

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

December 2, 2002

The Board of Directors (the "Board") of the North Harris County Regional Water Authority (the "Authority") met in regular session, open to the public, at 7:00 p.m. on the 2nd day of December, 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: 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. and Min Chu, P.E. of Turner Collie & Braden Inc. ("TC&B"), Program Manager for the Authority; Mr. Tom Rolen, P.E. of AECOM Enterprises; Messrs. Gerry Pate, P.E. and J.E. Pate, 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; Mr. Jim Dannenbaum, P.E. of Dannenbaum Engineering Corporation ("Dannenbaum"), on-call engineering consultants for the Authority; Mr. Carl Linseisen, P.E., of Cobourn, Linseisen and Ratcliff, Inc. ("Cobourn"), 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. Duncan Lamme of Legg Mason Wood Walker, Inc., financial advisor for the Authority; Mr. Fred Facker of the 1960 Sun; Ms. Kim Canon of the Houston Chronicle; and Ms. Robin S. Bobbitt and Mr. Andrew P. Johnson, attorneys, 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 Pulliam noted that Director Sigler was running late. Mr. Shackelford announced that the presentation on the Gulf Coast Aquifer Groundwater Availability Model would be rescheduled for the January meeting and suggested that the Board consider agenda item G.4 prior to opening the floor for public comment.

PRESENTATION OF CONCERNS FROM THE UTILITY DISTRICT COMMUNITY REGARDING THE FUTURE ENGINEERING AND DESIGN PLANS OF THE SURFACE WATER SYSTEM

The Board then recognized Ms. Sara Anderson of Smith, Murdaugh, Little & Bonham, L.L.P., who explained that her law firm represents 11 utility districts within the boundaries of the Authority and that a number of her districts had concerns about the recent actions of the Authority. Ms Anderson stated that she had telephoned several other law firms that represent utility districts within the Authority and was aware that many people in the utility district community have the perception that the Authority Board feels there is little need to address the concerns of the utility districts because they believe the utility districts are not the true constituency of the Authority.

Director Sigler then entered the meeting at 7:08 p.m.

Ms. Anderson continued with her presentation to the Board, a copy of which is attached hereto. Ms. Anderson noted that the Authority was created as a conduit to buy, sell and distribute surface water to meet the Harris–Galveston Coastal Subsidence District (the "HGCSO") mandate for conversion to surface water. Ms. Anderson stated that the Board had received numerous communications from utility districts favoring the Pate/Jones & Carter engineering team to serve as the engineering manager for the Authority based on such team's familiarity with the needs of the utility districts within the Authority and the team's development of viable solutions to meet the needs of the utility districts such as the short-term and long-term pricing strategies, the Integrated Water Supply Project (the "IWSP") and the Groundwater Transfer Project (the "GTP"). Ms. Anderson indicated that the utility district community was concerned over rumors circulating that the Authority was subversively seeking a proposal from a single entity to design, build and operate the Authority's surface water conversion project. Ms. Anderson went on to state that she has been a public law attorney for over 15 years and that in her experience, usually there are very few attendees at the monthly meetings as long as the Board is doing its job. Ms. Anderson stated that there is a problem when a meeting creates the kind of reactions the Authority's meetings seem to create. Ms. Anderson urged the Board to address the rumors and concerns that are circulating. Ms. Anderson asked the Board to respond in a timely fashion to the six (6) questions reflected in her presentation.

Director Sigler then apologized for being late to the meeting and stated that he would like to read a message that he had prepared for the meeting.

Mr. Bill Papp of Harris County Water Control and Improvement District No. 132 ("HCWCID No. 132") then raised an objection to the change in the order of the meeting agenda, to which Mr. Johnson responded that the change in the order of the agenda is to discuss related issues. Mr. Johnson added that there was no Board action needed on these matters.

Director Sigler then read a prepared statement, a copy of which is attached hereto. Director Sigler expressed disappointment over the recent rude phone calls, e-mails and correspondence he and his wife had received and stated that he would welcome civil communications from the community, but would not respond to the hate letters sent to his wife. Copies of such letters are attached hereto.

