

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

November 4, 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 4th day of November, 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: Representative Peggy Hamric, State Representative, District 126; Mrs. Alan J. Rendl; Mrs. Kelly Fessler; 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., Jim Royer, P.E., Min Chu, P.E., George Puig, P.E., Stan Sarman, P.E., Rod McCrary, P.E., Stan Williams, P.E. and David Dow, P.E. of Turner Collie & Braden Inc. ("TC&B"), Program Manager for the Authority; Messrs. Gerry Pate, P.E., J.E. Pate, P.E. and Jeff Ross, P.E. of Pate Engineers, Inc. ("Pate"), on-call engineering consultants for the Authority; Messrs. Bob Jones, P.E., Bradley Jenkins, P.E. and Jason Kelly 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 ("Dannenbaum"), on-call engineering consultants for the Authority; Mr. Carl Linseisen, P.E., of Cobourn, Linseisen and Ratliff, Inc., on-call engineering consultants for the Authority; Mr. Dave Scholler, P.E., of Brown & Gay Engineers, Inc., on-call engineering consultants for the Authority; Mr. John Howell of The GMS Group, L.L.C., financial advisor 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; and Ms. Robin S. Bobbitt, attorney, and Ms. Brooke T. Dold, paralegal, of Johnson Radcliffe Petrov & Bobbitt PLLC ("JRPB"), 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.

Director Sigler noted that due to the bad weather conditions, items on the agenda would be taken in a re-prioritized order to insure that the most important matters were dealt with in the event that the weather further deteriorates.

PUBLIC COMMENT

Director Sigler then opened the meeting to fifteen (15) minutes of public comments.

Mr. Steve Williams of Kleinwood Municipal Utility District read a statement regarding his concerns about the Authority, a copy of which is attached hereto.

Mr. Roy Lackey of Harris County Municipal Utility District No. 368, was then recognized by Director Sigler and stated he wished to hold his comments until later in the meeting.

An unidentified member of the audience asked Director Sigler if he denied the quote cited in Mr. Williams' statement. Director Sigler stated that the chair had not recognized the speaker.

Mr. Carl Schwenker, a voter within the Authority, then read a prepared statement outlining his concerns regarding the Authority, a copy of which is attached hereto.

Director Sigler next recognized Mr. Ray Zobel of Malcomson Road Utility District, who stated that the Board had approved going forward with the Integrated Water System Plan (the "IWSP"), including the four (4) groundwater transfer projects (the "GTPs"), but failed to authorize the General Manager to take the necessary steps to implement the projects. Mr. Zobel appealed to the Board to proceed with action to implement the GTPs for the sake of the many utility districts that are relying on the Authority.

Mr. David Schnitzer of Northwest Harris County Municipal Utility District No. 22 stated that his comments were similar to those of Messrs. Schwenker and Zobel. Mr. Schnitzer noted that several members of the Board exhibit a blatant disregard for the utility districts. Mr. Schnitzer also noted that the utility districts included in the four (4) GTPs need water either from the Authority or from new water wells. Mr. Schnitzer stated that many things he is seeing and hearing from the Board are very disturbing. Mr. Schnitzer commented that the utility district community was skeptical of the Authority at the beginning, but gained confidence in the Authority over time under Mr. Shackelford's leadership and hard work with the Water Users Advisory Group. Mr. Schnitzer commented that the Board appears to be losing sight of the Authority's constituency and is ignoring them and acting as if they are a bother to the Board. Mr. Schnitzer called for the Board to step back and look at its purpose.

Director Fessler then stated that the fifteen (15) minute public comment period had been exceeded. Director Sigler concurred and stated that any remaining public comments would be taken at the end of the meeting. Mr. Taylor Broun of Northwest Harris County Municipal Utility District No. 10 ("NW No. 10") challenged the Board to hear the remaining comments now, rather than waiting to the end of the meeting.

Director Rendl then asked to make a statement, a copy of which is attached hereto. Director Rendl expressed his concern about the loss of confidence of the Authority constituents and questioned how the Board was going to proceed to regain that confidence. Director Rendl noted that he had heard from many concerned individuals over the past weeks and urged his fellow Board members to listen to the constituents and do what the Authority was created to do.

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 October 7, 2002, the special meeting of October 15, 2002 and the executive session of October 7, 2002. Ms. Bobbitt noted that Director Fessler had identified a correction on page 7 of the minutes of the October 15, 2002 meeting.

