

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

April 2, 2002

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 2nd day of April, 2002, 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:

Lenox A. Sigler	President
Jim Pulliam	Vice President
Ron Graham	Secretary
Kelly P. Fessler	Treasurer
Alan J. Rendl	Assistant Secretary

All members of the Board were present, thus constituting a quorum. Also attending the meeting were: Messrs. Ron Neighbors and Jace Houston of the Harris-Galveston Coastal Subsidence District (the "HGCS D"); 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. Mark McGrath of Null-Lairson P.C., auditors for the Authority; Messrs. Michael Baugher, P.E. and David Dow, P.E. of Turner Collie & Braden, Inc., Program Manager and alternate source study engineering consultants for the Authority; Messrs. Malcolm Beckendorf, P.E., Joe Wozny , P.E., and Nathan Billiot, P.E. of ARCADIS WSBC, Program Manager for the Authority; Mr. Dave Scholler, P.E. of Brown & Gay Engineers, Inc., water conservation study engineering consultant for the Authority; Mr. Jim Dannenbaum, P.E. of Dannenbaum Engineering Corporation, on-call engineering consultant for the Authority; Mr. John Howell of The GMS Group, Inc., financial advisors for the Authority; Mr. Ray Zobel, a member of the City of Houston Regional Advisory Board; Ms. Paris Achen of the 1960 Sun; Ms. Kim Canon of the Houston Chronicle; and Ms. Robin S. Bobbitt of Johnson Radcliffe Petrov & Bobbitt PLLC, 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.

HARRIS-GALVESTON COASTAL SUBSIDENCE DISTRICT PRESENTATION

Mr. Neighbors was then introduced and delivered a presentation concerning the historical development/evolution of the HGCS D Regulatory Plan of 1999. A copy of Mr. Neighbors' power point presentation is attached as an exhibit hereto.

Following the presentation, Mr. Neighbors entertained questions from the Board and the audience. Director Pulliam asked at what HGCSO meeting the Authority's groundwater reduction plan (the "GRP") would be discussed and approved. Mr. Neighbors responded that the HGCSO meetings hold no relevance to the review and approval process of the GRP and explained that the GRP would be turned in to the HGCSO staff for review and approval. Mr. Neighbors also explained that the HGCSO was in the process of changing the permit renewal deadlines for Area 3 and stated that at the time a permit date is changed, the imposition of disincentive fees will be triggered.

Director Graham commented that one of the slides in Mr. Neighbors' presentation appeared to reflect conversion of the City of Houston's (the "COH") well fields. Mr. Neighbors responded that there was not such a slide in his presentation; however, the idea had been proposed in an earlier letter but was determined not to be feasible. Mr. Neighbors added that the COH has converted approximately sixty percent (60%) of their water supply to surface water and further noted that the COH must also have a GRP approved by the HGCSO.

Director Fessler then asked where the HGCSO's funding comes from. Mr. Neighbors stated that the HGCSO has no taxing authority and that their funding comes solely from the collection of permit fees and disincentive fees. Mr. Neighbors added that the HGCSO will determine how the disincentive fees will be utilized.

Mr. Bill Black of Northampton Municipal Utility District asked if subsidence problems in the "red zone" would be improved following the conversion to surface water. Mr. Neighbors responded that other areas have shown significant improvement with regard to subsidence after conversion to surface water.

Mr. Jerry Holman of Harris County Fresh Water Supply District No. 61 asked for an explanation of the concept of "co-permittee". Mr. Neighbors stated that although this concept still needs more discussion, it is anticipated that all well permits will be issued in the name of the well owner and the GRP manager and in the event of a permit violation, the GRP manager would be responsible.

Mr. Taylor Broun of Northwest Harris County Municipal Utility District No. 10 ("NW No. 10") asked what would happen if the Authority meets the GRP filing deadline, but does not yet have a firm water supply contract. Mr. Neighbors responded that the HGCSO will not approve a final GRP without a water supply contract being in place. Mr. Neighbors added that by the time a permit renewal date is reached, there must be an approved GRP in place.

