

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

September 5, 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 5th day of September, 2002, at the Ponderosa Volunteer Fire Department, 17061 Rolling Creek Drive, 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: 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., Michael Baugher, P. E. and David Dow, P.E. of Turner Collie & Braden, Inc., Program Manager for the Authority; Mr. Dave Scholler, P.E. of Brown & Gay Engineers, Inc., water conservation study engineering consultant for the Authority; Mr. Gerry Pate, P.E., of Pate Engineers, Inc. ("Pate"), on-call engineering consultants for the Authority; Mr. Bob Jones, P.E. of Jones & Carter, Inc. ("Jones & Carter"), on-call engineering consultants for the Authority; Messrs. Jim Dannenbaum, P. E. and Wayne Ahrens, P.E. of Dannenbaum Engineering Corporation, on-call engineering consultants for the Authority; Messrs. Malcolm Beckendorff, P.E. and Nathan Billiot of ARCADIS, Program Manager for the Authority; Mr. John Howell and Ms. Kristin Keene of The GMS Group, Inc., financial advisors for the Authority; Mr. Ray Zobel, a member of the City of Houston Regional Advisory Board; Ms. Amanda Waters of the 1960 Sun; Ms. Kim Canon of the Houston Chronicle; Mr. Steve Bresnen of Steve Bresnen and Associates, lobbyist for the Authority; Ms. Pat Wisniewski, representing Senator Jon Lindsay; and Ms. Robin S. Bobbitt and Mr. Andrew P. Johnson, attorneys, and Ms. Brooke T. Dold, paralegal, 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.

PUBLIC COMMENT

Director Sigler then opened the meeting to public comments.

Mr. Patrick Timmons, attorney representing HMW Special Utility District ("HMW"), then expressed concern regarding the Board action to be taken on agenda item E.3.c. regarding the proposed

Pricing Policy and Pricing Policy Guidelines that may affect HMW's groundwater credit. Mr. Shackelford assured Mr. Timmons that the issues raised by HMW were still being considered and that any action taken by the Board at tonight's meeting would not impact the resolution of the HMW issues.

APPROVE AMENDMENTS TO BUDGET FOR FISCAL YEAR ENDING DECEMBER 31, 2002

Mr. Shackelford then recommended that the Board approve the amendments to the 2002 budget as discussed at the August 19, 2002 Budget Workshop and at the Budget Hearing held at 6:00 p.m. prior to tonight's Board meeting. Mr. Shackelford explained that the proposed amendments include an increase in the budget revenue for the fiscal year ending December 31, 2002 from \$5,579,500 to \$6,200,000 and adjustments to various expense line items, as reflected in the 2002 Amended Budget Summary Memorandum attached hereto, resulting in an increase in total expenditures from \$6,172,466 to \$9,471,902. Mr. Shackelford noted that the increase in expenditures for 2002 includes funds for interim water purchases and an interest payment to the City of Houston (the "COH") for purchasing treated water capacity that would be required under the proposed Water Supply Contract with the COH. 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 amendments to the budget for the fiscal year ending December 31, 2002.

ADOPT BUDGET FOR FISCAL YEAR ENDING DECEMBER 31, 2002

Mr. Shackelford then reviewed with the Board the 2003 Budget Summary Memorandum, a copy of which is attached hereto. A complete copy of the Budget Report for 2003 can be found in the files and records of the Authority. Mr. Shackelford noted that the proposed 2003 budget includes projected revenues of \$5.525 million (excluding any short-term water sales) and projected expenses of \$12.720 million, including a \$750,000 budget reserve. Mr. Shackelford added that his recommendation to the Board is to retain the current pumpage fee of \$0.25 per 1,000 gallons of water pumped by non-exempt wells for 2003. However, Mr. Shackelford noted that should the Authority issue debt to finance one or more of the Phase 1 Integrated Water System Plan (the "IWSP") projects, the pumpage fee will need to be increased to \$0.30 per 1,000 gallons later in 2003. Director Pulliam then questioned the \$6.9 million in the engineering service expense line item and inquired whether such expense covered all of the engineering necessary for the entire IWSP program. Mr. Shackelford responded that such amount covers the cost of engineering for the proposed IWSP projects for 2003 and is sufficient to do approximately \$60 million in IWSP projects.

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 adopt the budget for the fiscal year ending December 31, 2003, including all of the supplemental decision packages presented to the Board for consideration.

