

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

August 5, 2002

The Board of Directors (the "Board") of the North Harris County Regional Water Authority (the "Authority") met in regular session, open to the public, at 7:00 p.m. on the 5th day of August, 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., Program Manager for the Authority; Mr. Dave Scholler, P.E. of Brown & Gay Engineers, Inc., water conservation study engineering consultant for the Authority; Mr. Wayne Ahrens, P.E. of Dannenbaum Engineering Corporation, on-call engineering consultant for the Authority; Mr. Ray Zobel, a member of the City of Houston Regional Advisory Board; Ms. Amanda Waters of the 1960 Sun; Ms. Kim Canon of the Houston Chronicle; Mr. Gene Shepherd of Legg Mason Wood Walker, Inc., financial advisor for the Authority; Ms. Kate Smith, Scoutmaster, and members of Boy Scouts of America, Troop 1550; 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.

Director Sigler then recognized members of Boy Scouts of America, Troop 1550 in attendance at the meeting in conjunction with earning their Citizenship in the Community merit badge.

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.

CONSENT AGENDA

Director Sigler first reviewed with the Board the items reflected on the Consent Agenda. Director Sigler explained that this portion of the agenda deals with routine matters of the Board, and that no separate discussion of such items will occur unless a Board member or a member of the public requests that an item be moved to the regular portion of the agenda.

Director Sigler then stated that approval of the minutes of the regular meeting of July 1, 2002, the executive session minutes of June 3, 2002 and the minutes of the special meeting of June 10, 2002 were the only items on the Consent Agenda. 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 minutes of the regular meeting of July 1, 2002, the executive session minutes of June 3, 2002 and the special meeting minutes of June 10, 2002, as written.

FINANCIAL REPORT

Director Sigler then recognized Ms. Plunkett, who reviewed the Financial Report with the Board, including the monthly investment report and the budget comparison for the month of June, a copy of which is attached hereto. Ms. Plunkett noted that the budget comparison for six (6) months reflects that the Authority is \$1,778,884 under budget for the fiscal year ending December 31, 2002. Ms. Plunkett then reviewed an updated report on pumpage fee receipts and delinquent accounts, a copy of which is attached to the Financial Report. Ms. Plunkett noted that included with the checks being presented for approval were four (4) refund checks to districts that overpaid their second quarter pumpage fees.

Upon motion by Director Pulliam, seconded by Director Graham, 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 this month, the Authority's Web site had an average of 1,600 hits per day, resulting in an average of 50,000 hits for the month, and further noted that there were several days in July that had 3,000 hits per day. Ms. Payne further reported that 75% of the Web site visitors were logging on via the Authority's name rather than through a search engine and that the average stay on the site was five (5) minutes. Ms. Payne noted that many visitors were accessing the new maps regarding the Phase 1 Integrated Water System Plan.

Ms. Payne next reported that the Water Users Advisory Group met on July 23, 2002, at 4:30 p.m. at the Authority's office and asked Mr. Ruben Gonzales of Harris County Municipal Utility District No. 24 to give a brief report on the meeting. Mr. Gonzales stated that the presentation on the Phase 1 Integrated Water System Plan was excellent and commended the efforts of the Board, the General Manager and the engineering consultants of the Authority. Mr. Gonzales noted that his district would be a seller of water under the proposed plan. A copy of Mr. Gonzales' remarks is attached hereto.

A copy of the July 2002 publication of the Action Report is attached hereto.

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 his team had been working on preparation of the Program Management scope of work for the proposed 2003 budget. Mr. Baugher reported that he and Mr. Shackelford will meet with representatives of the Harris-Galveston Coastal Subsidence District (the "HGCS D") on August 8th to discuss the draft of the Authority's Groundwater Reduction Plan (the "GRP").

Concerning the Water Reclamation/Reuse Study, Mr. Baugher reported that Alexander Engineering, Inc. had submitted their draft of the supplemental report, which he is now in the process of reviewing.

Mr. Baugher next reported that attached to his report was the Phase 1 Integrated Water System Plan Status Report as of June 25, 2002, prepared by Pate Engineers, Inc. ("Pate") and Jones & Carter, Inc. ("Jones & Carter").

Director Sigler then asked if there had been any feedback from the HGCS D regarding the Authority's draft GRP. Mr. Baugher responded that no comments on the GRP had been received, but that he and Mr. Shackelford would meet with the HGCS D on August 8th to discuss the GRP draft.

