

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

October 7, 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 7th day of October, 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. and Michael Baugher, P. E. of Turner Collie & Braden, Inc. ("TC&B"), Program Manager for the Authority; Mr. Wayne Ahrens, P.E. of Dannenbaum Engineering Corporation, on-call engineering consultants for the Authority; Mr. Gene Shepherd of Legg Mason Wood Walker, Inc., financial advisor for the Authority; Ms. Amanda Waters of the 1960 Sun; Ms. Kim Canon of the Houston Chronicle; Ms. Pat Wisniewski, representing Senator Jon Lindsay; and Ms. Robin S. Bobbitt, attorney, 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.

Ms. Kathie Ware of Fountainhead Municipal Utility District commended the Board for moving ahead with the Phase I Integrated Water System Plan (the "IWSP").

Mr. Jim Burke of Northwest Harris County Municipal Utility District No. 5 ("NW No. 5") stated that initially he was an opponent to the originally proposed Early Action Program, but that he is pleased about the IWSP program. Mr. Burke noted that the IWSP is a good program and urged the Board to approve the IWSP and move forward as quickly as possible.

Ms. Jean Lara of Northwest Harris County Municipal Utility District No. 23 ("NW No. 23") then commented that her district joined the Authority because of the IWSP program and urged the Board to immediately move forward with the program.

CONSENT AGENDA

Director Sigler then 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 stated that the first item on the Consent Agenda was approval of the minutes of the regular meeting of September 5, 2002, special meetings of August 19, 2002, September 5, 2002 and September 14, 2002, and the executive sessions of August 19, 2002 and September 14, 2002. Ms. Bobbitt noted that a correction had been made to page 5 of the minutes of the September 5, 2002 meeting.

Director Sigler then explained that the second item on the Consent Agenda was to adopt an Order Adding Land and Redefining Boundaries of the Authority regarding the inclusion of NW No. 23 in the Authority's boundaries. A copy of such Order is attached hereto.

Director Sigler then stated that the third item on the Consent Agenda was to approve and authorize execution of the Professional Services Contract with Steve Bresnen & Associates for governmental affairs/lobbying services for 2003-2004. A copy of such contract is attached hereto.

Director Sigler stated that the fourth and final item on the Consent Agenda was to adopt an Order Regarding Annual Review of Rules, Policies, and Code of Ethics for the Investment of Funds. A copy of such Order 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 Consent Agenda items as outlined above.

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 eight (8) months ending August 31, 2002, a copy of which is attached hereto. Ms. Plunkett stated that the budget comparison reflects that the Authority is approximately \$2.3 million under budget for the fiscal year ending December 31, 2002. Ms. Plunkett noted that copies of the late fee letters were included in the Board meeting packets.

Upon motion by Director Pulliam, seconded by Director Rendl, 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 1,783 hits per day, resulting in over 55,000 hits for the month of September, and further noted that the most visited item on the Web site was the Authority's Groundwater Reduction Plan (the "GRP"). Ms. Payne then announced that there were two (2) new features on the Web site, including: 1) persons who wish to contact the Authority now must identify themselves and 2) an improved search feature.

UPDATE ON CITY OF HOUSTON WATER SUPPLY CONTRACT

Mr. Shackelford then reported that he and Ms. Bobbitt had met several times with the City of Houston ("COH") and that the focus of such meetings has been on the handling of future untreated water capital costs. Mr. Shackelford noted that another meeting with the COH was scheduled for Thursday, October 10th. Director Rendl inquired if this issue will cause a problem with finalizing the contract or will just take time to work out. Mr. Shackelford responded that the issue will take a little time to work out.

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 Alexander Engineering, Inc. ("Alexander") had submitted supplemental information concerning the Water Reclamation/Reuse Study, that he had reviewed the draft report and requested the final report from Alexander as of October 1, 2002.

Mr. Baugher next reported that Pate Engineers, Inc. ("Pate") and Jones & Carter, Inc. ("Jones & Carter") had recently submitted a report on the Groundwater Transfer Program associated with the IWSP for the Board's review and that he had been reviewing the report.

Mr. Baugher then reported that the final draft of the GRP was ready to be resubmitted to the Harris-Galveston Coastal Subsidence District (the "HGCSO") and noted that the only component still missing from the GRP is the COH Water Supply Contract. Director Rendl asked if there was any reason to be concerned about the HGCSO certifying the Authority's GRP. Mr. Baugher stated that it was always possible that the HGCSO might come up with additional revisions or comments in the final review process, but he would regard the next submission as the final GRP of the Authority. Director Pulliam inquired whether the HGCSO had submitted written comments on the GRP to the Authority. Mr. Baugher responded that all comments from the HGCSO had been oral and that all such comments have been addressed.