Director Sigler then asked for responses from the Board regarding the six (6) questions reflected in Ms. Anderson's letter. The six (6) questions were then each stated and responded to as follows. Director Fessler stated that he appreciated the professional manner in which Ms. Anderson addressed the Board this evening. Director Fessler stated that he has not talked to anyone concerning the rumor that the Authority was trying to contract with a single entity, such as US Filter, to design, build and operate the Authority's surface water system.

Q - Is any Board member aware of a plan or proposal for a water production facility company or a nationally recognized construction company, regarding future construction of water distribution and pumping facilities, that would entail a design, own, operate and build system where competitive bids would be eliminated?

A - Director Sigler stated that the Board is aware that a design, build and operate contract is illegal for the Authority. Director Sigler acknowledged that two (2) years ago US Filter met with the Authority and made a proposal to sell water to the Authority, but the Board did not pursue such proposal.

Q - Ms. Anderson: Do you have reason to suspect that a lobbyist has been hired to try to change legislation this next session to allow the Authority to enter into a design, build, operate contract?

A - Directors Pulliam and Sigler: It is totally illegal to do a design, build and operate deal.

Q - Has any engineering firm making a proposal to the Authority discussed with any such company this idea? If so, please state who attended such meeting or discussion, and was any Board member of the Authority made aware or did any member attend?

A - Mr. Potok: In 2000 US Filter approached TC&B and we referred them to the Authority. TC&B has not had any contact with US Filter since then. Other water systems in Texas are considering this type of approach, mainly on desalination projects, but not the Authority.

A - Bob Jones: I have not had any conversations with US Filter.

A - Gerry Pate: I have not had any conversations.

Ms. Anderson then interjected that it was not necessary to continue with the other questions reflected in her letter. Director Sigler asked if she and the utility district directors were satisfied with the Board's responses. Director Sigler then inquired if Mr. Taylor Broun of Northwest Harris County Municipal Utility District No. 10 ("NW No. 10"), Ms. Kathie Ware of Fountainhead Municipal Utility District ("Fountainhead") and Mr. Al Habinak of Bammel Utility District ("Bammel") had any more questions. Such individuals indicated they were satisfied if the Board's responses were truthful. Ms. Ware stated that some of the concern about US Filter came about as a result of such firm paying for a large ad in the Link Letter during the February election campaign. Mr. Bob Koperwhats stated that the utility districts would hold the Authority's Board accountable for their responses and asked the other Board members regarding their responses to the questions. Director Rendl responded that he had not had any contact with US Filter. Director Pulliam stated that the design, build, operate concept is an intriguing idea, but is illegal for the Authority.

Director Sigler then called on Mr. Bill Black of Northampton Municipal Utility District ("Northampton"). Mr. Black stated that these issues were not one of his concerns.

PUBLIC COMMENT

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

Mr. Mark Stroebner of Bilma Public Utility District then read a prepared statement, a copy of which is attached hereto, in support of the proposal submitted by Pate/Jones & Carter.

Mr. Nicholas Fava of Bammel strongly urged the Board to engage Pate/Jones & Carter as the Authority's Engineer Manager.

Mr. Bill Lester of Lakewood Forest Utility District thanked Director Graham for attending the District's recent meeting. Mr. Lester stated that the Authority's request for proposals asked for engineering management services, not program management services. Mr. Lester noted that TC&B should be disqualified since such firm did not appropriately respond to the request for proposals. Mr. Shackelford commented that the Authority had issued a request for a statement of qualifications, not proposals.

Mr. Jerry Homan of Harris County Fresh Water Supply District No. 61 requested that the minutes of the November 4, 2002 meeting be revised to reflect that Director Sigler had left the meeting at the start of the TC&B presentation and returned at the completion of the TC&B presentation. Director Sigler then asked Mr. Jim Burke how long they were gone from the meeting. Mr. Burke responded that they were outside for three (3) to five (5) minutes. Mr. Homan stated that he found Director Sigler's absence during the presentation disconcerting.

Mr. Roy Lackey of Harris County Municipal Utility District No. 368, then delivered a prepared statement, a copy of which is attached hereto. Mr. Lackey stated that he supports the Pate/Jones & Carter team to serve as the Engineer Manager for the Authority.