Mr. Johnson then entered the meeting at 7:15 p.m.

ADOPT ORDER ESTABLISHING WELL PUMPAGE FEES AND WATER IMPORTATION FEES FOR THE FISCAL YEAR ENDING DECEMBER 31, 2003

The Board next considered adoption of the Order Establishing Well Pumpage Fees and Water Importation Fees for Fiscal Year Ending December 31, 2003. Mr. Shackelford stated that as discussed earlier, he recommends that the pumpage fee for 2003 remain at \$0.25 per 1,000 gallons pumped until such time as debt is issued by the Authority later in 2003. Director Fessler asked how much notice would be given to the utility districts if the Authority has to increase the pumpage fee. Mr. Shackelford explained that he would bring the matter to the Board as soon as the need to issue debt arises, and that the Pumpage Fee Order would need to be amended prior to any increase in the pumpage fee. Ms. Bobbitt noted that a public hearing would also be held on any pumpage fee increase and that the Authority's budget would also require amendment.

Mr. Garey Nelson of Bammel Utility District then asked what engineering service agreements were being considered under agenda item E.3.b. Mr. Shackelford explained that as he receives letters of intent from utility districts to buy/sell water, he will turn them over to the Authority's on-call engineering consultants to gather additional information from the districts and to prepare a recommendation concerning the IWSP projects.

Ms. Kathie Ware of Fountainhead Municipal Utility District ("Fountainhead") asked how many letters of intent to buy/sell water had been received by the Authority to date. Mr. Shackelford responded that 18 to 20 letters had been received to date, ten (10) stating an intent to buy water and eight (8) or nine (9) stating an intent to sell water. Ms. Ware noted that Fountainhead had submitted its letter of intent to buy water from the Authority.

Ms. Chris Green of Harris County Municipal Utility District No. 109 ("HCMUD No. 109") inquired if there would be adequate meeting space with the proposed renovation of the Authority's office that is being considered by the Authority. Mr. Shackelford responded that he is proposing a multifunctional area that will include adequate space for holding the Authority's Board meetings.

Director Rendl pointed out that there are several projects included in the 2003 budget that may or may not be initiated in the upcoming fiscal year, but that the \$0.25 pumpage fee would be adequate to cover the 2003 budget as adopted by the Board. Director Rendl continued his remarks by stating that if unusual expenses arise, the Board will have to adjust the pumpage fee accordingly. Mr. Shackelford concurred and noted that the Authority will maintain the \$0.25 pumpage fee until the Authority is ready to begin construction on an IWSP project, possibly in the 3rd or 4th quarter of 2003. Director Rendl then stated that the West Harris County Regional Water Authority (the "WHCRWA") recently announced they will increase their pumpage fee for 2003 from \$0.18 per 1,000 gallons to \$0.50 per 1,000 gallons. Mr. Owen Parker and Ms. Green of HCMUD No. 109 commented that their district was the only district in the Atascocita area that stayed in the Authority while the other districts joined the WHCRWA.

Ms. Ware asked if the utility districts will be given notice of the Authority's intent to increase the pumpage fee. Mr. Shackelford again explained that if the Authority proceeds with the proposed IWSP program, the Authority will need to sell bonds and will give notice of any pumpage fee increase, as well as notice of the Authority's intent to sell bonds.

Upon motion by Director Rendl, seconded by Director Fessler, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Order Establishing Well Pumpage Fees and Water Importation Fees for Fiscal Year Ending December 31, 2003, a copy of which is attached hereto.

CONSENT AGENDA

Director Sigler next 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 approval of the minutes of the regular meeting of August 5, 2002 and the minutes of the special meeting of July 23, 2002 were the only items on the Consent Agenda. Upon motion by Director Graham, seconded by Director Rendl, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of the regular meeting of August 5, 2002 and the special meeting minutes of July 23, 2002, as written.

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 seven (7) months ending July 31, 2002, a copy of which is attached hereto. Ms. Plunkett noted that the budget comparison for seven (7) months reflects that the Authority is approximately \$2.1 million under budget for the fiscal year ending December 31, 2002. Ms. Plunkett then reviewed an updated report on pumpage fee receipts and delinquent accounts, a copy of which is attached to the Financial Report. Ms. Plunkett noted that copies of the delinquent letters were included in the Board meeting packets.