Director Sigler then thanked Mr. Neighbors for his presentation to the Board.

PUBLIC COMMENT

Director Sigler then opened the meeting to public comments.

The Board again recognized Mr. Broun of NW No. 10, who delivered a prepared statement from his Board, a copy of which is attached hereto. Mr. Broun asked for a statement from each Board member as to whether they would favor a contract from the COH. Director Sigler responded on behalf of the

Board stating that the proposed term sheet from the COH appears to be fair and if a contract can be negotiated with such terms, the Board intends to approve such a contract.

Mr. Ruben Gonzales of Harris County Municipal Utility District No. 24 was then recognized and stated that his Board and district constituents want to encourage the Authority to take a proactive position concerning the COH water contract proposal. Mr. Gonzales noted that his district considers the negotiations with the COH to be Plan B after the contract for the purchase of the Chocolate Bayou Water Company. Mr. Gonzales added that his district and others are considering taking legal action against the Authority if a water contract is not entered into and disincentive fees are imposed by the HGCSO.

CONSENT AGENDA

Director Sigler next briefly reviewed with the Board the items reflected on the Consent Agenda. Director Sigler 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 Sigler then stated that the first item on the Consent Agenda is approval of the minutes of the regular meeting of March 4, 2002 and the special meetings of February 25, 2002 and February 27, 2002. Director Sigler noted that there were several minor corrections to the March 4th minutes on pages 2, 5 and 6.

Director Sigler stated that the second item on the Consent Agenda is to ratify approval of the minutes of the special meeting of February 8, 2002, previously approved by the Board.

Director Sigler then stated that the third item on the Consent Agenda is to adopt the Amended and Restated Procedural Rules of the Authority to implement the term limitation on the office of President of the Board previously discussed by the Board, a copy of which is attached hereto.

Upon motion by Director Rendl, seconded by Director Pulliam, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of the regular meeting of March 4, 2002, as corrected, and the special meetings of February 25, 2002 and February 27, 2002; to ratify approval of the minutes of the special meeting of February 8, 2002, and to adopt the Amended and Restated Procedural Rules of the Authority.

REVIEW OF AUDIT REPORT

The Board then recognized Mr. McGrath, who reviewed with the Board the draft of the Authority's audit report for the fiscal year ending December 31, 2001, a copy of which is attached hereto. Mr. McGrath expressed his appreciation to the Authority's staff for their assistance and cooperation during the audit process. Director Graham asked if letters of representation were sent to the Authority's staff, Board members and consultants. Mr. McGrath responded that representation letters were sent only to the Authority's consultants. Mr. Shackelford stated that the audit will be presented at the Board's May 6th meeting for approval.

FINANCIAL REPORT

Director Sigler then recognized Ms. Plunkett, who reviewed the Financial Report with the Board, including the monthly investment report and the budget comparison for the month of February, a copy of which is attached hereto. Ms. Plunkett then reviewed the updated list of delinquent fourth quarter pumpage fee accounts and delinquent notice letters, copies of which are attached hereto. Ms. Plunkett also reported on receipt of a letter from Rock Creek Community Association requesting the waiver of a late payment/interest fee of \$6.96 and stated that such request had been approved.

Ms. Plunkett then noted a request for an attorneys' representation letter concerning the Authority's December 31, 2001 audit report, a letter from the Tipton Group notifying the Authority of a change in the monthly escalation amount on the Authority's office lease. Ms. Plunkett also reviewed a packet of updated information recently mailed to well owners within the Authority. Copies of these items are attached hereto.

Ms. Plunkett next reported that the 2002 first quarter pumpage fees are due on April 30, 2002. Director Rendl commended all of the districts and well owners for their excellent payment record.

Upon motion by Director Rendl, 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.

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

Ms. Payne reported that the Authority's Web site had approximately 19,738 hits in March, which represents an average of 616 hits per day. Ms. Payne announced that in the near future, the power point presentation from the Board's March 23, 2002 Technical Workshop will be posted on the Web site. Ms. Payne also noted that a town hall meeting would be held April 8, 2002 at 7:00 p.m. at the Jersey Village Civic Center to discuss the proposed acquisition by the Authority of the interconnect between Jersey Village and the COH.