GENERAL MANAGER'S REPORT

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

Mr. Shackelford first presented a brief PowerPoint presentation concerning the Authority's offer to the City of Jersey Village ("Jersey Village") for the assignment of the City of Houston (the "COH") water supply agreement and purchase of the Jersey Village interconnect line with the COH. A printed copy of the PowerPoint presentation, along with Mr. Shackelford's memorandum regarding the Jersey Village options, are attached hereto. Mr. Shackelford explained that the Authority's original offer to Jersey Village had been in place for approximately two (2) years, and then reviewed with the Board a proposed letter to Jersey Village regarding an amended purchase offer, a copy of which is attached hereto. Mr. Shackelford then requested that the Board determine how they wish to proceed on the Jersey Village matter. Director Rendl then interjected that as many as three (3) years ago, he had several meetings with Dale Brown, City Manager for Jersey Village and the Jersey Village Mayor, to discuss the proposal for the Authority to purchase the interconnect line. Director Rendl reiterated that Jersey Village should be treated like every other well owner in the Authority.

Director Sigler then asked to hear further comments on the Jersey Village matter from the other members of the Board. Director Graham noted that it was his understanding that at one time there appeared to be a reason to purchase the Jersey Village interconnect, but he has recently been advised that there is not really a need for the interconnect at this time. Director Graham added that he had a problem with the Authority spending \$750,000 for something it does not need and did not think Jersey Village needed an additional 30 days to respond to the Authority's offer. Director Pulliam then explained that Jersey Village has experienced water supply and subsidence problems for years prior to the creation of the Authority, which problems have been caused largely by the COH wells. Director Pulliam stated that when the Authority was first created, the assignment of the COH interconnect agreement with Jersey Village to

the Authority would have afforded the Authority an opportunity to enter into negotiations with the COH and would have been a benefit to the Authority. Director Pulliam added, however, that the Jersey Village/COH interconnect could be incorporated in a water distribution loop for use in the Authority's conversion to surface water. Director Fessler inquired why Mr. Shackelford had been unable to supply Jersey Village with the price and cost information they had requested. Mr. Shackelford responded that he has previously supplied the cost information that was available and that it is only recently that the pricing strategy information and COH water supply contract cost information has been available to provide to Jersey Village. Director Fessler commented that Jersey Village was able to sign their agreement with the COH without guaranteed rates, but have demanded guaranteed numbers from the Authority. Director Graham asked how the estimated water rates provided to Jersey Village in 2001 compared with the rates recently provided to them. Mr. Shackelford responded that the most recent rates were approximately \$0.40 higher than the earlier rates, but that the proposed pricing strategy provides an opportunity for Jersey Village to receive credits for their existing water facilities. Director Fessler then asked Director Rendl how he thought Jersey Village could be treated on an equitable basis. Director Rendl reiterated that Jersey Village should come to the Authority like any other entity that is pumping water in the Authority and receive undepreciated asset credits for their facilities. Director Rendl stated that the benefit to the Authority in purchasing the interconnect from Jersey Village has diminished and the Authority does not need to give Jersey Village any special treatment. Director Sigler stated he would like to see the Authority own the Jersey Village interconnect line.

Upon motion by Director Rendl, seconded by Director Fessler, 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 Pulliam voting in opposition, to immediately withdraw the Authority's offer to Jersey Village for the purchase of the interconnect line with the COH and the assignment of the COH water supply contract to the Authority.

Director Sigler inquired if the Authority was interested in amending the offer to Jersey Village. Director Rendl stated that in the future if Jersey Village desires to request that the Authority purchase the interconnect line, they can approach the Authority with such request. Director Sigler reiterated his interest in purchasing the interconnect line. Director Rendl noted that to date, there had been absolutely no response from Jersey Village to the Authority's offer to purchase the interconnect line. Mr. Shackelford stated he will prepare a letter to Jersey Village informing them of the Board's decision to withdraw its offer to purchase the interconnect line.

Mr. Shackelford next reported on the implementation of the Phase I Integrated Water System Plan and the special meeting held on July 23, 2002 for districts interested in buying water from or selling water to the Authority. Mr. Shackelford reported that the meeting was very well attended and that there was standing room only at the meeting. Mr. Shackelford noted that the presentation given on July 23rd identified four (4) potential projects that address water quality/water supply issues within the proposed 2010 GRP service area along with project costs, estimated timelines to deliver water and a thorough explanation of the pricing strategy. Mr. Shackelford added that if any districts need water by late summer 2004, such districts need to communicate their intent to the Authority if at all possible no later than September 3, 2002, noting that it will take approximately 18 months to install the necessary distribution lines.