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 next reported that last month, the Authority's Web site had an average of 1,786 hits per day, resulting in 55,368 hits for the month of August, and further noted that there were two (2) days in August that had in excess of 4,700 hits per day. Ms. Payne further reported that the most visited pages on the Authority's Web site were the 2003 budget and the Groundwater Reduction Plan (the "GRP"). Ms. Payne then announced that a new form was online for contacting the Board members.

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 reported that the Program Management team had recently prepared one (1) pay request to the Texas Water Development Board for grant funds, but that no response had yet been received on such request, and that another pay request is in the process of being prepared.

Concerning the Water Reclamation/Reuse Study, Mr. Baugher reported that Alexander Engineering, Inc. had completed their scope of work within budget and that he was in the process of reviewing the final report.

Mr. Baugher next reported that the Advisory Consultant team had made revisions to the GRP and that he expects to have a final draft of the GRP by the end of September or beginning of October. Director Rendl asked Mr. Baugher if the Harris-Galveston Coastal Subsidence District (the "HGCSO") had requested any information that would negatively affect the GRP. Mr. Baugher responded that there had been some concern expressed by the HGCSO staff regarding COH Contract issues, but that finalization and certification of the GRP are still on target. Mr. Shackelford interjected that his meeting on September 3, 2002 with the engineering consultants and the HGCSO was more positive than his previous meeting and that he anticipated GRP certification from the HGCSO as soon as the COH Water Supply Contract is finalized and approved for inclusion in the GRP.

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 first reviewed an updated list of utility districts interested in the proposed IWSP, a copy of which is attached hereto. Mr. Shackelford reported on receipt of letters of intent and resolutions evidencing intent to buy/sell water from Bilma Public Utility District, Harris County Municipal Utility District No. 24, Northwest Harris County Municipal Utility District No. 21, Northwest Harris County Municipal Utility District No. 22, Northwest Harris County Municipal Utility District No. 23, Northwest Harris County Municipal Utility District No. 24, Harris County Water Control and Improvement District No. 116, Fountainhead Municipal Utility District, Kleinwood Municipal Utility District, Malcomson Road Utility District, HMW Special Utility District, Harris County Water Control and Improvement District No. 132, Cy-Champ Public Utility District, Harris County Municipal Utility District No. 191, Prestonwood Forest Utility District, Harris County Water Control and Improvement District No. 91, Terranova West Municipal Utility District, Klein Public Utility District and Westador Municipal Utility District. Copies of such letters and resolutions are attached hereto. Mr. Shackelford noted that there are still numerous districts who have not yet submitted their letters of intent and resolutions, including, but not limited to, Bridgestone Municipal Utility District and Mills Road Municipal Utility District.

Mr. Shackelford noted that information regarding the IWSP will be included in the next publication of the Action Report. Director Rendl then encouraged the members of the audience to talk with their utility districts about the IWSP. Director Sigler asked what total volume of water would be necessary to make the IWSP feasible. Mr. Shackelford indicated that the volume of water was not known yet, but that based on the meetings and talks with the utility districts to date, the response is very favorable. Director Fessler asked if the Board could be provided with a map reflecting the geographic location of the utility districts

interested in buying/selling water in relation to the proposed IWSP projects. Mr. Shackelford stated that he would provide such information to the Board. Director Fessler then asked if the utility districts will be required to contract with the Authority to buy and sell water. Mr. Shackelford responded that the utility districts would enter a contract with the Authority to purchase water from or sell water to the Authority. Director Pulliam asked if there is a minimum number of utility districts required to go forward with the IWSP. Mr. Shackelford explained that he would come to the Board with a recommendation on the IWSP projects at the October meeting after the engineering team has gathered additional information from the utility districts interested in participating in the IWSP. Director Fessler then asked what would be done if there were no utility districts willing to sell water. Mr. Shackelford responded that the Authority would have to consider drilling regional wells as a back-up option, but noted that numerous districts had indicated an interest in selling water to the Authority. 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 accept the letters of intent and to authorize the engineering consultants to evaluate each response in order for Mr. Shackelford to provide a recommendation to the Board on the IWSP projects at the October 7th meeting.

Mr. Howell then entered the meeting at 7:47 p.m.