GENERAL MANAGER'S REPORT

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

Mr. Shackelford stated that discussion of the implementation of the Phase I IWSP (Agenda Item No. D.4.b.) and the review of the proposed engineering management strategy for the implementation of the Phase I IWSP (Agenda Item No. D.4.c.) would be deferred, because he had been advised that the Board was not ready to discuss the two (2) items. Director Rendl then questioned such statement and asked who had requested the deferral and stressed that the Board needed to move ahead with the implementation of the IWSP. Director Sigler stated that Mr. Shackelford requested the deferral. Mr. Shackelford then asked the Board when they would be prepared to discuss the deferred items. Mr. Burke, a member of the audience, asked Director Sigler what the problem was with discussing the items and making a decision at tonight's meeting. Director Graham stated that he received the Pate/Jones & Carter report on Friday and after reviewing the report, still had some unanswered questions. Director Rendl asked if he was the only Board member who had received a one-on-one briefing on the items from Mr. Shackelford. Mr. Taylor Broun, a member of the audience, stated that the Board had not yet given a response as to why they would not discuss the items at tonight's meeting and asked for a response from the Board.

Mr. Shackelford went on to report that the Authority's 2002 amended budget, approved at the Board's September 5th meeting, included \$40,000 for the renovation of the Authority's office. Mr. Shackelford noted that when the original cost estimates for the renovation were prepared, the concept of paperless board meetings had not been fully investigated. Mr. Shackelford stated that to implement the paperless board meeting concept, the renovation costs would exceed the amount that had been budgeted. Director Fessler inquired if the costs were within reason. Mr. Shackelford stated that he had not had time to review all of the costs for the additional items. Mr. Shackelford reported that implementation of the paperless meeting concept, additional lighting, monitoring equipment and wire cabling is necessary. Director Rendl questioned whether the Board was really ready for the implementation of such advanced technology.

Director Fessler questioned whether the office renovation could go forward without implementing the paperless meeting concept or if the two (2) items were tied together. Mr. Shackelford stated that much of the wiring and lighting installation needs to be done during the renovation work. Director Fessler suggested that it would be wise to hold off with the paperless board meeting concept at this time. Director Pulliam inquired if the \$40,000 renovation costs included all of the electrical wiring costs. Mr. Shackelford indicated that the electrical wiring was included in the budget amount, but not the audio-visual equipment and additional lighting costs. 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 authorize the General Manager to proceed with the office space renovations as provided in the 2002 amended budget and to defer the implementation of the paperless meeting concept at this time. Director Pulliam inquired whether the additional items for a paperless meeting could be efficiently added at a later date. Mr. Shackelford responded that some of the necessary items could be added at a later time, but that he would further review the matter.

Mr. Shackelford then requested that Ms. Bobbitt give a status report on the request by Emerald Forest Utility District ("Emerald Forest") to obtain a short-term supply of water from the Authority. Ms. Bobbitt reported that following the September meeting, she submitted her final comments to Mr. Beauchamp of the COH, and was waiting for a response from him in order for the Water Supply Agreement (the "Agreement") to be finalized. Director Graham inquired as to the status of the Agreement between Emerald Forest and the Authority. Ms. Bobbitt responded that the form of the proposed

Agreement was drafted and that she is waiting on the finalized terms from the COH. Ms. Bobbitt noted that a revised draft of the proposed Agreement with the COH was included in the Board meeting packet. A copy of such Agreement is attached hereto. Ms. Bobbitt stated that the proposed Agreement with Emerald Forest should be ready for Board action by the November meeting.

Mr. Shackelford then reviewed various other items included in the Board meeting packets, including the notice of the AWBD Fall Seminar on October 30, 2002; the Texas Water Conservation Association newsletter; the American Water Works Association newsletter; letters from various elementary schools thanking the Authority for the book cover program; letters of intent from Harris County Municipal Utility District No. 16, Harris County Water Control and Improvement District No. 119, Heatherloch Municipal Utility District, Louetta North Public Utility District, NW No. 5 and Bammel Utility District ("Bammel"); a letter from Null-Lairson P.C.; a Water Plant Site Feasibility Analysis letter from Jones & Carter; a letter to NW No. 23 concerning inclusion in the Authority's boundaries; and a news article from the Houston Chronicle concerning former Senator Buster Brown's appointment as the chairman of the board of WaterTexas. Copies of all of the above items are attached hereto.

In conclusion, Mr. Shackelford again asked the Board if they wanted to schedule a special meeting to discuss the two (2) deferred agenda items or wait until the Board's regular November meeting. Director Rendl stressed that a special meeting needed to be held as soon as possible in order to go forward with the IWSP and the Groundwater Transfer Projects since many districts are waiting on a response from the Authority. Director Fessler stated that he would be in town and available for a special meeting next week. Director Sigler noted that he would be out of town at the end of next week and would not be available on October 16th and thereafter. After a brief discussion, Mr. Shackelford stated that he would try to schedule a special meeting on Tuesday, October 15, 2002, at the Ponderosa Volunteer Fire Department. Directors Sigler and Graham asked that Mr. Shackelford check with them tomorrow when they could consult their calendars regarding their availability for a special meeting.

Mr. Shackelford noted that the office renovations were already in process and that he expected the work to be complete in less than 45 days, which would allow the Board to begin meeting at the Authority's office by the January, 2003 meeting date.