Mr. Roger Blankenheim of Fountainhead then read a statement from the Code of Professional Engineers concerning the Board's fiduciary responsibility to the taxpayers.

Mr. Bill Papp of HCWCID No. 132 then read from a prepared statement, a copy of which is attached hereto. Mr. Papp stated that his utility district expected that based on the presentations for engineering management services at the November meeting, Pate/Jones & Carter should be selected by the Board.

Mr. Bill Nay, Ms. Pam Milne and Ms. Gloria Malek of NW No. 10 voiced support of Pate/Jones & Carter as the Engineer Manager based on their development of the IWSP and stated they believed such team would be more cost effective.

Mr. David Schnitzer of Northwest Harris County Municipal Utility District No. 22 stated that he was very concerned over the discourse between the utility districts and the Board. Mr. Schnitzer asked for a resolution, dialogue and closure to the problems between the utility districts and the Authority. Mr.

Schnitzer commented that the Water Users Advisory Group (the "WUAG") was started to keep the utility districts informed and to allow them to interact with the Authority and encouraged the Board to find a way to cooperate, increase communications and work together with the utility district community.

Director Pulliam then inquired when the last WUAG meeting was held. Mr. Shackelford responded that November 21st was the last meeting, but there had been several months without a meeting prior to that time due to the fact that there were not any topics to present.

Mr. Schnitzer thanked the Board for responding to the questions to dissuade all of the rumors that are circulating and again asked the Board to increase communications with the utility districts.

Director Fessler commented that he was not sure how effective the WUAG was or whether or not it was an adversarial group. Mr. Schnitzer stated that the WUAG was a good mechanism for the utility districts to provide input and to exchange information, but added that lately he felt the utility districts were not being heard and were being dismissed by the Board, which has led to animosity between the utility districts and the Board. Director Graham asked if it would help to have some of the Authority Board members attend the WUAG meetings. Mr. Schnitzer responded that attendance by several Board members may be helpful. Director Graham noted that the Board was not generally aware of the scheduling of the WUAG meetings. Mr. Schnitzer stated that there was a great deal of talent among the attendees of the WUAG meetings and urged the Board to attend such meetings. Director Sigler then proposed that the Board have several question and answer sessions for the utility district directors at the Authority's office. Director Fessler stated that he would be open to that idea. Mr. Lackey suggested that the Authority post the names of the WUAG members on the Web site. Ms. Payne stated that she would post such information on the Web site. Mr. Papp then asked the WUAG members in attendance at tonight's meeting to stand. Mr. Shackelford explained that the WUAG consisted of five (5) individuals appointed from each of the five (5) single-member voting districts in the Authority.

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 November 4, 2002. Director Sigler noted that Mr. Homan's name was spelled wrong on page 15 and has been corrected.

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 recent inclusion of the White Oak Manor Mobile Home Park ("White Oak"). A copy of such Order is attached hereto.

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 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 ten (10) months ending October 31, 2002, a copy of which is attached hereto. Ms. Plunkett stated that the budget comparison reflects that the Authority is approximately \$3.1 million under budget for the fiscal year ending December 31, 2002.

Upon motion by Director Rendl, seconded by Director Pulliam, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Financial Report and the payment of the checks reflected therein.

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

Ms. Payne reported that last month, the Authority's Web site had over 43,000 hits or approximately 1,400 hits per day. Ms. Payne requested input from users regarding recent improvements to the Web site. Ms. Payne reported that the e-mail blast problem had been solved and asked the audience to try to re-subscribe to such service.

Ms. Payne stated that the next Water Lines would be published in January once the Water Supply Contract (the "Contract") with the City of Houston (the "COH") is approved. Ms. Payne noted that she was working to form a Water Conservation Committee as discussed with the Board during the 2003 budget process.

Mr. Mark Stroebner then delivered a report on the November 21st WUAG meeting and welcomed members of the Board to attend the WUAG meetings. Mr. Stroebner reported that the primary topic of the meeting was the proposed pricing strategy for reused water provided to golf courses, nurseries, etc.

Ms. Payne then announced that the Authority's Holiday Open House would be held on Monday, December 16, 2002, from 5:00 p.m. to 7:00 p.m. and that invitations to the event were located on the table at the back of the room. A copy of the invitation is attached hereto.