The Board next considered adoption of the proposed Pricing Policy and Pricing Policy Guidelines as presented in the recent Town Hall meetings and authorization for the General Manager to negotiate water sale/water purchase contracts with the utility districts based on the short-term pricing. Copies of the proposed Pricing Policy and Pricing Policy Guidelines are attached hereto. Mr. Jones then reviewed the Pricing Policy numbers and stated that the calculations were based on a large amount of data from numerous utility districts within the Authority. Mr. Jones explained that the \$1.80 long-term price for water reflected in the Pricing Policy is the proposed 2010 cost based on all surface water costs on an annualized basis, all non-depreciated groundwater costs on an annualized basis and all operating/maintenance costs for both groundwater and surface water facilities. Mr. Jones noted that the goal of the long-term pricing strategy is for all water users to incur the same cost for water regardless of whether the user is converted to surface water or the user remains on groundwater. Mr. Jones added that the \$1.70 short-term price for water is based on the cost to purchase and deliver water prior to the time surface water is delivered to the Authority. Upon motion by Director Graham, seconded by Director Pulliam, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Pricing Policy and Pricing Policy Guidelines, as presented, and to authorize the General Manager to negotiate water sale/water purchase contracts based on the short-term pricing.

Mr. Shackelford then requested that Ms. Bobbitt give a status report on the request by Emerald Forest Municipal Utility District ("Emerald Forest") to obtain a short-term supply of water from the Authority. Ms. Bobbitt then briefly reviewed the terms of the proposed Interim Treated Water Supply Agreement by and between the COH and the Authority, a copy of which is attached hereto. Ms. Bobbitt noted that the contract was predominantly a "boiler plate" form of a COH contract, with the exception of Section 4.01 regarding the term of the contract. Ms. Bobbitt explained that the COH has agreed to a contract term of the earlier of five (5) years or the date the Authority takes delivery of surface water pursuant to a long-term water supply contract. Ms. Bobbitt reported that the engineers for Emerald Forest were working with the COH to connect their water supply line to the COH system. Director Rendl then

commended Mr. Shackelford and Ms. Bobbitt on their negotiations in light of the Authority's past relationship with the COH. Director Pulliam noted that the Emerald Forest contract reflects a specific minimum amount of water to be taken and paid for by the Authority and asked if there was a maximum amount of water that can be taken. Ms. Bobbitt responded that there was not a maximum amount of water to be taken under the proposed contract, but that the availability of water from the COH's Willowbrook line may be limited. Mr. Shackelford noted that the maximum amount of water that can be taken will be determined by the size of the service line. Director Pulliam asked if the minimum take or pay amount of 6.465 million gallons was the amount of water needed by Emerald Forest. Mr. Shackelford explained that the intent of the contract is to allow Emerald Forest to phase in the water volume as they need it. Ms. Bobbitt stated she would clarify the contract language regarding the initial take or pay amount. Director Graham inquired as to the status of the proposed contract between the Authority and Emerald Forest. Ms. Bobbitt reported that she was working on a proposed contract between Emerald Forest and the Authority, but that the Pricing Policy and Pricing Policy Guidelines needed to be approved by the Board before a contract draft can be finalized. Upon motion by Director Rendl, seconded by Director Graham, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Interim Treated Water Supply Contract between the COH and the Authority contingent upon such contract being revised as discussed and the COH's final approval of the proposed contract language revisions.

Mr. Shackelford next noted that the Board meeting packets contained a draft of the Financial Model developed by Pate to be utilized by districts as a planning tool for evaluating their capital contribution financing options, a copy of which is attached hereto. Mr. Shackelford noted that Pate will offer a presentation to the Board on the proposed financial model at a future Board meeting.

Mr. Shackelford then reviewed various other items included in the Board meeting packets, including the Authority's response letter to recent inquiries about joining the Authority to be included in the Authority's GRP, correspondence from and to Harris County Water Control and Improvement District No. 116 concerning the conceptual alignment of the Authority's water line for the 2030 distribution system, a memorandum dated August 22, 2002 from the COH regarding contract comments, a news article from the Houston Chronicle concerning the Authority's action in August to withdraw its proposal from the City of Jersey Village, a copy of Mr. Shackelford's presentation at the August 20, 2002 Water Symposium 2002 of the North/West Economic Forum of North Harris County, a request from the General Manager to TC&B regarding investigation of the groundwater availability modeling being done on the Gulf Coast aquifers by the HGCSO and others and several industry related articles, copies of which are attached hereto.

