelford stated that he would also ask Mr. Howell to prepare an updated financial analysis of the COH Contract provisions for the Board's review.

#### CONTINUATION OF REVIEW OF PROPOSED BUDGET

Mr. Shackelford went on to explain that the total projected expenses in the 2003 base budget are \$12,713,882 with supplemental decision package totaling \$1,347,923. Mr. Shackelford then reviewed the Revenue Summary Schedules located in Tab 2 of the Report and explained that the pumpage fee revenue projected for 2003 is \$5,312,500.

Director Fessler inquired as to the status of the lawsuits for the two (2) delinquent pumpage fee accounts. Ms. Bobbitt indicated that the lawsuits were being prepared for filing.

Mr. Shackelford next reviewed the various categories of budget expenses included in the Report (see Tabs 3 through 12 of the Report). Concerning the review of the Water Purchase expense line item (see Tab 4 of the Report), Mr. Shackelford explained that as discussed earlier, the Authority's options under the proposed COH Contract include making a lump sum capital contribution payment or making annual interest payments for Treated Water Facilities capacity.

The Board next discussed the Engineering Services expense line items located at Tab 6 of the Report. Mr. Shackelford explained that such expense line item includes fees for commencement of engineering on the 2010 master water system or alternatively, engineering for the IWSP projects. Mr. Shackelford added that the construction costs for the IWSP projects are included in the supplemental decision package items. Director Fessler inquired where the GIS software/computer equipment is physically located. Mr. Shackelford responded that the GIS program is located at the Authority's office. Mr. Baugher then explained that Alexander Engineering, Inc. had submitted the final draft of the Reclamation/Reuse Study and stated that the Program Management team is in the process of reviewing the report. Director Rendl commented that the \$5,000 line item for the preparation of the Authority's water conservation plan did not seem adequate and suggested that more funds be allocated for such work item. Mr. Shackelford stated that the COH Contract requires the Authority to have a water conservation plan in place and noted that the Board can always amend the budget as may be needed.

The Board then recessed at 7:40 p.m. for a five (5) minute break.

At 7:50 p.m., the meeting resumed. Concerning the Legal Services expense line items (see Tab 7 of the Report), Mr. Shackelford noted that the 2003 base budget amount of \$260,000 was significantly less than the amount reflected in the 2002 budget. Mr. Shackelford noted that the proposed amendments to the 2002 budget includes a reduction in the legal services expense line item.

Mr. Shackelford then reviewed the Communication Services expense line items (see Tab 10 of the Report). Director Graham inquired why the Authority sponsored the provision of textbook covers to schools in the area. Director Fessler inquired whether the textbook covers are available to private schools. Mr. Shackelford briefly explained the textbook cover program to the Board and noted that the private schools in the area had not been targeted, but that he would

investigate what the additional expense would be to include some of the private schools. Director Fessler then inquired about the purpose of the new advisory group reflected in the Committee/Public Meeting Expense line item of the Communication Services budget. Ms. Payne explained that from the very beginning, the business community engaged in promoting the creation of the Authority. Ms. Payne explained that formation of a business roundtable advisory group is the new group being proposed and stated that such a group would be beneficial, both to the Authority and the general public. Director Rendl suggested that the area homebuilders be included in the new advisory group. Director Pulliam asked if most of the businesses within the Authority obtained their water from utility districts or had their own small wells. Mr. Shackelford responded that a majority of the commercial establishments and businesses obtain their water from the utility districts in the area.

During Mr. Shackelford's review of Tab 11 regarding the Miscellaneous Services expense line items, Director Graham inquired what was included in the re-mapping expense line item. Mr. Shackelford explained that the new Harris County voting precincts need to be reflected on and added to the boundary map of the Authority. Director Graham then inquired who would perform the mapping work. Mr. Shackelford responded that the Program Manager will do the re-mapping.

#### BUDGET DECISION PACKAGES

Mr. Shackelford then reviewed with the Board the Supplemental Decision Packages included in the Report. Mr. Shackelford discussed the proposed plans for the remodeling of the Authority's office space to provide a meeting space to accommodate the audiences who attend the Board's monthly meetings. The Board then reviewed and discussed the four (4) space plan options included in the Report.

Mr. Shackelford also discussed the possibility of purchasing, rather than leasing, office space. Mr. Shackelford noted that the current office space lease expires in 2005 and explained that if the Authority built a regional well or pumping station, additional land could be acquired in connection with the well or pump station site to build an Authority office and meeting facility.

Concerning the cost of living increase supplemental decision item, Mr. Shackelford reported that the national Consumer Price Index ("CPI") for the last 12 months had been 1.1% and that Harris County had budgeted a 3% cost of living increase for fiscal year 2002. Mr. Shackelford recommended that the Authority's staff salaries be increased 2% for 2003.

The Board then reviewed a supplemental package item to add two (2) staff positions, including a Project Coordinator to assist the General Manager with day-to-day operations of the Authority and an Accounting Clerk to assist the Financial Assistant. The Board then discussed the qualifications for the proposed staff positions. Director Graham asked whether an auditor could be hired to perform the pumpage fee audits. Mr. Shackelford stated he would talk with Mark McGrath of Null-Lairson P.C., auditors for the Authority, regarding Director Graham's suggestion. Mr. Shackelford added that with the increased activities of the Authority, including the possible implementation of the IWSP program, there is a need for an Accounting Clerk to assist the Financial Assistant.