Director Graham then inquired as to how difficult it would be to set up a rumor disclaimer page on the Authority's Web site. Ms. Payne indicated that it would not be hard to include such an item on the Web site. Director Sigler noted that the Board was generally the last to hear the rumors that are circulating.

UPDATE ON CITY OF HOUSTON WATER SUPPLY CONTRACT

Mr. Shackelford then reviewed the recent revision to the formulas for untreated water facilities capital costs in the proposed Contract, including the impact the estimated costs will have on the projected long-term costs of surface water. Mr. Shackelford referred to the November 25th draft of the proposed

Contract previously distributed to the Board and reviewed the most recent revised financial analysis prepared by Mr. Howell, a copy of which is attached hereto. Mr. Shackelford reported that following the November meeting, he and Mr. Howell met with the individual Board members to discuss the new formulas 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. A copy of Ms. Bobbitt's Executive Summary of the proposed Contract with the COH presented to the Board at the September meeting is attached hereto.

Mr. Shackelford also explained that the COH was looking at untreated water facilities capital costs somewhat differently than it has in the past and now wants their surface water partners to begin to incur costs at the same time that the COH incurs costs for expansion of the untreated water facilities. Mr. Shackelford stated that the COH will be looking for other entities to partner with in the future.

When asked about the schedule for the approval of the proposed Contract, Mr. Shackelford stated that the next step was for the Board to approve the Contract in substantially the form submitted at tonight's meeting in order for the Contract to be submitted to the COH Transportation, Infrastructure and Technology Committee (the "TTI Committee") for review and approval on December 10, 2002 and approval by the COH City Council on either December 11, 2002 or December 18, 2002.

Mr. Shackelford reported that once the COH Contract is approved, the HGCSO would probably certify the Authority's Groundwater Reduction Plan (the "GRP") at its January, 2003 meeting. Mr. Shackelford added that Mr. Ron Neighbors of the HGCSO had stated that the utility districts within the Authority were in no danger of incurring disincentive fees as long as the GRP is certified by the August, 2003 aggregated renewal date proposed for the Authority. Mr. Shackelford reported that he would further discuss the water well permit renewals in his General Manager's Report.

In response to a question from Director Pulliam prior to the meeting, Ms. Bobbitt explained that Section 8.12 of the Contract regarding "Enforcement" was included in all COH contracts. Ms. Bobbitt stated that Section 8.12 enables the City Attorney to initiate legal action to enforce the Contract terms without having to seek further approval from City Council.

Ms. Bobbitt then discussed Section 8.17 of the proposed Contract entitled "Advisory Committee", noting that this section was inserted into the Contract early on in the negotiations to provide for the formation of an Advisory Committee (the "Committee") of three (3) representatives, including a representative from the Authority, a representative from the West Harris County Regional Water Authority (the "WHCRWA") and a representative from the COH. Ms. Bobbitt added that the purpose of the Committee is to inform and consult with the COH on annual operation/maintenance budget matters, surface water system operational issues, upcoming surface water projects and long-term surface water planning issues. Ms. Bobbitt noted that the Committee could be expanded in the future to include a representative from the Central Harris County Water Users Group (the "CHCWUG"). Ms. Bobbitt then noted that the CHCWUG Consortium Agreement is scheduled to be finalized and executed by all parties by no later than December 13, 2002. Ms. Bobbitt added that her Executive Summary of the Contract had not changed significantly since it was originally drafted in September with the exception that the formulas for untreated water facilities capital costs had been revised, as outlined earlier by Mr. Shackelford.

Director Rendl then commended Ms. Bobbitt and Mr. Shackelford for realizing the need for the revisions to the formulas and resolving the changes with the COH. Director Rendl stated that the Contract with the COH had exceeded his expectations.

Director Pulliam then asked Ms. Bobbitt to clarify Section 5.02 of the Contract regarding initial untreated water facilities. Ms. Bobbitt explained that it was necessary to refer to the definitions at the beginning of the Contract to identify the initial untreated water facilities. Ms. Bobbitt further explained that the initial untreated water facilities will be listed in an exhibit to the Contract. Ms. Bobbitt noted that new untreated water facilities will not be listed in an exhibit and includes those untreated water facilities constructed at some point in the future.