Director Fessler asked whether the Groundwater Transfer Projects and the IWSP go hand in hand and how they are related to each other. Mr. Shackelford explained that the Groundwater Transfer Projects are a phase of the 2010 IWSP. Mr. Shackelford further explained that the routings and alignments for the future transmission lines for the 2010 system need to be reviewed in connection with the Groundwater Transfer Projects and that preliminary engineering costs are included for the cost estimates for the four (4) Groundwater Transfer Projects.

GROUNDWATER AVAILABILITY MODEL OF THE GULF COAST AQUIFER

Mr. Shackelford then asked the Board to consider the proposal submitted by TC&B regarding the review of the Groundwater Availability Model (the "GAM") currently being performed for the Gulf Coast Aquifer by the Texas Water Development Board and the United States Geological Service (the "USGS"). Copies of Mr. Shackelford's memo and the TC&B proposal are attached hereto. Mr. Shackelford noted

that the cost of the GAM investigation and review was not to exceed \$17,000. Mr. Potok suggested that since there are many entities working on the GAM project, it might be appropriate to have representatives of the sponsoring organizations, such as the USGS and the HGCSO, attend a meeting of the Board to answer some of the Authority's questions about the GAM before authorizing TC&B to review/investigate the GAM. The Board concurred and requested that the Board's comments and questions concerning the GAM (reflected in Mr. Shackelford's memo to TC&B) be addressed at such meeting. 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 authorize the General Manager to schedule representatives of the USGS and the HGCSO to attend a future meeting of the Board to make a presentation on the GAM project.

ATTORNEY'S REPORT

Ms. Bobbitt then reported that the Authority's pending litigation against Consumers Water Corporation and Suburban Utility Company had been filed late in September and that all parties had been served regarding the lawsuit. Ms. Bobbitt further reported that the Authority had been improperly served in connection with a lawsuit filed by a plaintiff against Cypress Forest Public Utility District. Ms. Bobbitt stated that the attorney for the plaintiff had agreed to take whatever actions are necessary to insure that the Authority is removed from the cause of action. Ms. Bobbitt noted that the meeting packets included correspondence related to such matters, copies of which are attached hereto.

PUBLIC COMMENT

Director Sigler then opened the floor for additional comments from the public.

Ms. Ware commented that the meeting started 47 minutes ago with her praising the Board for going forward with the IWSP and now the Board has decided not to take any action on the matter at tonight's meeting. Ms. Ware noted that the Board discussed the renovations of their Board room for 15 minutes, but could not spend time on the IWSP, a program that will pay for itself and construct part of the 2010 delivery system. Ms. Ware asked when the special meeting to discuss the IWSP would be posted on the Authority's Web site and stated that she retracted almost all the things she had stated earlier in the meeting.

Mr. Bob Koperwhats of Harris County Water Control and Improvement District No. 91 expressed his anger and disgust that the Board could not spend the necessary time at tonight's meeting to discuss the implementation of the IWSP and stated that the Board should be ashamed to take their per diems for the meeting. Mr. Koperwhats further stated that he is aware that certain Board members meet regularly outside the Board meetings and asked if the other Board members were aware of this activity. Mr. Koperwhats then exited the meeting.

Mr. Marvin Fessler of Reid Road Municipal Utility District No. 1 stated that he had attended many high level corporate meetings and was appalled by Director Sigler's treatment of Director Rendl during the meeting and the fact that the other Board members did not intervene.

Mr. Taylor Broun of Northwest Harris County Municipal Utility District No. 10 stated that his comments were now moot points.

Mr. Garey Nelson of Bammel observed that the regular Board meetings were supposed to be working meetings to review major issues in public. Mr. Nelson further stated that it seems obvious to him that since only one (1) director spoke up, the other Board members must have known about deferring the items prior to the meeting. Director Sigler stated that he hoped that Mr. Nelson's comment was not an accusation. Director Sigler stated that because the deferred items were so important, the Board needed more time to review the matters and make its decision. Director Nelson commented that the Board did not have to take action just because the items were on the agenda, but should have at least discussed the items at tonight's meeting.

EXECUTIVE SESSION

Director Sigler then adjourned the meeting at 7:55 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 8:50 p.m., at which time the following action was taken. 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 a salary increase of 4% for Mr. Shackelford, to be effective on Mr. Shackelford's 2002 employment anniversary date. The Board further indicated that Directors Rendl and Fessler will develop guidelines for a bonus plan for the General Manager based on certain milestones, including but not limited to the certification of the Authority's GRP and the execution of a Water Supply Contract with the COH. The Board also stated that the evaluation process for the General Manager will be modified for next year based on the recommendations of Directors Rendl and Fessler and input from Mr. Shackelford and Ms. Bobbitt. The Board further noted that the General Manager evaluation process should begin in April of each year, prior to Mr. Shackelford's employment anniversary date.

There being no further business to come before the Board, the meeting was adjourned at 8:52 p.m.

PASSED, APPROVED AND ADOPTED this 4th day of November, 2002.

/s/Ron Graham

Secretary, Board of Directors

(SEAL)