UPDATE ON STATUS OF COH CONTRACT

Mr. Shackelford, Ms. Bobbitt and Mr. Howell next presented an update on the status of the water supply contract negotiations with the COH.

Ms. Bobbitt first delivered a PowerPoint presentation summarizing the proposed COH contract terms. A copy of the slide presentation and Ms. Bobbitt's Executive Summary of the proposed COH Contract are attached hereto. Ms. Bobbitt noted that the meeting packets included copies of the August 29, 2002 draft of the Contract. Directors Rendl and Fessler noted that the list of the Board's goals for a

water supply agreement that were identified nine (9) to eleven (11) months ago seemed to have been incorporated in the present Contract draft. Director Rendl again commended Mr. Shackelford and Ms. Bobbitt on their work with the COH Contract negotiations. Ms. Bobbitt stated that she and Mr. Shackelford had met with the COH representatives earlier in the day and hope to have a final draft of the COH Contract within then next several weeks.

Mr. Shackelford then reviewed a PowerPoint presentation entitled "Highlights of Terms," a copy of which is attached hereto. Mr. Shackelford went on to review the timeline triggers and payment components of the proposed COH Contract.

Mr. Howell then presented his updated spreadsheets and list of assumptions relative to the proposed COH Contract, a copy of which is attached hereto. Mr. Howell reported that the numbers continue to flow similarly to the spreadsheets reviewed at the special meeting on June 10, 2002 and to fit with the pricing models prepared by Pate and Jones & Carter. Mr. Howell noted that his numbers take into account the surface water capacity needed by the Authority for 2030. Director Rendl asked Mr. Shackelford to clarify the estimated cost of water under the proposed COH Contract. Mr. Shackelford explained that the Authority's cost for water at the Beltway and U.S. 59 is estimated to be \$0.70 per 1,000 gallons, which would be a savings of \$0.43 from the current COH ordinance rate of \$1.13 per 1,000 gallons for surface water.

Mr. Shackelford noted that the Board will meet in a special workshop session on Saturday, September 7, 2002, at 9:00 a.m. at the Ponderosa Volunteer Fire Department to discuss the Contract in more detail.

ADOPT RESOLUTION DECLARING OFFICIAL INTENT TO ISSUE BONDS

Mr. Johnson then reviewed a proposed Resolution Declaring Official Intent to Issue Bonds and to Reimburse Capital Expenditures from Proceeds of Tax-Exempt Bonds, a copy of which is attached hereto. Mr. Johnson explained that Federal tax law requires such a resolution in order for the Authority to be able to reimburse the operating fund with bond proceeds for designated project expenditures made prior to the issuance of bonds for such projects. Mr. Johnson noted that the Resolution was currently worded for the proposed IWSP program, but that other projects could be added or put in place of the IWSP program within the next 24 months. The Board then discussed revising the Resolution to approve up to \$95,000,000 of projects. 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 adopt the Resolution.

PETITION FOR CONSENT TO INCLUDE ADDITIONAL LANDS

Mr. Shackelford then reviewed the Petition for Consent to Include Northwest Harris County Municipal Utility District No. 23 ("NW No. 23") in the Authority, a copy of which is attached hereto. Mr. Shackelford stated that NW No. 23 had also submitted a letter of intent to buy water in the IWSP program. Upon motion by Director Rendl, seconded by Director Fessler, after full discussion and the question being put to the Board, the Board voted unanimously to accept the petition contingent upon NW No. 23's payment of all appropriate fees.

ATTORNEY'S REPORT

Ms. Bobbitt then reviewed a memorandum on the status of the Authority's lawsuits against Consumers Water Corporation and Suburban Utility Company, a copy of which is attached hereto. Ms. Bobbitt noted that the lawsuits would be filed before the end of this week.

NEXT MEETING

Mr. Shackelford then reiterated that there would be a special workshop meeting of the Board to discuss the details of the proposed COH Contract on Saturday, September 7, 2002, at 9:00 a.m. at the Ponderosa Volunteer Fire Department and that the next regular meeting of the Board will be held on Monday, October 7, 2002.

PUBLIC COMMENT

Director Sigler then opened the floor for comments from the public; however, no public comments were received.

There being no further business to come before the Board, the meeting was adjourned at 9:15 p.m.

PASSED, APPROVED AND ADOPTED this 7th day of October, 2002.

/s/Ron Graham

Secretary, Board of Directors

(SEAL)