Director Sigler noted that in previous discussions, Articles III and IV appear to be the "meat" of the Contract and inquired if there had been any substantial changes to these sections of the Contract. Ms. Bobbitt responded that other than the revisions to the formulas for untreated water facilities capital costs as outlined by Mr. Shackelford, there were only several other minor revisions in Section 3.02, but such revisions did not impact the price of water.

Mr. Shackelford stated that the Authority is purchasing 31 million gallons per day of water capacity from the COH through 2019 and has the ability to purchase additional capacity for the Authority to meet the next HGCSO conversion milestone. Mr. Shackelford emphasized that the Authority was buying water capacity in the COH facilities and not paying an ordinance rate for water. Mr. Shackelford also noted that it appears to be to the Authority's benefit to pay for the capacity over 30 years with its own bond debt, rather than making 15 annual payments to the COH.

Director Pulliam then stated that the proposed Contract was a vast improvement over the initial proposals received from the COH. Director Rendl concurred.

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 Water Supply Contract between the COH and the Authority, to authorize execution thereof and to authorize submission of the Contract to the COH TTI Committee and City Council for approval. The audience then applauded and expressed its approval of the Board's action.

Director Pulliam then inquired what the Authority was doing with regard to water conservation as reflected in Section 6.05 of the Contract. Ms. Payne reminded the Board that she had been authorized to form a Water Conservation Committee. Mr. Shackelford added that a draft water conservation plan has previously been filed with the Texas Commission on Environmental Quality (the "TCEQ") and will be revised as needed.

REVIEW AND DISCUSS PRESENTATIONS/STATEMENTS OF QUALIFICATIONS FOR ENGINEERING MANAGEMENT SERVICES

Director Pulliam then moved that the Board amend and extend its contract with TC&B in order for such firm to serve as the Engineer Manager for the Authority and to include the 2010 IWSP and the GTP,

as described in the revised scope of services, and to authorize the General Manager and attorney to negotiate a contract amendment and extension with TC&B. Director Graham seconded such motion. Discussion of the motion then ensued.

Director Rendl then spoke from a prepared statement, entitled "Reasons for Changing Lead Engineers for the IWSP", a copy of which is attached hereto. Director Rendl discussed TC&B's excessive costs for the preparation of the GRP, their duplication of effort and the lack of communication with the engineering consultant advisory team and the General Manager as reasons to consider engaging Pate/Jones & Carter as the Authority's Engineer Manager. Director Rendl stated that Pate/Jones & Carter came up with the concepts and preliminary plans for the GTP and IWSP. Director Rendl concluded with the statement that the General Manager is the chief administrator for the Authority, as authorized by the Board, and that he must be able to work effectively with the Engineer Manager and the consultant team. Director Rendl then asked Mr. Shackelford if he supports the motion made by Director Pulliam.

Mr. Shackelford responded that he will have the responsibility of negotiating a contract for the engineering management services that is in the best interest of the Authority and that he did not want to place himself in a political position by stating a preference for the Engineer Manager. Director Rendl then apologized for putting Mr. Shackelford in an awkward position.

Director Fessler commented that Director Rendl's statements slam the performance of the Program Manager and asked Mr. Potok if he desired to respond to Director Rendl's comments. Mr. Potok stated his belief that Director Rendl's statements reflect the frustration of the General Manager with the existing Program Manager, which began the morning of October 2, 2001, when he was asked to sign on behalf of TC&B cover letters for four (4) engineering reports, only one (1) of which was prepared by TC&B. Mr. Potok stated that he found the request unprofessional and one that he could not support as a professional engineer. Mr. Potok stated that TC&B was unwilling to sign-off on the alternate water source study when he had unresolved questions about items included in the report. Mr. Potok indicated that if there was a lack of communications, it was not on Mr. Baugher's part. Mr. Potok stated that all activities were coordinated by the Program Manager except one (1), which occurred after October 1st and which led to the duplication of work. Mr. Potok noted that under the existing TC&B contract with the Authority, TC&B was authorized to develop the GRP and that no other firm had that authority. Mr. Potok stated that it was not true that TC&B did not develop a pricing strategy and reminded the Board that TC&B had presented a PowerPoint presentation to the Board of the TC&B pricing strategy during the summer of 2001.