Director Sigler then explained that the second item on the Consent Agenda was to approve the engagement of Null-Lairson P.C. to prepare the Authority's audit report for the fiscal year ending December 31, 2002, and authorize execution of the audit engagement letter, a copy of which is attached hereto.

Upon motion by Director Pulliam, seconded by Director Fessler, 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 nine (9) months ending September 30, 2002, a copy of which is attached hereto. Ms. Plunkett stated that the budget comparison reflects that the Authority is approximately \$2.7 million under budget for the fiscal year ending December 31, 2002.

Ms. Plunkett reported that due to a change in their direct deposit payroll system, Klein Bank, the Authority's depository bank, had submitted a new Klein Business Link Agreement (the "Agreement") to the Authority for execution, a copy of which can be found in the Authority's files. Ms. Bobbitt noted that she had just received a copy of the proposed Agreement earlier in the day and had not had a chance to completely review of the Agreement.

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 and to authorize execution of the Klein Business Link Agreement, subject to Ms. Bobbitt completing her review and approval of the Agreement.

Director Sigler then stated that the Board would now hear the presentations of TC&B and Pate/Jones & Carter for engineering management services.

Mr. Bill Papp of Harris County Water Control and Improvement District No. 132 then questioned the decision to revise the order of the agenda. Mr. Shackelford stated that he had suggested a revision in

the order of the agenda due to the inclement weather conditions and that the Board had concurred with such suggestion. Mr. Papp commented that the rules of parliamentary procedure requires the Board's assent to a change in the order of the agenda and stated that the Board should follow the appropriate procedures.

PRESENTATIONS BY TC&B AND PATE/JONES & CARTER FOR ENGINEERING MANAGEMENT SERVICES

Mr. Shackelford then outlined the format for the engineering management presentations, stating that each group would be allowed 25 minutes for their presentation, with a question and answer session following each presentation. A member of the audience inquired if the question and answer session was for the members of the audience or just the Board members. Mr. Shackelford stated that the question and answer session would be only for the Board members. Mr. Shackelford stated that based on a coin toss prior to the meeting, TC&B would make the first presentation.

Mr. Potok took the floor and began his PowerPoint presentation, a copy of which is attached hereto. A complete copy of the TC&B Statement of Qualifications can be found in the Authority's files. Mr. Potok stated that he had been working with the Authority since its inception and that TC&B had been the lead Program Manager for one-and-a-half (1½ years). Mr. Potok noted that the GTPs and IWSP are extensions of the Authority's groundwater reduction plan (the "GRP"), and stressed the need for a program management approach during the implementation phase of the GRP to identify the cost of the program, implement the program and keep the program on schedule.

Mr. Potok then introduced Mr. Royer, President of TC&B, to the Board. Mr. Royer explained that AECOM is the parent company of TC&B and that Metcalf & Eddy, ECI, CTE Engineers and DMJM HN are all related sister companies. Mr. Royer continued with the TC&B presentation and pointed out the advantages of selecting a program manager with the expertise and global resources of AECOM. Mr. Royer then reviewed and outlined the various program management projects previously handled by TC&B. Mr. Royer next reviewed the proposed project organizational structure for the Authority's program management.

Mr. Chu then addressed the Board and stated that he would be the team leader of the project, with Mr. Potok as the principal officer in charge, for the next phase of program management services. Mr. Chu noted that many of the same personnel who previously worked on the initial program management team would continue in the next phase of the project, including Messrs. Potok and Baugher. Mr. Chu next explained that the Authority will be a water supplier to over 500,000 people and will need to be working toward the same goals. Mr. Chu then reviewed TC&B's vision of program management services and explained that the Program Manager's role is to function as an extension of the Authority's staff in providing management expertise and technical guidance to ensure that the program is properly developed, cost effective and constructed in a timely manner. Mr. Chu stressed that the TC&B program management plan would afford a level of consistency while dealing with many consultants throughout the planning, funding, design, construction and operation phases of the project.

Mr. Stan Williams continued to review with the Board the organization and structure of the program management team. Mr. Williams noted that the Program Manager will be dealing with many issues

including, but not limited to, water quality, system security, water management and regulatory matters. Mr. Williams added that the Authority will need to coordinate monitoring plans with the utility districts and the City of Houston (the "COH"), including compliance with the Bioterrorism Response Act and development of a strategy for compliance with the Texas Commission on Environmental Quality requirements. Mr. Williams noted that TC&B has won a number of awards for their water management programs.