Ms. Payne reported that she is working with Mr. Shackelford on the schedules and presentations for the town hall meetings within the single-member voting districts and noted that information concerning the meetings is available on the Web site and on the table at the back of the meeting room. A copy of the schedule of town hall meetings is attached hereto.

Ms. Payne also reported that a reception for the new Board members would be held on Monday, April 22nd, from 5:00 p.m. until 7:00 p.m. at the Authority's offices.

Mr. David Schnitzer of Northwest Harris County Municipal Utility District No. 22 then presented a report from the Authority's Water Users Advisory Group (the "WUAG"). Mr. Schnitzer expressed the WUAG's concerns over the lack of communication and coordination between the Board and the utility districts. Mr. Schnitzer expressed appreciation to Director Pulliam for organizing an informational meeting in Voting District No. 3. Mr. Schnitzer recommended and encouraged each Board member to follow suit in

their respective single-member voting districts. Mr. Schnitzer also invited the Board to attend the WUAG meeting on April 25th at 4:30 p.m. at the Authority's offices and explained that the WUAG is a smaller forum in which to discuss issues and concerns of the utility districts. Mr. Schnitzer concluded his remarks by encouraging the Board not to allow petty politics to affect the Board and its goals and stated that the districts are concerned about the Board's attitude toward the utility districts. Mr. Schnitzer further exhorted the Board to view the utility districts as team members. Director Sigler requested that Mr. Schnitzer assist with organizing meetings within other single-member voting districts. Mr. Shackelford reported that a meeting had been scheduled in Voting District No. 5 and requested that Mr. Zobel assist with scheduling a meeting in Voting District No. 1. Mr. Broun stated that Director Graham had told him to wait a few months before scheduling a meeting in Voting District No. 1. Director Graham responded that this was not true and the subject had not come up in his conversation with Mr. Broun.

PROGRAM MANAGER'S REPORT

Mr. Shackelford then asked Mr. Baugher to present the Program Manager's Report, a copy of which is attached hereto.

Mr. Baugher first noted that the Texas Water Development Board (the "TWDB") grants would probably require another extension of time.

Mr. Baugher next reported that the Engineer Advisory Consultant Group was presenting its water pricing and integration plan at a meeting for the utility district engineers on Monday, April 8, 2002, at the HESS Club and again on April 15th for the utility district attorneys.

Mr. Baugher next reviewed with the Board the status of the various engineering studies currently in progress. Mr. Baugher reported that comments on the final draft of the GIS Project Manual and database had been received from the TWDB on February 26, 2002, and that the Program Management Team is addressing and obtaining clarification of the TWDB comments prior to finalizing the project.

Mr. Baugher next reported that the GRP was still on target to be submitted to the HGCSO on or about July 3, 2002. Mr. Baugher noted that the GRP continues to contemplate the delivery of water from the east based on a contract with the COH. Mr. Baugher reported that he had prepared a schedule/timeline for preparation, finalization and submission of the Authority's GRP that will be reviewed by Mr. Shackelford during his report.

GENERAL MANAGER'S REPORT

Mr. Shackelford then continued with the presentation of his General Manager's Report, a copy of which is attached hereto.

Mr. Shackelford stated that he would first provide a quick overview of the COH proposal as discussed at the Board's March 23rd Technical Workshop. A summary of the COH proposal is attached hereto. Mr. Shackelford also reviewed an e-mail received on March 29th from Sara Culbreth of the COH regarding the upcoming April 10th meeting with the COH to discuss a draft of the contract. Mr.

Shackelford noted that a response letter to Mr. Jon Vanden Bosch at the COH regarding the March 19th proposal was included in the Board meeting packet, a copy of which is attached hereto. Mr. Zobel asked if there was a reservation fee included in the proposed contract terms and whether the proposed contract was still a take or pay contract. Mr. Shackelford confirmed that there was no reservation fee or a take or pay provision reflected in the current COH proposal.