Director Rendl then stated that it was clear to him when he met with Director Pulliam, the General Manager and the Program Manager earlier this year that there was a great deal of miscommunication and lack of coordination between the General Manager and Program Manager. Mr. Potok noted that TC&B has made a change in the Program Management team by designating Mr. Min Chu as the Lead Program Manager. Mr. Chu then stood and pledged to work with the Board and stated that if TC&B receives the engineering management contract, they will need to meet with the General Manager and Pate/Jones & Carter to discuss and resolve the outstanding problems and concerns. Mr. Chu stated that the Authority cannot function without the cooperation of the General Manager and the Program Manager.

Director Pulliam then asked Mr. Potok why the costs were so excessive for the preparation of the GRP. Mr. Potok explained that the Program Manager's contract included 10 or 11 tasks, one (1) of which was to develop the GRP. Mr. Potok explained that TC&B began preparation of the GRP in November, 2001 and expected to complete it by April, 2002. Mr. Potok added that revisions to the GRP were necessary to include the new updated census information and to remodel portions of the water distribution system. Mr. Potok added that in reality two (2) GRPs were prepared. Director Rendl interjected that the Board was informed by TC&B in October, 2001 that development of the GRP was far enough along to be submitted as early as December, 2001. Mr. Rendl noted that since October, 2001, the Authority has spent an additional \$895,000 on the GRP and noted that the WHCRWA had only spent a total of \$395,000 to \$400,000 on preparation of their GRP.

Mr. Shackelford then interrupted and suggested that the differences of opinion and outstanding issues would best be dealt with in the Authority's office, rather than at a public meeting, and suggested that the Board get beyond the past issues and move forward.

Director Fessler expressed concern over correspondence from a utility district that suggested engaging TC&B would result in additional layers of costs. Director Fessler noted that both engineering firms indicate their costs to be approximately 25% to 30 % of the total engineering costs and that either firm will be held to the same standards and budget as adopted by the Board. Director Fessler added that the utility districts and the voting constituents can hold him to task and not re-elect him if the engineering management budget is exceeded.

Director Graham then commented that although several letters received from utility district directors referred to superficial layers of management, all the Board is trying to do is to select which engineering firm will be hired to serve as the Engineer Manager. Director Graham stated that the costs will be the same with either firm and that the contract will be negotiated by Mr. Shackelford. Mr. Shackelford stated that he will negotiate the contract based on the engineering management concept, rather than the program management concept, unless the Board instructs him otherwise.

After full discussion and the question being put to the Board, the Board voted four (4) votes in favor and one (1) vote opposed, with Director Rendl voting in opposition, to amend and extend the Authority's contract with TC&B to serve as the Engineer Manager for the Authority and to include the 2010 IWSP and the GTP, as described in the revised scope of services, and to authorize the General Manager and attorney to negotiate such contract amendment and extension.

Director Sigler inquired what funds were remaining in Task 8 of TC&B's existing contract that could be used now to move forward with the IWSP and GTP. Mr. Potok responded that there was approximately \$207,000 remaining in budgeted but unspent funds for Task 8 that could be used. Director Sigler asked if such funds could be reallocated to engineering expenses for the 2010 IWSP. Ms. Bobbitt responded that the funds could be reallocated by amending the Authority's budget, if necessary, and identify the new allocation in the amended contract with TC&B. Director Sigler asked Ms. Bobbitt to begin work on the amended contract with TC&B and asked Messrs. Potok and Chu to begin work on a roadmap for proceeding forward with the IWSP and GTP. Director Pulliam added that had the utility districts not told

the Authority to mind our own business two (2) years ago when the initial early action plan was offered, a system would have been built by now.

Director Sigler then called for a 10-minute break at 9:10 p.m. Director Sigler reconvened the meeting at 9:20 p.m.

PROGRAM MANAGER'S REPORT

Mr. Shackelford then asked Mr. Potok to present the Program Manager's Report. Mr. Potok then reviewed the Program Manager's Report with the Board, a copy of which is attached hereto. Director Pulliam asked a question concerning the status of the Authority's GIS database. Mr. Shackelford responded that the GIS database has been updated by Mr. Scott Fair of Cobourn, Ms. Payne and TC&B, but that additional work on the database is needed.