Mr. Potok then concluded the presentation, stating that TC&B wants to assist the Authority to realize its vision and goals with its expertise, commitment and resources. Mr. Potok added that although TC&B does not represent any of the utility districts located within the Authority, it has vast program management experience on many major projects and worldwide expertise that is available through TC&B's sister companies.

Mr. Shackelford then stated that the question and answer session would be deferred until after the second presentation by Pate/Jones & Carter.

Mr. Pate next distributed copies of his presentation outline, a copy of which is attached hereto. A complete copy of the Pate/Jones & Carter Statement of Qualifications can be found in the Authority's files. Mr. Pate explained that the Board needs an engineering manager, not a program manager, to manage the implementation of the GTPs and the IWSP. Mr. Pate stated that Pate/Jones & Carter developed the concepts of the GTPs and the IWSP and brought the concepts to the Authority as a solution that has received wide support by the utility districts. Mr. Pate stated that Pate is the only engineering firm in Harris County that has successfully managed a surface water conversion project, such project being the North Channel Water Authority ("North Channel") project, which was subsequently used by the Harris-Galveston Coastal Subsidence District (the "HGCS D") as a model for its existing regulatory plan. Mr. Pate emphasized the Authority's need for an engineering manager, rather than a program manager, due to the fact that the solutions to the problems have already been defined. Mr. Pate emphasized the importance of continuing with the team that understands the utility districts' needs and concerns, has local knowledge of the utility districts and has consistently provided the Authority with the solutions. Mr. Pate explained that the program management concept is typically used for large-scale public works projects where the solutions are not evident at the beginning or require solutions that cannot be provided by local engineering expertise. Mr. Pate noted that the Pate/Jones & Carter team represents approximately 100 utility districts in Harris County, 30 of which are within the Authority's boundaries. Mr. Pate concluded his portion of the presentation with the statement that the Pate/Jones & Carter team believes the Authority has progressed this far not because it has had a Program Manager, but because it has had knowledgeable engineers working for the Authority to develop solutions that are fair and workable for all parties.

Mr. Jones then addressed the Board and stated that the engineering manager needs an acute knowledge of the issues involved with the IWSP. Mr. Jones explained that the Pate/Jones & Carter team developed the IWSP, pushed for the use of a high pressure distribution system that gives maximum flexibility and cost effectiveness in moving water around the Authority, and developed the GTPs and the pricing strategy, all of which demonstrate their knowledge of what is necessary to accomplish the Authority's vision and goals. Mr. Jones added that the Pate/Jones & Carter team historically has had excellent working relationships with the COH and the HGCS D, and has critical knowledge and expertise of the needs within the Authority. Mr. Jones reiterated that Jones & Carter represents over 60 utility districts and that

combined, the Pate/Jones & Carter team represents over 100 utility districts in the Harris County area. Mr. Jones also stated that Pate's work on the successful North Channel surface conversion project should be recognized as a significant surface water conversion project that had not previously been done. Mr. Jones added that the Pate/Jones & Carter team has designed and managed a vast number of projects, but most importantly, has delivered solutions to problems. Mr. Jones concluded his presentation by reviewing the proposed organizational structure for engineering management services and stated that he and Mr. Pate will continue to be intimately involved in the project, along with the same personnel who have worked on previous Authority projects. Mr. Jones emphasized the need for cooperation and good working relationships with the Board, the General Manager and the utility districts in the area to accomplish the Authority's goals and purpose. Mr. Jones stated that the implementation of the IWSP, including the GTPs, is not just a major civil works project, but a project with many needs and issues that requires an engineering management team to provide the solutions, and not a program manager in the textbook sense.

QUESTION AND ANSWER SESSION

Q - Director Graham: Jones & Carter represents 60 water districts, and Pate represents 40 water districts, How many does TC&B represent?

A - Alan Potok: None within the Authority; 40 in the Houston area and 80 across the State of Texas.

Director Rendl then stated that NW No. 10 wanted to ask several questions about the engineering management program that they did not get to ask during the public comment period. Director Sigler stated that there would be another public comment session at the end of the meeting. Director Rendl stated that he would present the NW No. 10 questions himself. A copy of the written questions is attached hereto.

Q - Director Rendl: To both engineering firms, do you support obtaining surface water from the COH, and will you work to assist the General Manager in completing the contract with the COH to obtain the currently planned and future surface water needs of the Authority?