Mr. Shackelford next reported that the Authority approached the Ponderosa Volunteer Fire Department about upgrading the public address system and that the matter is under consideration.

Mr. Shackelford then noted that Directors planning to attend the AWBD Summer Conference in South Padre must contact the Authority's office concerning hotel and air reservations as soon as possible.

Director Rendl then reported that he had run into Jeff Taylor of the COH at a golf tournament and learned that Mr. Taylor is now working with Mr. Vanden Bosch, the new Director of the COH Public Works and Engineering Department.

Mr. Shackelford then suggested that the Authority needs to be prepared with water source alternatives, or a Plan "B", in the event negotiations with the COH are not successful. Mr. Shackelford requested the Board's authorization to initiate discussions with other water suppliers at such time he determines is appropriate in order to have an alternate plan should an agreement with the COH not be reached. Mr. Shackelford then reviewed some of the alternatives and options with the Board. Director Pulliam then read a prepared statement regarding Plan "B", a copy of which is attached hereto. Director Pulliam then made a motion, which was seconded by Director Fessler, to authorize the General Manager to continue negotiations for water with the COH and to immediately proceed with the investigation of an alternate source of water for the Authority and be prepared to negotiate for that source of water. Further discussion then ensued.

Director Rendl commented that with a meeting scheduled on April 10th with the COH, the Authority's negotiating team should know whether there is chance to reach an agreement with the COH and stated that the Authority should give the COH deal a chance to be worked out.

Mr. Shackelford was asked what the costs would be to investigate an alternate water source. Mr. Shackelford stated that the primary costs would be to define and refine some of the information and numbers previously obtained. Mr. Shackelford was then asked when he would begin such an investigation. Mr. Shackelford replied that he was asking the Board to give him the discretion on the timing for such investigation. Director Sigler noted that the intent of the motion was to give Mr. Shackelford such discretion. Director Rendl stated that he concurred with giving Mr. Shackelford the discretion regarding the Plan "B" investigation.

Mr. Broun of NW No. 10 asked the Board not to take any action on alternate water sources until after the April 10th meeting with the COH.

Mr. Bill Papp of Harris County Water Control and Improvement District No. 132 stated that he was surprised at the negativity expressed towards the motion since the Board is attempting to do what the utility districts have asked them to do, which is negotiate with the COH.

Director Graham asked if the negotiating team knew if the West Harris County Regional Authority (the "WHCRWA") had initiated a Plan "B". Mr. Shackelford responded it is his understanding that the WHCRWA had done nothing officially, but they were not opposed to approaching the Brazos River Authority (the "BRA") if they cannot reach agreement with the COH. Director Graham commented that if the Authority can share distribution and treatment costs with the WHCRWA for water from the BRA, water from the Brazos River can be competitive.

After full discussion and the question being put to the Board, the Board voted four (4) votes in favor and one (1) vote opposed, with Director Rendl voting in opposition, to authorize the General Manager to continue negotiations for water with the COH and to immediately, at his discretion, proceed with the investigation of an alternate source of water for the Authority and be prepared to negotiate for that source of water.

Miscellaneous correspondence and items that were included in the Board meeting packets and noted in the General Manager's Report are attached hereto.

Mr. Shackelford next announced that a town hall meeting for Voting District No. 1 was scheduled, but that another meeting place needed to be found. Mr. Shackelford stated that the information will be posted on the Authority's Web site. Director Sigler commented that the Voting District No. 3 meeting had been organized by various water districts and stated he thought the meetings were a good idea and that they would help improve communications.

Mr. Shackelford announced that the next regular meeting of the Board would be held on Monday, May 6, 2002, at 7:00 p.m. at the Ponderosa Fire Station.

PUBLIC COMMENT

Mr. Zobel then offered to work with the Authority to organize the meeting within Voting District No. 1.

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

PASSED, APPROVED AND ADOPTED this 6th day of May, 2002.

/s/Ron Graham

Secretary, Board of Directors

(SEAL)

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