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 complete with the exception of the installation of the baseboards and the pull-down screen. Mr. Shackelford noted that the audio equipment should be in prior to the Board's January meeting. Mr. Shackelford reported that there would be auditorium seating capacity of approximately 100 to 110 in the meeting room and that the chairs had been purchased. Mr. Shackelford reported that the Board meetings will be held in the remodeled room beginning with the January 6, 2003 meeting.

Mr. Shackelford then reported that the short-term Water Supply Contract with the COH regarding Emerald Forest Utility District ("Emerald Forest") had been executed by the Authority and forwarded to the COH for approval and signature. A copy of such contract is attached hereto.

WATER REUSE PRICING

Mr. Shackelford then called on Mr. Jones to present the pricing strategy for water reuse. Copies of the PowerPoint presentation and related letter dated November 11, 2002 from Jones & Carter are attached hereto. Mr. Shackelford reminded the Board that there have been two (2) water reuse studies prepared for the Authority, one (1) by Dannenbaum regarding water reuse by Reliant Energy and one (1) by Alexander Engineering, Inc. regarding delivery of reused water to golf courses, nurseries, etc. within the Authority. Mr. Shackelford explained that the proposed pricing strategy took the findings of both studies into consideration.

Mr. Jones first gave his congratulations to TC&B on its selection as Engineer Manager for the Authority. Mr. Jones next reviewed the PowerPoint presentation and the responses to questions concerning the reuse water pricing strategy reflected in the Jones & Carter letter. Mr. Jones then listed four (4) proposed goals of the Authority with regard to the pricing strategy: 1) provide effluent reuse infrastructure; 2) provide lowest reasonable price; 3) provide incentive to sell effluent; and 4) price to fund Authority costs.

Mr. Jones then listed five (5) key components included in the pricing strategy: 1) equity for effluent users; 2) inclusion of all effluent reuse infrastructure costs; 3) inclusion of all non-depreciated groundwater costs; 4) inclusion of all operating and maintenance costs; and 5) effluent users incur reduced cost of water. Mr. Jones next reviewed the summary of the proposed reuse pricing strategy and commented that the resulting \$0.84/1,000 gallons cost for reused water was not as much as the golf courses are currently paying for groundwater and reflects the users receiving an asset credit for their existing facilities. Mr. Jones added that the last two (2) slides were summaries of the long-term pricing policy (2010 and 2030) and the short-term pricing policy (2003-2009) previously adopted by the Board.

A discussion then ensued concerning water rights issues regarding the wastewater effluent that flows into local streams and ditches. Mr. Potok explained that the mathematical model assumes a 70% rate of return of flow. Director Rendl asked if the proposed reuse pricing strategy had been presented to the owners of the golf courses and nurseries. Mr. Shackelford responded that a meeting with the golf course representatives was held a month ago and that another meeting is scheduled for December 5th. Mr. Shackelford explained that the Authority's goal was to have a pricing strategy proposal and plan for water reuse prior to the upcoming 2003 legislative session. Mr. Shackelford requested the Board's approval to present the proposed pricing strategy at the December 5th meeting.

Director Pulliam then moved that the Board authorize Mr. Shackelford to present the proposed water reuse pricing strategy to the owners of the golf courses and surrounding utility districts on December 5th. The motion was seconded by Director Rendl. Discussion of the motion then ensued. Director Graham asked why, if it costs \$0.50/1,000 gallons to produce water, would anyone pay \$0.84/1,000 gallons for water as proposed in the pricing strategy. Mr. Shackelford responded that water will cost more than \$0.50/1,000 gallons in the future, but noted that the golf courses will also be paying a pumpage fee to the Authority. Director Rendl suggested that the pricing chart reflect the payment of the pumpage fee. Mr. Shackelford noted that a chart similar to the long-term pricing strategy chart can be prepared for the water reuse pricing strategy.

Following discussion and the question being put to a vote, the Board voted unanimously to authorize Mr. Shackelford to present the proposed water reuse pricing strategy to the golf course owners on December 5th and come back to the Board with a recommendation on adoption of a water reuse pricing strategy.