A - Alan Potok: Yes.

A - Bob Jones: Yes.

A - Alan Potok: The first thing TCB did as Program Manager was to perform a study of the alternate water sources that may be available. At that time, the COH was not willing to negotiate with the Authority, which lead us to investigate alternate sources.

A - Jim Royer: Plan B was a strategy to provide another source of negotiations for a supply of surface water.

Q - Director Rendl: Have you in the last six (6) months undertaken any actions to locate alternate sources of water for the Authority that have not been reported to the entire Board of the Authority at one of the public meetings? If so, please describe these actions, who requested them, who participated and who, to your knowledge, at the Authority is aware of these actions?

- A - Gerry Pate: No.
- A - Alan Potok: Only as directed.
- Q - Director Rendl: Have you or any member of your respective engineering firms had discussions with any state public office holder (such as a state representative or state senator) regarding the Authority and its activities in the last six (6) months? If so, who at your firm held these discussions, what were the discussions about and was anyone at the Authority present? Did anyone at the Authority authorize these discussions? Have these meetings been reported to all members of the Board?
- A - Alan Potok: I spoke with Representative Peggy Hamric at a luncheon at which Ed Shackelford was speaking.
- A - Jim Royer: I spoke with Speaker of the House Pete Laney.
- A - Bob Jones: I spoke with Senator Jon Lindsay concerning the role he would play with the Authority.
- A - Gerry Pate: I have not had any such conversations.
- Q - Director Rendl: What did Senator Lindsay say?
- A - Bob Jones: That he would remain neutral.
- Q - Director Rendl: Have you or any member of your firm had any discussions in the last six (6) months with any firm or company about constructing surface water facilities that would not be involved in the COH contract? If so, please detail them now and state why such discussions went on.
- A - TC&B: No.
- A - Pate/Jones & Carter: No.
- Q - Director Rendl: Is any member of your firm related by blood or marriage to any current state public office holder? If so, please identify these persons and identify the relationship and the state public office holder to whom they are related.
- A - Alan Potok: No.
- Q - Unidentified Person: Is there a Lindsay on the TC&B staff?
- A - TC&B group: Not to our knowledge.
- A - Jim Royer: David Dewhurst has a relative on our staff.
- A - Gerry Pate and Bob Jones: No.

Q - Director Rendl: Has anyone at your firm in the last six (6) months provided a report or document to members of the Board that either was not provided to all members of the Board, or was altered or redacted in some cases so not all Board members received the same information? If so, please explain and detail what the documents were and why the difference in distribution.

A - TC&B: Nothing has been provided to some Board members and not to others.

Q - Director Graham: Mr. Pate, do you know Senator Jon Lindsay and have you met with him?

A - Gerry Pate: Yes, I know Senator Lindsay. No, I have not met with him.

Q - Director Graham: Mr. Pate, has Pate contributed any campaign funds to Senator Lindsay?

A - Gerry Pate: None.

Q - Director Graham: How about TC&B and Jones & Carter?

A - Jim Royer: Maybe \$5,000.

A - Bob Jones: Some, but not that much.

Director Graham then stated that he was puzzled why some people in the audience seem to think that Senator Lindsay wants the Board to engage TC&B and stated that Senator Lindsay had not so informed him. The other members of the Board then stated that they also had not been so advised by Senator Lindsay. Director Sigler noted that when he first got on the Board, Senator Lindsay had recommended Pate and Jones & Carter.

Q - Director Sigler: Please clarify the relationship between TC&B and AECOM.

A - Jim Royer: AECOM is a holding company that owns multiple engineering consultant firms worldwide. By joining the AECOM group, TC&B has affiliations and expertise with the other firms that were noted in their presentation.

Mr. Bob Koperwhats of Harris County Water Control and Improvement District No. 91 ("HCWCID No. 91") commented that Mr. Royer had provided information about AECOM during his presentation. Director Fessler responded that a Board member had asked a question that needed a response. Mr. Koperwhats added that Director Sigler was not listening during the presentation.

Q - Director Sigler: Does TC&B anticipate flying in consultants from other firms to assist with the Authority?

A - Jim Royer: TC&B has numerous in-house staff to assist the Authority, but if a certain expertise is needed, TC&B has the larger network of engineering firms with which to consult.