Mr. Shackelford then presented a list of districts who had requested meetings with him to discuss buying water from or selling water to the Authority, a copy of which is attached hereto. Mr. Shackelford noted that the form letter and sample resolution for districts interested in buying/selling water are available on the Authority's Web site.

Mr. Shackelford next referred to a letter from Jones & Carter recommending that the Authority adopt the pricing strategy, along with initial guidelines to clarify how credits and new capital expenditures will be handled. A copy of the letter and proposed guidelines is attached hereto. Mr. Shackelford noted that the Authority will need to consider adopting the pricing strategy either at the same meeting that the Authority considers the COH/Emerald Forest Utility District ("Emerald Forest") short-term Water Supply Agreement or at the following meeting in order to define the price of water for Emerald Forest and others that desire to buy/sell water. Mr. Shackelford added that no action was recommended on the matter for tonight's meeting.

Director Fessler inquired if the proposed guidelines and pricing strategy would also apply to HMW Special Utility District ("HMW"). Mr. Shackelford responded that the proposed guidelines would apply and that the issues raised by HMW would be addressed internally and considered at a future meeting of the Board. Director Rendl asked if the short-term pricing for water was still the same as reflected in the Town Hall presentations. Mr. Shackelford responded that the rates will not change until the Authority begins to obtain specific data on non-depreciated asset values from the individual districts interested in buying or selling water. Director Sigler asked when the non-depreciated asset values would be available for Emerald Forest. Mr. Shackelford responded that he expected to receive the information from the Emerald Forest engineer within the next week. Director Sigler then asked Mr. Shackelford to revise the list of districts requesting meetings with him to reflect which districts are potential buyers of water and which are potential sellers of water.

Director Sigler then asked Mr. Baugher for his opinion regarding the proposed pricing strategy. Mr. Baugher responded that he saw no reason why the proposed pricing strategy will not work and commended Pate and Jones & Carter on their work.

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

Mr. Shackelford then requested that Ms. Bobbitt give a status report on the request by Emerald Forest to obtain a short-term supply of water from the Authority. Ms. Bobbitt then briefly reviewed the terms of the proposed Water Supply Agreement and noted that she will forward her comments to Mr. Bill Beauchamp of the COH to obtain a revised/finalized Agreement for approval by the Board. Director Sigler asked whether Emerald Forest had seen or commented on the proposed Agreement. Ms. Bobbitt responded that the Agreement will be between the Authority and the COH and that the Authority will have a separate agreement with Emerald Forest for the purchase of water. Director Graham expressed concern as to whether the Authority might end up paying the COH for more water than Emerald Forest might use on

a monthly basis. Director Pulliam inquired if Emerald Forest was responsible for constructing the water line. Ms. Bobbitt responded that the water line to serve Emerald Forest has already been constructed.

Mr. Shackelford next reported on the status of water supply negotiations with the COH. Mr. Shackelford stated that the negotiating team expects that the proposed contract will be ready for the Board's approval no later than mid-September and that he hoped to have a draft copy of the contract in the Board's September meeting packet. Mr. Shackelford then referred to an e-mail from Mr. Jeff Taylor of the COH concerning the timetable for approval of the proposed contract, a copy of which is attached hereto. Director Rendl asked if there were any roadblocks or surprises expected in the contract negotiations or in the most recent draft of the contract. Mr. Shackelford stated that he was not aware of any problems and stated that it was his understanding that Jon Vanden Bosch, Public Works Director for the COH, was meeting with Council members to keep them abreast of the contract negotiations. Director Pulliam commented that there were only 89 business days between tomorrow and December 11, 2002, the proposed date of approval of the Authority's GRP by the HGCSO. Mr. Shackelford noted that he and the Program Manager would submit responses to the HGCSO comments on the GRP around Thanksgiving and plan to stay on schedule with the GRP approval.

Director Sigler noted that the Authority was no longer tied to negotiating the COH contract with the West Harris County Regional Water Authority and that it is anticipated that the Authority will now have weekly negotiation sessions with the COH. Ms. Bobbitt noted that the Authority's negotiating team plans to request such weekly meetings at the upcoming meeting with the COH scheduled for August 8th.

