

MINUTES OF MEETING OF THE  
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

June 3, 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 3rd day of June, 2002, at the Ponderosa Volunteer Fire Department, 17061 Rolling Creek Drive, Houston, Texas, the regular meeting place within the boundaries of the Authority; whereupon, the roll was called of the duly constituted officers and members of the Board, to-wit:

Lenox A. Sigler	President
Jim Pulliam	Vice President
Ron Graham	Secretary
Kelly P. Fessler	Treasurer
Alan J. Rendl	Assistant Secretary

All members of the Board were present, thus constituting a quorum. Also attending the meeting were: Mr. Ed Shackelford, P.E., General Manager for the Authority; Ms. Cynthia Plunkett, Financial Assistant for the Authority; Ms. Barbara Payne of Payne Communications, communications coordinator for the Authority; Messrs. Alan Potok, P.E. and Michael Baugher, P. E. of Turner Collie & Braden, Inc., Program Manager and alternate source study engineering consultants 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; Messrs. Jim Dannenbaum, P.E. and Wayne Ahrens, P. E. of Dannenbaum Engineering Corporation, on-call engineering consultant for the Authority; Mr. Gerry Pate, P.E. of Pate Engineers, Inc., on-call engineering consultant for the Authority; Mr. Bob Jones, P.E. of Jones & Carter, Inc., 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. Kim Canon of the Houston Chronicle; 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

No public comments were received at this time.

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 the first item on the Consent Agenda is approval of the minutes of the regular meeting of May 6, 2002 and the special meeting of March 23, 2002. Director Sigler noted that there was a minor correction on page 3 of the May 6<sup>th</sup> minutes.

Director Sigler stated that the second item on the Consent Agenda is approval of the request by the Texas Water Development Board (the "TWDB") for a time extension regarding the 2000 Regional Facility Planning Grant, Contract No. 2001-483-366.

Director Sigler next explained that the third item on the Consent Agenda is adoption of an Order Establishing Additional Meeting Places within the Boundaries of the Authority. Director Sigler explained that the additional meeting places were the locations for several of the Authority's upcoming Town Hall meetings.

Director Sigler then explained that the final item on the Consent Agenda is to authorize execution of an enrollment application to TexSTAR. Mr. Shackelford explained that TexSTAR is a new investment pool for governmental entities similar to TexPool. Director Pulliam inquired if the TexSTAR interest rate is significantly different from that currently being offered by TexPool. Mr. Shackelford responded that the interest rates of the two (2) investment pools are only slightly different at this time, but submitting an application to TexSTAR would give the Authority some flexibility with investment alternatives if the interest rates do vary.

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: 1) approve the minutes of the regular meeting of May 6, 2002, as corrected, and the minutes of the special meeting of March 23, 2002; 2) approve and authorize the execution of the TWDB time extension on Contract No. 2001-483-366; 3) adopt the Order Establishing Additional Meeting Places within the Boundaries of the Authority; and 4) authorize the execution of the enrollment application to TexSTAR.

## 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 April, a copy of which is attached hereto. Ms. Plunkett noted that the budget comparison for the first quarter of 2002 reflects the Authority is \$1.3 million under budget.

Ms. Plunkett next reported that the delinquent pumpage fee letters recently sent to the delinquent pumpage fee accounts had been included in the meeting packets, copies of which are 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 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 59,000 hits in May, which represents an average of 1,800 hits per day. Director Pulliam asked how many of the hits were new users of the Authority's Web site. Ms. Payne responded that she did not have that information, but would check to see if the webmaster could provide such information. Ms. Payne reported that 123,000 copies of the Waterlines newsletter were mailed out to residents within the Authority in May.

Ms. Payne next reported that she is working with Mr. Shackelford to cross-reference the addresses of residents within the Authority to the corresponding single-member voting districts of the Authority and municipal utility districts.

Ms. Payne then acknowledged the presence of Mr. Michael Murr, author of a guest article in Waterlines. Ms. Payne then thanked Kim Canon of the Houston Chronicle and Amanda Waters of the 1960 Sun for their press coverage of the Authority. Director Sigler also expressed the Board's appreciation to Mr. Murr, Ms. Canon and Ms. Waters and encouraged residents to attend one of the remaining Town Hall meetings of the Authority.