- A - Min Chu: Pate/Jones & Carter have done an excellent job developing the IWSP and the GTPs, but there are things that need to be checked and confirmed. The Authority needs a comfort level. It is your money.
- Q - Director Rendl: Regarding money, with TC&B, we have a lot of high-powered people we will be paying. In October, 2001, the Board was told that the GRP was nearly complete, but it then cost an additional \$825,000 to get the GRP submitted to the HGCSO. I am concerned about who is watching the Authority's dollars and what we are actually paying for.
- Q - Director Fessler: Mr. Potok, can you respond?
- A - Alan Potok: Yes, in November, 2001, we were very close to completing the GRP, but in March, 2002, there was a major change in strategy by going with the high-pressure water distribution system which raised numerous questions and concerns, some of which are still not resolved. TC&B had to identify issues and re-do some of the work that had previously been done.
- A - Jim Royer: All of the pieces must aggregate into the whole and fit together; that is why we emphasize the need for a Program Manager.
- Q - Director Sigler: What are the estimated engineering and construction costs for the 2010-2020 phase of the IWSP?
- A - Alan Potok: Around \$258 million.
- A - Bob Jones: The project cost between now and 2010 is estimated at \$250 million and from 2010, approximately \$350 million.
- Q - Director Sigler: Mr. Jones, have you managed a project of this magnitude?
- A - Bob Jones: Yes, Jones & Carter and Pate have both managed major water projects. There will likely be six (6) to eight (8) design projects and 12 to 14 construction projects associated with the IWSP.
- Q - Director Sigler: How do you see the security of the system?
- A - Bob Jones: All of the utility districts have been addressing increased security concerns regarding their systems even before September 11, 2001. There are a series of security issues and measures that will need to be addressed as the project proceeds. The system will need 100% redundancy in the event of a contamination of Lake Houston or the occurrence of other problems with the provision of surface water.
- Q - Director Sigler: Would you be willing to address security issues with the individual utility districts?
- A - Gerry Pate: Yes.

A - Stan Williams: TC&B has been addressing security issues, given numerous security seminars and offers certified training and vulnerability assessments. Yes, we would be glad to address the vulnerability issues with the individual districts.

Q - Director Pulliam: Pate/Jones & Carter are in favor of the high pressure water distribution system. Have you looked into the potential problems with mixing groundwater and surface water in the system?

A - Gerry Pate: This is not the first situation of blending water. The COH has blended groundwater and surface water for years. Problems may exist, but they can be dealt with and managed effectively.

Director Pulliam then stated that he was working with Inwood Pines back when the COH annexed the area and had removed all of the wells due to the water blending problems. Mr. Potok stated that the COH only removes wells if they provide water to both wholesale and retail customers. Mr. Potok added that TC&B still believes there are issues to be resolved with the blending of surface water and groundwater.

Mr. Pate stated that he was not saying there are no issues to resolve or that the system is fully designed. Mr. Pate added that there is a good plan in place and that the design details need to be worked out.

Q - Director Rendl: How will you handle communications with the Board and General Manager?

A - Gerry Pate: We will continue to work through the General Manager. I do not see that the other consultants must be under our direct control regarding design work.

A - Min Chu: I am a true believer that the consultants should be a direct extension of the Board and work closely with the General Manager. The Authority will need to maintain control over the design engineers, but the Program Manager will need to provide independent oversight over them on behalf of the Board, but there is no reason to create animosity. Remember, the Authority is serving 500,000 people and public health/safety is in the hands of the Authority. A great deal of planning will be necessary to avoid costly mistakes. There will need to be constant communication with the Board and General Manager. It may be necessary to have deputy Program Managers.

A - Gerry Pate: We will not need two (2) or three (3) deputy managers; if you cannot get the Engineering Manager, call Bob or me. This is an engineering management project - not a program management project.

Q - Director Fessler: Questions Pate/Jones & Carter regarding the engineering management concept and whether their firms will do the survey work and preliminary design work.

A - Bob Jones: There are districts that need water by 2004 and, therefore, on the front end, we thought we would need to do some survey work and some construction management. Preliminary engineering is another issue that must be addressed prior to design work beginning.

A - Gerry Pate: It relates to the schedule; in order to get the GTPs done in a timely manner, we will do some of the work initially, but not in the later phases of the IWSP.