Mr. Shackelford then reviewed various other items included in the Board meeting packet, including a letter from Bilma Public Utility District, a memorandum regarding Reliant Energy's T.H. Wharton Generating Station and participation in the Authority's GRP, notices of upcoming conferences, including the Texas Water Law Conference, the Texas Rural Water Association (the "TRWA") Conference, the Sam Houston Water Utilities Association Conference and the Texas Water Conservation Association (the "TWCA") Conference, a memorandum regarding proposed changes to Texas Natural Resource Conservation Commission "Chapter 292 Rules - River Authorities," copies of delinquent account/demand payment letters to Suburban Utility Company and Consumers Water Corporation, a letter from HMW, and several miscellaneous pieces of correspondence, copies of which are attached hereto. Mr. Shackelford then requested the Board's approval to attend the TRWA and the TWCA Conferences in September and October.

Mr. Shackelford next reviewed the comparison chart for the insurance renewal proposals received from Brown & Brown of Texas, Inc., Texas Municipal League - Intergovernmental Risk Pool ("TML"), ANCO Wessendorf Insurance and the TWCA, a copy of which is attached hereto. Mr. Shackelford requested authorization to accept the proposal from TML for the period of August 30, 2002 to October 1, 2003.

Upon motion by Director Graham, seconded by Director Rendl, after full discussion and the question being put to the Board, the Board voted unanimously to authorize Mr. Shackelford to attend the TRWA and the TWCA Conferences in September and October, to accept the insurance proposal of TML and to authorize Mr. Shackelford to execute such proposal on behalf of the Authority.

ATTORNEY'S REPORT

Ms. Bobbitt reported that she had not received any responses from the demand letters dated July 23, 2002 to Suburban Utility Company and Consumers Water Corporation and advised the Board that she was prepared to file suit against such entities should payment not be received by the response deadline. 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 authorize Ms. Bobbitt to proceed with the filing of collection suits against Suburban Utility Company and Consumers Water Corporation.

NEXT MEETING

Mr. Shackelford then announced that because of the upcoming Labor Day holiday, the next regular meeting of the Board would be held on Thursday, September 5, 2002, at 7:00 p.m., at the Ponderosa Volunteer Fire Department. Mr. Shackelford announced that there would also be a special workshop meeting to discuss the proposed 2003 budget on Monday, August 19, 2002 at 6:00 p.m., at the Authority's office and that a budget hearing would be held on Thursday, September 5, 2002, at 6:00 p.m. at the Ponderosa Volunteer Fire Department prior to the regular Board meeting.

PUBLIC COMMENT

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

Mr. Garey Nelson of Bammel Utility District asked why there were no public comments allowed at the beginning of the meeting and whether that would be the case at future meetings of the Board. Director Sigler responded that he did not see a need to have public comments both at the beginning and at the end of the meetings. Mr. Nelson asked if it is the Board's intention to not take public comments until after the Board takes action, to which Director Sigler responded affirmatively. Mr. Nelson then asked whether the Board will allow 30 minutes or 15 minutes for public comments at the end of the meeting. Director Sigler stated that he thought 15 minutes seemed adequate. Director Rendl then asked who had requested the change on the agenda concerning public comments. Director Sigler stated that he had asked Ms. Bobbitt to remove the public comment section from the top portion of the agenda because he thought it was a normal practice to take public comments at the end of meetings. It was noted that public comments are typically taken at the beginning of public entity meetings.

Mr. Colin Kinder of Harris County Municipal Utility District No. 202 stated that he agreed with Director Rendl and Mr. Nelson regarding the reinstatement of public comments at the beginning of the Board meetings.

Mr. Taylor Broun of Northwest Harris County Municipal Utility District No. 10 commented that it was normal practice to allow public comments at the beginning of meetings.

Ms. Susan Crabtree of Mills Road Municipal Utility District noted that public comments are taken at the beginning of their district meetings.

Mr. Larry Stahl of HMW commented that public comments were of no use at the end of a meeting.

Mr. Bob Koperwhats of Harris County Water Control & Improvement District No. 91 asked how one (1) member of the Board could make such a determination regarding the agenda items.

Director Sigler then conducted a straw vote of the Board concerning the public comment matter. Ms. Bobbitt was then instructed to include a 15-minute public comment period at the beginning and at the end of each meeting agenda.

Mr. Broun asked if the withdrawal of Reliant Energy from the GRP would impact the Authority's plans to sell "gray" or reused water. Mr. Shackelford indicated that Reliant Energy was not certain how long the T.H. Wharton Plant would remain in operation and that they would be interested in purchasing "gray" water from the Authority if the plant is still online when "gray" water is available for sale.

There being no further business to come before the Board, the meeting was adjourned at 9:05 p.m.

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

/s/Ron Graham

Secretary, Board of Directors

(SEAL)

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