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 first noted that the following reports had been finalized and submitted to the TWDB on May 24, 2002, including: 1) Water Conservation Plan; and 2) Geographical Information Systems Data Collection/Manual.

Concerning the Water Reclamation/Reuse Study, Mr. Baugher reported that Alexander Engineering, Inc. had been authorized on May 23, 2002 to proceed with an additional scope of work and noted that such authorization did not result in an increase in the study cost.

Mr. Baugher next reported that two (2) Water User Advisory Group meetings were held in May on May 2, 2002 and May 16, 2002 to review and discuss various Authority issues and projects.

Mr. Baugher went on to report that a preliminary draft of the Authority's Groundwater Reduction Plan (the "GRP") had been submitted to Mr. Shackelford and the Board for review and comment several weeks prior to tonight's meeting. Director Pulliam asked if the GRP schedule was on target. Mr. Baugher responded that the draft GRP is still scheduled to be submitted to the Harris-Galveston Coastal Subsidence District (the "HGCS D") on July 3, 2002. Director Graham questioned the status of the review of the issues associated with blending groundwater and surface water. Mr. Baugher responded that such issues are addressed in the GRP.

## 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 requested that the Board approve the concept of implementing Phase 1 of the Integrated Water System Plan and authorize him to initiate contact with the districts interested in selling or buying water to/from the Authority. Director Pulliam inquired if Mr. Shackelford would be contacting and meeting with the interested districts. Mr. Shackelford responded affirmatively, but noted that such approval would not authorize any additional engineering studies or reports. Director Rendl commented that this step to target districts interested in buying or selling water is a logical next step. Director Fessler asked if there were other options available if districts did not want to sell water to the Authority in order to provide water to districts interested in or having a need to purchase water from the Authority. Mr. Shackelford responded that the Authority could opt to drill its own wells to provide a source of water. A motion was then made by Director Rendl and seconded by Director Pulliam to authorize the General Manager to initiate contact with districts interested in buying or selling water, targeting those districts with water problems, and report back to the Board concerning the responses.

Extensive discussion then ensued regarding the proposed usage of a high-pressure water distribution system in the Integrated Water System Plan. Director Fessler inquired regarding the use of a high-pressure distribution system. Mr. Shackelford responded that the use of a high-pressure system was included in the October alternate source study. Director Fessler expressed concern regarding the possible problems with the in-line blending of water. Mr. Shackelford reminded the Board that issues such as in-line blending of water and use of a high-pressure distribution system are issues that will be addressed during the design phase of the water distribution system. Mr. Shackelford stated that he is not seeking authorization to initiate the design of any project, but only to talk with districts about their potential interest in buying or selling water. Director Rendl then amended his former motion as follows: upon motion by Director Rendl, seconded by Director Pulliam, after full discussion and the question being put to the Board, the Board voted unanimously to authorize Mr. Shackelford to initiate contact with districts interested in selling or buying water, targeting those districts with water problems, report back to the Board concerning the response and to authorize the implementation of the Phase I Integrated Water System Plan based on the response of districts.

Mr. Shackelford next reported that he had recently received inquiries from Emerald Forest Municipal Utility District and Harris County Municipal Utility District No. 191 regarding the ability of the Authority to assist with their short-term water supply needs. Mr. Shackelford explained that both districts have a need to supplement their water supplies in the near future. Mr. Shackelford explained that he had made a preliminary inquiry with the City of Houston (the "COH") regarding the possibility of obtaining a short-term water supply contract between the COH and the Authority to serve the two (2) districts and that the COH response was positive. Mr. Shackelford noted that the meeting packet included a copy of a letter to the COH to commence discussions and negotiations regarding the short-term water supply contracts, a copy of which is attached hereto.

Mr. Shackelford then provided a status report on the contract negotiations with the COH. Mr. Shackelford reported that the negotiating team has now met four (4) times with the COH since receipt of the revised principles and terms from the COH for the sale of potable water on March 19, 2002. Mr. Shackelford stated that the next meeting with the COH is scheduled for June 6<sup>th</sup>, at which time it is anticipated that the treatment capital, treatment operation/maintenance, transmission capital and transmission operation/maintenance calculations will be provided by the COH to the Authority. Mr. Shackelford also reported that contract language modifications and additions continue to be prepared and provided to the COH by Ms. Bobbitt and Vinson & Elkins, LLP, the attorneys for the West Harris County Regional Water Authority (the "WHCRWA").

