

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

July 1, 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 1st day of July, 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; Mr. Michael Baugher, P. E. of Turner Collie & Braden, Inc. ("TC&B"), Program Manager for the Authority; Mr. Gary Smith, P.E. of ARCADIS, Program Manager for the Authority; Mr. Dave Scholler, P.E. of Brown & Gay Engineers, Inc., water conservation study engineering consultant for the Authority; Mr. Jim Dannenbaum, P.E. of Dannenbaum Engineering Corporation, on-call engineering consultant for the Authority; Ms. Pat Wisniewski of Senator Jon Lindsay's office; Mr. Ray Zobel, a member of the City of Houston Regional Advisory Board; Ms. Amanda Waters of the 1960 Sun; 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.

Mr. Bob Bell, President of Fountainhead Municipal Utility District, then read a prepared statement concerning the exemption of Jersey Village from the payment of Authority import fees, a copy of which is attached hereto. Mr. Bell questioned whether single-member voting district no. 3 was an example of representation without taxation. Mr. Shackelford noted that Jersey Village has been and will continue to pay pumpage fees to the Authority on any groundwater they pump, and that usage calculations for Jersey Village were still included in the Authority's groundwater reduction plan (the "GRP").

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 then stated that the first item on the Consent Agenda is approval of the minutes of the regular meeting of June 3, 2002 and the executive session minutes of June 3, 2002. Director Sigler noted that only the minutes of the regular meeting of June 3, 2002 were being submitted for the Board's approval.

Director Sigler stated that the second item on the Consent Agenda is to authorize submission of the draft GRP for the Authority to the Harris-Galveston Coastal Subsidence District (the "HGCSO"). Director Graham asked why the per capita amount of water had been reduced from 175 gallons per day ("gpd") to 150 gpd in the GRP. Mr. Baugher explained that the 175-gpd calculation included certain irrigation usage components, and that the 150-gpd amount was more realistic for a residential usage calculation. Director Graham then inquired if Reliant Energy's usage was included in the Authority's GRP draft. Mr. Baugher responded that Reliant Energy had been included in the GRP and if they did not end up in the Authority's GRP, a calculation of approximately five (5) million gpd could be pulled out of the water usage demand numbers. Mr. Shackelford reminded the Board that Reliant Energy had submitted a letter of intent to participate in the Authority's GRP on December 28, 2001. Director Fessler questioned the amount of time being allowed for Reliant Energy to determine if they are going to remain in the Authority's GRP. Mr. Shackelford noted that he and Mr. Potok had been communicating with Reliant Energy and that he anticipates Reliant Energy to advise the Authority of their decision in the near future. Mr. Shackelford announced that the draft GRP would be accessible on the Authority's Web site next Monday, July 8, 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: 1) approve the minutes of the regular meeting of June 3, 2002, as written, and 2) authorize submission of the Authority's draft GRP to the HGCSO.

FINANCIAL REPORT

Director Sigler then recognized Ms. Plunkett, who reviewed the Financial Report with the Board, including the monthly investment report and the budget comparison for the month of May, a copy of which is attached hereto. Ms. Plunkett noted that the budget comparison for five (5) months reflects the Authority is \$1.4 million under budget for the fiscal year ending December 31, 2002.

Director Graham commented that Ms. Plunkett was doing a good job reducing the number of checks that are being written each month. Director Graham asked if the Authority had paid ARCADIS any engineering fees recently. Ms. Plunkett explained that TC&B invoices the Authority for ARCADIS and pays them as a subcontractor to TC&B.

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 Financial Report and the payment of the checks reflected therein.

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

Ms. Payne next reported that the Authority's Web site had approximately 47,121 hits in June, which represents an average of 1,570 hits per day and 199,808 hits for the first six (6) months of 2002.

Ms. Payne then announced that the Water Users Advisory Group (the "WUAG") would meet on July 18, 2002, at 4:30 p.m. at the Authority's office. Ms. Payne added that prior to tonight's meeting, she had provided drafts of proposed advertisements that will be distributed for the Board's review to the various area Chambers of Commerce for inclusion in communications and newsletters, copies of which are attached hereto.

Concerning the recent Town Hall meetings held by the Authority, Ms. Payne reported that she is compiling a list of the most frequently asked questions to post on the Web site.

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 noted that the Program Managers had worked predominantly on preparation of the draft GRP and attending the Town Hall presentations during the last month. Mr. Baugher reported that he had been working on the Authority's Texas Water Development Board (the "TWDB") grants to obtain the grant funds from the TWDB.