- Q - Director Fessler: In the Program Manager model TC&B is proposing, they are not doing design work. Who would validate the design work that Pate/Jones & Carter does?
- A - Bob Jones: There will be no more or less validation with us doing some of the design work. There will be COH approvals and other checks and balances to validate the design work.
- A - Jim Royer: I am not here to argue semantics with my friends, but managing surveyors and designers is Program Management. The Program Manager reports to the General Manager and the Board and the Program Manager makes sure all the pieces match.
- A - Alan Potok: There is a lot to be said for control over the construction contract documents that will promote confidence among the contractors and result in a cost savings to the Authority. The Program Manager sets up the scope and standards.
- Q - Director Rendl: We have heard tonight about the problem with the utility districts losing confidence in the Authority. How will you regain that trust and how will you utilize the Water Users Advisory Group and the Consultant Advisory Group?
- A - Bob Jones: Many of the utility districts within the Authority have hated both Jones & Carter and Pate in the past for our early push to convert to surface water, but now the utility districts trust us and have confidence in the pricing policy, the GTPs and IWSP concepts that we have developed. We will use the advisory groups to flush out the pertinent issues. Obviously, we will see that the construction contract documents are standardized.
- A - Gerry Pate: The biggest issue of trust is that the utility districts see process and procedures in place that are fair and equitable.
- A - Alan Potok: Last October, 2001, problems existed between the utility districts and the Authority and questions were being raised about where the dollars were being spent. We suggested that the Authority go talk to the utility districts and we set up a program to do that, which led to a positive response from the utility districts. We would recommend that the Authority continue this and attend the district meetings.
- Q - Director Pulliam: Who should attend these meetings?
- A - Alan Potok: We would divide the meetings among the General Manager, Program Manager and Board members like it was done last year.

Director Rendl then asked Mr. Potok to clarify which series of meetings he was referencing. Mr. Potok stated that it was the meetings that they presented the results of the alternate source study. Director Rendl stated that it was his recollection that the series of meetings was an Authority program. Mr. Potok responded that it was a TC&B plan. Mr. Royer noted that the next phase will also deal with financing and legal issues and stated that the Authority will need to have a public relations plan in place.

Director Fessler then complimented both companies on their presentations. Director Sigler stated that no action would be taken at tonight's meeting concerning the engineering management services.

Director Sigler then called for a ten (10) minute break at 9:20 p.m.

The Board reconvened at approximately 9:30 p.m.

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

Ms. Payne reported that last month, the Authority's Web site had over 55,000 hits. Ms. Payne also reported that she had received requests from several entities for reprints of articles from the Action Report. Ms. Payne stated that she was currently preparing the November issue of the Action Report.

UPDATE ON CITY OF HOUSTON WATER SUPPLY CONTRACT

Mr. Shackelford then reported that he and Ms. Bobbitt had met last Thursday with the COH negotiating team, along with representatives from the West Harris County Regional Water Authority (the "WHCRWA"), and that the focus of such meeting was on the handling of future untreated water facilities capital costs. Mr. Shackelford reported that he and Mr. Howell will make arrangements to meet with the individual Board members to discuss the new formula for untreated water facilities capital costs proposed by the COH and the impact such costs have on the projected long-term costs of surface water.

Mr. Howell then distributed copies of a revised cash flow analysis concerning the COH contract, a copy of which is attached hereto. Mr. Howell reported that the new cost numbers fit into the Pricing Policy previously adopted by the Board better than the numbers reflected in the original cost analysis. Mr. Howell noted that the COH gave the Authority two (2) payment options for the payment of untreated water facilities costs, including a lump sum or annual payments, and stated that he had prepared spreadsheets for both options.

Director Graham stated that the Board had just received the financial analysis information from Mr. Howell at tonight's meeting and did not want the audience to think the Board was ill prepared. Director Graham then asked for a projection of what water will cost. Mr. Shackelford explained that the next step would be to apply the numbers developed by Mr. Howell to the Pricing Policy.

Director Fessler commented that it appeared that the COH had decided to treat the Central Harris County Water Users Group (the "CHCWUG") differently from the Authority and the WHCRWA. Mr. Shackelford responded that the COH had changed its mind and will now offer the CHCWUG the same contract being offered to the Authority and the WHCRWA.

Mr. Shackelford further reported that he was still working on how the non-depreciated asset credits are derived, as previously requested by Director Pulliam. Director Fessler asked that such information also be provided to him.

Mr. Shackelford added that the COH had included some additional facilities in the initial untreated water facilities costs. Director Sigler stated that he understood inclusion of the additional facilities resulted in a \$0.03 increase in the raw water cost. Director Sigler then confirmed that Mr. Shackelford would set up meetings with the Board members to further review the cost analysis.