Mr. Jones then exited the meeting at 10:03 p.m.

CONTINUATION OF GENERAL MANAGER'S REPORT

Mr. Shackelford then recommended that the Board consider holding a strategic planning workshop on either January 11th or January 18th. The Board then discussed a list of proposed workshop locations, a copy of which is attached hereto. Mr. Shackelford suggested the workshop be for the five (5) directors, the General Manager, the Engineer Manager, legal counsel and possibly a facilitator. The Board concurred that the workshop was a good idea for planning purposes and agreed on the January 18th date. 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 hold the strategic planning workshop on Saturday, January 18,

2003, at the Authority's office, from 9:00 a.m. to 4:30 p.m. Mr. Shackelford asked the Board to submit any agenda items for the workshop agenda in order for him to begin preparation and assembly of the workshop meeting packet.

Mr. Shackelford then reviewed a proposed letter to well owners within the Authority requesting submission of well permit amendments to the HGCSO, a copy of which is attached hereto. Mr. Shackelford explained that the HGCSO would implement the issuance of joint permits for well permit renewals in the future, along with aggregating the permit renewal dates to August of each year of all well permittees within the Authority. Mr. Shackelford recommended that the Authority offer to pay the \$25.00 application fee for each utility district in the Authority to extend the renewal dates of the water well permits with a renewal date prior to August, 2003. Mr. Shackelford estimated that payment of the application fees would result in an expense of \$3,000 to the Authority. 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 and authorize distribution of the proposed letter to well owners and to approve the Authority's payment of the \$25.00 amended permit application fee for the districts needing to extend their water permit renewals to August, 2003.

Mr. Shackelford then reviewed various other items included in the Board meeting packets and handed to the Board at the meeting, including a copy of the staff leave history; correspondence to and from Charterwood Municipal Utility District regarding intent to purchase water from the Authority; correspondence from Faulkey Gully Municipal Utility District ("Faulkey Gully MUD") regarding intent to participate in the GTP and purchase water from the Authority; a response letter to Pure Tex Water Works, Inc. declining their offer to sell water to the Authority; correspondence from Ms. Jana Cogburn of Fulbright & Jaworski L.L.P. concerning the Authority's import fee; a request from Ms. Sara Anderson to place a discussion item on tonight's agenda; correspondence from Northwest Harris County Municipal Utility District No. 10, Westador Municipal Utility District, Faulkey Gully MUD and Northampton expressing concerns over the selection of the Engineer Manager; correspondence related to the inclusion of White Oak in the Authority; correspondence inviting the utility district financial advisors to a presentation on December 11, 2002; correspondence to the COH regarding Exhibit "A" to the Interim Treated Water Supply Contract Between the COH and the Authority; a November 18th news article; and a summary of the statewide results of the November elections.

Mr. Shackelford reported that he had not yet received comments back from Emerald Forest regarding the proposed Water Supply Contract between such district and the Authority.

ATTORNEY'S REPORT

Concerning the Authority's pending litigation against Consumers' Water Corporation and Suburban Utility Company ("Suburban"), Ms. Bobbitt reported that a discovery and trial schedule had recently been received from the court. Ms. Bobbitt noted that JRPB had been in contact with Suburban and the TCEQ regarding Suburban's tariff application pending with the TCEQ. Ms. Bobbitt noted the JRPB hopes to resolve the litigation outside of court.

NEXT MEETING

Mr. Shackelford then announced that the next regular meeting of the Board would be held on January 6, 2003 at the Authority's office at 7:00 p.m.

PUBLIC COMMENT

There were no additional comments from the public.

EXECUTIVE SESSION

Director Sigler then adjourned the meeting at 10:28 p.m. and announced that the Board would convene in executive session at 10:40 p.m., pursuant to Section 551.074, Texas Government Code, as amended, to discuss personnel matters.

RECONVENE IN OPEN SESSION

Director Sigler then reconvened the meeting in open session at 12:14 a.m., at which time no action was taken by the Board.

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

PASSED, APPROVED AND ADOPTED this 6th day of January, 2003.

/s/Ron Graham

Secretary, Board of Directors

(SEAL)