Concerning the Water Reclamation/Reuse Study, Mr. Baugher reported that Alexander Engineering, Inc. had recently submitted the draft of the supplemental report for his review.

Director Pulliam inquired if the GIS database had been updated recently. Mr. Baugher reported that 10 to 15 additional questionnaires had been received and that approximately 25 questionnaires had still not yet been returned. Mr. Baugher added that the lack of GIS information did not affect the information in the draft GRP. Director Graham asked if the Authority will need to know the chemicals that the utility districts are adding to their water systems in connection with the blending of surface water and groundwater.

Mr. Baugher explained that eventually the utility districts will need to convert to using a chloramine disinfection system that the City of Houston (the "COH") uses to deal with water blending problems. Mr. Baugher noted that the costs for the utility districts to convert to the chloramine disinfection system were included in the surface water conversion cost estimates.

GENERAL MANAGER'S REPORT

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

Mr. Shackelford reported that since the conclusion of the Town Hall meetings, he has had five (5) meetings with various utility districts to discuss whether they are interested in purchasing water from or selling water to the Authority. Mr. Shackelford explained that the major concern of most utility districts is how soon the Authority will be able to initiate the Phase 1 Integrated Water System Plan (the "IWS Plan"). Mr. Shackelford stated that his response to such question is that the Authority will be able to deliver water under the IWS Plan by 2004. Director Rendl expressed his thanks to Mr. Shackelford and his consultant team for conducting the informative and well attended Town Hall meetings. Mr. Shackelford reported that he has received extremely positive responses from the public regarding the Town Hall meetings.

Mr. Shackelford then reported that a special meeting has been scheduled for Tuesday, July 23, 2002, at 7:00 p.m. at the Ponderosa Volunteer Fire Department to further inform the interested utility districts about the IWS Plan, the strategy for buying and selling water and to respond to questions about such matters. Director Rendl inquired as to the districts that will be invited to the special meeting. Mr. Shackelford responded that invitations were sent to the 30 water districts that signed up at the Town Hall meetings and other utility water districts identified by various consultants as possibly being interested in buying or selling water.

Mr. Shackelford next reported that he has scheduled a meeting for the utility district financial advisors to present the IWS Plan and water pricing strategy. Mr. Shackelford stated that the meeting will be similar to the meetings previously held for the engineers, operators and attorneys on such matter.

Director Sigler noted that notice of the July 18th WUAG meeting and the July 23rd meeting will be posted on the Authority's Web site. Director Rendl encouraged people to attend such meetings.

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 she had been working with Ann Sheridan and Bill Beauchamp of the COH to prepare a short-term water supply contract between the Authority and the COH to supply water to Emerald Forest. Ms. Bobbitt reported that as soon as the proposed contract is ready, it will be distributed to the Board for review and approval. Director Sigler stated that this was an excellent example of the Authority stepping in to solve a utility district water supply problem. Director Pulliam stated that this appears to be similar to what the Authority was trying to accomplish with Jersey Village. Ms. Bobbitt agreed that it was somewhat the same, but that in this case, the COH will set a meter and sell water on a temporary basis to the Authority at the COH's ordinance rate until the long-term water supply contract between the Authority and the COH is finalized.

Director Graham inquired as to the status of Mills Road Municipal Utility District ("Mills Road"). Mr. Shackelford reported that he had met with Mills Road representatives to explain what the Authority is proposing to do with the COH and Emerald Forest. Mr. Shackelford added that it appears that Mills Road will drill a new well and anticipates selling water to the Authority.

Concerning the status of the water supply contract negotiations with the COH, Mr. Shackelford reported that the most recent meeting was held on June 27, 2002, and that the language for the operation and maintenance section of the contract had been worked out. Mr. Shackelford reported that the next meeting with the COH is scheduled for July 11, 2002 to focus on the treatment capital cost and untreated capital cost language. Mr. Shackelford noted that the negotiating team is still targeting September 1st as the deadline for the final contract.

Mr. Shackelford next reported on the Water Symposium hosted by Senator Jon Lindsay at the University of Houston on June 25, 2002. Mr. Shackelford noted that Directors Sigler and Pulliam attended the symposium. Mr. Shackelford also noted that a copy of the PowerPoint presentation, along with his remarks, was included in the Board meeting packets. Copies of such items are attached hereto.