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 TC&B would forward the final information requested by the Texas Water Development Board (the "TWDB") regarding Payment Request No. 1 for the Authority's grant later this week. In response to a question from Director Fessler, Mr. Baugher responded that the pay request amount is \$267,000. Mr. Baugher also reported that Payment Request No. 2 would be complete next week and submitted to Mr. Shackelford for review.

Mr. Baugher next reported that the finalized Water Reclamation/Reuse Study had been completed by Alexander Engineering, Inc. and submitted to the Authority on October 18, 2002.

Mr. Baugher then reported that he had received letters from AquaSource Utility, Inc. ("AquaSource"), Harris County Municipal Utility District No. 202 ("HC No. 202") and Northwest Harris County Municipal Utility District No. 6 ("NW No. 6") declaring their intent to buy/sell water and had referred such letters to Jones & Carter for analysis.

Director Graham inquired whether the Program Manager had met with representatives of PureTex Water Works Inc. ("PureTex") regarding their offer to provide water to the Authority. Mr. Baugher responded that the matter had now been assigned to Dannenbaum for review and investigation. Mr. Potok added that he had contacted Binkley & Barfield, Inc., engineers for PureTex, and they did not yet have a study available concerning the availability of water from PureTex. Mr. Shackelford then explained that the first letter received from PureTex had been submitted at the Authority's special meeting of September 14, 2002, that such letter was then sent to the Program Manager, and that Jones & Carter had initially been asked to review the matter. Mr. Shackelford noted that PureTex then made a verbal offer at the Board's October 7th meeting to sell water to the Authority and that the matter was referred subsequently to Dannenbaum, since Dannenbaum had evaluated a similar offer from PureTex on behalf of the WHCRWA. A discussion ensued concerning whether to pursue the PureTex offer any further, since the Authority was so close to finalizing a water supply contract with the COH. The Board then determined that the timing was not right to pursue further investigation of the PureTex offer.

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 reported that the office renovations were moving along and stated that the Board's meetings could be held at the office beginning in January, 2003. Mr. Shackelford then asked the Board if

they would like to schedule a holiday open house at the Authority's office. The Board requested that Mr. Shackelford proceed with scheduling an open house.

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 the COH had resolved questions regarding the term of the proposed Interim Water Supply Contract, and the finalized contract will be circulated for execution by the Board within the next week and then proceed through the COH approval process.

Mr. Shackelford then reviewed the proposed 2003 Holiday Schedule, a copy of which is attached hereto, and noted that there are nine (9) designated holidays and two (2) days designated for floating holidays. Mr. Shackelford stated that the staff would like to designate one (1) of the floating holidays as December 26, 2003, in lieu of Martin Luther King Day. 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 2003 Holiday Schedule as proposed.

Mr. Shackelford then reviewed the proposed 2003 Board Meeting Schedule, a copy of which is attached hereto. Mr. Shackelford stated that the September meeting would conflict with the Labor Day holiday and will need to be re-scheduled. 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 2003 Board Meeting Schedule, with the understanding that the date of the September meeting would be determined at a later time.

Mr. Shackelford then reviewed various other items included in the Board meeting packets, including a copy of the presentation given by Ron Neighbors at the October 30th Association of Water Board Directors – Texas ("AWBD") Fall Seminar; a copy of Mr. Shackelford's letter to the HGCSO re-submitting the Authority's revised GRP; correspondence from and to AquaSource, HC No. 202 and NW No. 6 concerning participation in the IWSP; an updated list of districts interested in participating in the IWSP; correspondence to HP Computer Company concerning participation in the Authority's IWSP; a list of the schools within the Authority that received bookcovers; a copy of the October issue of AWBD Direct; and a letter from JRPB regarding a lawsuit that was improperly served on the Authority. Copies of the above-referenced items are attached hereto.

Mr. Shackelford then reported that both Representative Hamric and Senator Lindsay had inquired what the Authority could do to sell water to the owners of the contaminated private water wells located in the area of Jones Road and FM 1960. Mr. Shackelford explained that the FM 1960/Jones Road area is within the Authority's boundaries, but was not included in the Authority's GRP, since the water wells in the area pump less than 5 million gallons per year and are residential wells. Mr. Shackelford noted that the Authority is a wholesale and not a retail supplier of water. A copy of Mr. Shackelford's memorandum regarding such matter is attached hereto.