The Board then reviewed the engineering management supplemental decision item for engineering management for the proposed IWSP program. Mr. Shackelford noted that numerous districts had indicated an interest in buying or selling water through the IWSP program and explained that the September 3, 2002 deadline to declare intent to buy or sell water was for districts needing water by 2004. Mr. Shackelford explained that if districts can wait until 2006 for water, their letters of intent can be submitted at a later time. Mr. Shackelford noted that the costs for engineering management for the IWSP program would vary depending on the number of projects authorized by the Board. Mr. Shackelford went on to review the supplemental decision package items for the four (4) proposed IWSP projects.

Ms. Payne next reviewed the supplemental decision package item for the technology transfer to the Authority's Web site. Ms. Payne explained that the Authority's ArchIMS software could be utilized to expand the Authority's Web site capabilities to include geographic information, database collection and maintenance and interactive search features. Ms. Payne noted that the budget amount includes training for the Authority staff. The Board asked if the proposed technology transfer work would be done in-house. Mr. Shackelford responded that the technology transfer work and database expansion would be contracted out to Cobourn Linseisen & Ratcliff, Inc., the firm that worked on the Authority's GIS project. The Board then asked if the technology transfer and database expansion could be started sooner, rather than waiting until 2003. Mr. Shackelford responded that there is \$20,000 available for GIS services in the 2002 budget that could be used for such work. Ms. Payne noted that Russell Lambert of The Texas Network, who works with her to operate and maintain the Authority's Web site, is working on a cost estimate for additional storage capacity on the Authority's Web site. Mr. Shackelford stated that he would include the cost for the additional storage requirements in the 2002 budget amendment.

Mr. Shackelford next reviewed the supplemental decision package item for a water conservation education program. Mr. Shackelford explained that such amount is in addition to the \$5,000 allocated for the preparation of the Authority's water conservation plan.

The Board next considered the supplemental decision package for a full-time GIS/CAD technician. Mr. Shackelford explained that the expense item was brought forward from the 2002 budget and noted that he believed it was still a bit premature to hire a full-time GIS/CAD technician.

Mr. Shackelford then reviewed the supplemental decision package for the wastewater reuse project and explained that this item was also brought forward from the 2002 budget. Mr. Shackelford reminded the Board that as previously determined by the Board, contracts with wastewater effluent providers and users are required for expenditure of funds under this supplemental expense item.

### 2003 BUDGET SUMMARY

Mr. Shackelford then reviewed the 2003 Summary Budget Analysis prepared by Mr. Howell of The GMS Group, Inc. that reflects the proposed 2003 budget with and without the supplemental decision package items, a copy of which is included in the Report.

## CONCLUSION OF BUDGET REVIEW

Mr. Shackelford then concluded his budget presentation by recommending that the pumpage fee for 2003 remain at \$0.25 per 1,000 gallons, but noted that the pumpage fee will need to be increased to \$0.30 per 1,000 gallons by the end of the second or third quarter of 2003, if the IWSP program is implemented by the Board and if the Authority enters a Water Supply Contract with the COH. Mr. Shackelford stated that the revisions to the 2002 budget would be prepared for approval by the Board at the September 5<sup>th</sup> meeting. Director Rendl noted that when the Authority first began talking about pumpage fees, fees in the range of \$1.00 to \$1.60 per 1,000 gallons were anticipated. Ms. Payne noted that the West Harris County Regional Water Authority had just adopted a pumpage fee of \$0.50 per 1,000 gallons for 2003.

Director Pulliam then asked about the preparation of an aquifer assessment by the Authority. Mr. Shackelford responded that he believed an aquifer assessment study would be more useful at such time the Authority considers installing a regional well and/or closer to the initial surface water conversion date of 2010. Mr. Potok explained that all aquifers in the Gulf Coast area are currently being studied in a cooperative effort by the Texas Natural Resource Conservation Commission, the United States Geological Services and several other entities, and that the results of the study should be available within 15 to 18 months. A discussion then ensued concerning steps the Authority can take to monitor the status of such aquifer assessment study.

Mr. Shackelford then announced that the hearing on the 2003 budget, as required by House Bill 2965, the Authority's creation legislation, would be held prior to the Board's regular meeting on Thursday, September 5, 2002, at 6:00 p.m. at the Ponderosa Volunteer Fire Department.

## EXECUTIVE SESSION

Director Sigler then adjourned the meeting at 10:00 p.m. and announced that the Board would convene in executive session, pursuant to Section 551.074, Texas Government Code, as amended, to review and deliberate on the evaluation of the General Manager.

## RECONVENE IN OPEN SESSION

Director Sigler then reconvened the meeting in open session at 10:25 p.m., at which time no action was taken by the Board.

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

PASSED, APPROVED AND ADOPTED this 7<sup>th</sup> day of October, 2002.

/s/Ron Graham

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Secretary, Board of Directors

(SEAL)