Mr. Shackelford then reviewed various other items included in the Board meeting packets, including a letter from Harris County Municipal Utility District No. 191, the Texas Water Conservation Association newsletter, the West Harris County Regional Water Authority newsletter, and a summary of the Board's availability to attend a budget workshop for the 2003 budget, copies of which are attached hereto. The Board concurred that August 19, 2002 at 6:00 p.m. at the Authority's office would be the best time for the budget workshop. Mr. Shackelford then stated that the public hearing on the proposed 2003 budget would be held at 6:00 p.m. on September 5, 2002, and that the Board's regular meeting would be held immediately following the budget hearing.

Mr. Shackelford then discussed a Cost Comparison of New Well Vs. Purchase of Water from the Authority, a copy of which is attached hereto. Director Pulliam asked for the source of the water rates reflected in the comparison. Mr. Shackelford responded that these were the same rates formulated by Jones & Carter, Inc. and Pate Engineers, Inc. and used in the pricing strategy that was presented in the Town Hall meetings. Mr. Shackelford reviewed the cost comparison information with the Board. Director Pulliam requested that Mr. Shackelford post the comparison on the Authority's Web site and include an explanation regarding the rates.

In conclusion, Mr. Shackelford noted correspondence received from TC&B regarding the GRP, a copy of which is attached hereto.

ATTORNEY'S REPORT

Ms. Bobbitt stated that she had nothing additional to report unless the Board had any questions. Director Pulliam asked Ms. Bobbitt to comment on whether she thought the COH will get a water supply contract to the Authority for consideration and approval in a timely manner. Ms. Bobbitt responded that she felt the negotiations were going very well and moving forward at a good pace. Ms. Bobbitt explained that most of the six (6) major components of the contract have been negotiated and that the last step in the

process will be assembling the various contract components into a final contract for submission to the governing bodies of the Authority and the COH for consideration and approval.

NEXT MEETING

Mr. Shackelford then announced that the next regular meeting of the Board would be held on Monday, August 5, 2002, at 7:00 p.m. at the Ponderosa Volunteer Fire Department.

RATIFY EXEMPTION OF JERSEY VILLAGE AND RAMBLEWOOD SUBDIVISION FROM PAYMENT OF IMPORT FEES

Upon motion by Director Graham, seconded by Director Pulliam, after full discussion and the question being put to the Board, the Board voted unanimously to ratify the Board's action at the June 3, 2002 meeting to exempt Jersey Village and the Ramblewood Subdivision from the payment of import fees to the Authority based on conditions existing with each entity prior to the creation of the Authority, as outlined in Mr. Shackelford's memorandum to the Board dated May 30, 2002, a copy of which is attached hereto. The Board discussed what sort of deadline should be given to Jersey Village regarding their response to the Authority's offer to purchase the Jersey Village water interconnect line with the COH. Mr. Shackelford noted that an item will be placed on the August agenda to approve a letter to Jersey Village regarding such matter.

PUBLIC COMMENT

Director Sigler then opened the floor for additional public comments.

Mr. Lance Stahl of HMW Utility District stated that earlier in the meeting, Mr. Shackelford had noted that there may be more utility districts interested in buying water than selling water and asked how that would impact the estimated delivery date of 2004. Mr. Shackelford explained that if that is the case, the Authority may consider drilling a well to supply all of the districts interested in buying water. Mr. Shackelford stated that after the July 23rd meeting, he will have a better idea of the number of districts interested in buying or selling water. Mr. Stahl asked what sort of timeframe would be established for districts to notify the Authority of their intent to buy or sell water. Mr. Shackelford stated that the Authority will need a lead time of 12 to 15 months to install Phase 1 of the IWS Plan and that the utility districts will be requested to respond by September 3, 2002.

Mr. Mark Edwards of Bammel Utility District stated he has trouble understanding the concept of a utility district having a problem that the Authority fixes and pays for with funds from all of the utility districts in the Authority. Mr. Shackelford responded that the costs are accounted for in the proposed pricing strategy and reviewed Mr. Jones' analogy of all the groundwater, surface water and operation/maintenance costs going into one (1) basket and being divided by the total pumpage numbers. Mr. Edwards stated that he was more sympathetic to utility districts with wells that have water quality or water quantity problems than to future new users. Mr. Shackelford stated that he would be happy to review and discuss the proposed pricing strategy in more detail.

There being no further business to come before the Board, the meeting was adjourned at 8:25 p.m.

PASSED, APPROVED AND ADOPTED this 5th day of August, 2002.

/s/Ron Graham

Secretary, Board of Directors

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