Mr. Shackelford next reported that the pumpage fee and administrative fee payments and technical information had been received from Northwest Harris County Municipal Utility District No. 23 ("NW No.

23"). Mr. Shackelford noted that an Order Adding Land and Redefining Boundaries would be prepared and that NW No. 23 would be included in the Authority's GRP.

PETITION FOR CONSENT TO INCLUDE ADDITIONAL LAND

Mr. Shackelford next reported that White Oak Manor Mobile Home Park had petitioned to be included in the Authority. A copy of such Petition is attached hereto. Mr. Shackelford recommended acceptance of the Petition contingent upon payment of the administrative fee to join after December 31, 2001, payment of the first, second and third quarter 2002 pumpage fees and receipt of technical information about the entity's water demands and facilities. 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 Petition from White Oak Manor Mobile Home Park.

ATTORNEY'S REPORT

Ms. Bobbitt then briefly reviewed a draft of the Water Supply Contract (the "Contract") by and between Emerald Forest and the Authority, and explained that she and Mr. Shackelford still had several policy issues to review and discuss with the Board relating to the Contract. Ms. Bobbitt added that once finalized, the Emerald Forest Contract will be used as a form or model to prepare the buy/sell agreements for the GTPs. Ms. Bobbitt stated that once all of the issues are resolved, the finalized Contract will be submitted to the Board for approval and execution.

Ms. Bobbitt then reported on the Authority's pending litigation against Consumers Water Corporation and Suburban Utility Company and presented a status memorandum on such matter, a copy of which is attached hereto.

NEXT MEETING

Mr. Shackelford announced that the next regular meeting of the Board would be held on December 2, 2002 at the Ponderosa Volunteer Fire Department at 7:00 p.m.

Director Rendl asked if a special meeting would be scheduled to discuss the engineering management services proposals. Director Rendl stated that many districts are waiting on the Authority to make a decision and go forward with the IWSP and the GTPs. Director Sigler stated that he did not have his calendar with him and asked Mr. Shackelford to poll the Board about scheduling a special meeting, and stated that all five (5) Board members should be present at such meeting. Director Rendl stated that the special meeting should be scheduled when Director Fessler is in town, but the Authority should not delay holding such meeting. Director Graham requested that the special meeting not be held on a Saturday. Mr. Shackelford noted that after the engineering management issue is decided by the Board, he will need additional time to negotiate a professional service contract.

Mr. Lackey inquired if the special meeting would be announced on an e-mail blast. Mr. Shackelford responded that information on a special meeting will be posted on the Authority's Web site and be included in an e-mail blast.

PUBLIC COMMENT

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

Mr. Bob Koperwhats of HCWCID No. 91 stated that his concerns are similar to those previously expressed by the audience.

Mr. Garey Nelson of Bammel Utility District observed that the Board lost a good opportunity to improve public relations by not extending the public comment session at the beginning of the meeting. Mr. Nelson stated that he was confused by the engineering management concept. Mr. Shackelford explained that the concept is that the engineering management team would do the surveying and some of the preliminary design for the GTPs and then start work on the balance of the 2010 system. Mr. Shackelford added that the design work for the GTPs would be divided into several different projects.

Representative Peggy Hamric then addressed the Board. Representative Hamric stated that she has fully supported the Authority and that she represents many of the people who live within the Authority's boundaries. Representative Hamric noted that she has received numerous telephone calls, letters and e-mails from constituents about the Authority and encouraged the Board to work together to accomplish the Authority's purpose and goals. Representative Hamric further stated that she and the Board are public officials who are elected to serve their constituents, and that water is and will be a very important local and statewide issue. Representative Hamric added that she would be scheduling a meeting with Director Sigler to discuss Authority issues.

Director Sigler then noted that in 2000, it was said that the surface water conversion project would be a \$1 billion project and that is why he thinks the Board must proceed cautiously and prudently and not be rushed into decisions.

Mr. Jerry Homan of Harris County Fresh Water Supply District No. 61 commented that Director Sigler had exited tonight's meeting for at least 50% of the TC&B presentation, and he found that very disturbing in light of some of the comments made. Director Sigler stated that he had stepped out for around ten (10) minutes to talk with Jim Burke during the presentations. Mr. Homan asked Director Sigler why he did not think his attendance during the presentations was important.

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

PASSED, APPROVED AND ADOPTED this 2nd day of December, 2002.

/s/Ron Graham

Secretary, Board of Directors

(SEAL)

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