Mr. Shackelford then briefly outlined the terms and principles for selling treated water to the Authority proposed by the COH. Mr. Shackelford explained that the Authority is proposing to purchase a surface water capacity from the COH based on actual cost and not the COH ordinance rate. Mr. Shackelford emphasized that based on the COH proposal, the Authority will not be affected if the COH ordinance rate increases in the years ahead. Mr. Shackelford stated that the changes that would cause a change in the Authority's rates would be increases in the cost of power, chemicals, etc. or if the Authority increases the amount of its capacity needed to supply surface water to its customers.

Director Rendl then summarized his understanding of the proposed contract with the COH, stating that the Authority will pay for the surface water when it is taken by the Authority. Director Sigler asked if the water for the 2010 conversion would come from Lake Houston. Mr. Shackelford responded affirmatively. Mr. Shackelford then noted that to meet the surface water conversion requirements of 2020, it is likely that the Luce Bayou project will need to be built and that the Authority may participate in such project. Director Rendl reiterated Mr. Shackelford's earlier point that the Authority will pay \$0.27 per 1,000 gallons for raw water compared to the current ordinance rate of \$0.37 per 1,000 gallons and stated that it appears to be a very good deal for the Authority.

Director Pulliam inquired whether the costs to build Luce Bayou were calculated in the cost projections for 2010 through 2019. Mr. Shackelford responded that the costs for Luce Bayou were not calculated in the Authority's costs now but beginning sometime in 2015 the Authority will need to take steps to reserve the additional capacity needed to meet the 2020 conversion requirement. Director Pulliam then asked if the Authority's share of the costs for Luce Bayou was known. Mr. Shackelford responded that the total cost for Luce Bayou was estimated to be \$100 million, but that the Authority's share of the cost is unknown until the number of participants in the project is determined. Mr. Shackelford also noted that the Allen's Creek project will eventually come on line and it was not yet known if the Authority will require capacity in such project. Mr. Shackelford stated that currently the negotiating team was focused on the Authority's surface water supply capacity coming from the new COH Northeast Plant. Ms. Bobbitt interjected that each entity contracting with the COH will have a specific set of exhibits attached to the Water Supply Contract reflecting the COH facilities and transmission lines that will supply the respective entity with surface water.

Mr. Shackelford next reported that water supply discussions with Reliant Energy and the Brazos River Authority were inactive at this time.

Mr. Shackelford next requested that the Board authorize him to initiate negotiations with the WHCRWA and the Central Harris County Water Users Group (the "CHCWUG") regarding joint participation in the construction/financing of water transmission lines and facilities. Mr. Shackelford noted that there are many benefits for the three (3) entities to jointly participate in the financing and construction of the necessary transmission lines from the Northeast Plant to the various terminus points. Upon motion by Director Rendl, seconded by Director Pulliam, after full discussion and the question being put to the Board, the Board voted unanimously to authorize the General Manager to initiate negotiations with the WHCRWA and the CHCWUG regarding joint participation in the construction/financing of water transmission lines and facilities from the COH's Northeast Plant.

Mr. Shackelford then noted that several pieces of miscellaneous correspondence had been included in the meeting packet, copies of which are attached hereto. Mr. Shackelford noted that Senator Lindsay will host a legislative symposium on water issues on June 25<sup>th</sup> at University of Houston Main Campus. Director Sigler noted that the purpose of the symposium is to provide information on Houston area water supply issues to legislators. Mr. Shackelford next referred to correspondence received from Northwest Harris County Municipal Utility District No. 22 and his response to such letter. Mr. Shackelford also referred to a letter from the City of Tomball and noted that a copy of the AWBD Journal for the upcoming conference in South Padre Island had been included in the Board's meeting packet.

Mr. Shackelford next briefly discussed that he was in the process of reviewing proposals for the renewal of the Authority's insurance coverages. Mr. Shackelford noted that he has requested that the coverage period be changed to September 1<sup>st</sup> through August 31<sup>st</sup> to better accommodate the Authority's budgeting process. Mr. Shackelford also reported receipt of a notice of an increase in the employee medical benefit costs, a copy of which is attached hereto. Director Graham suggested that Mr. Shackelford also consider obtaining employee dishonesty coverage.

Mr. Shackelford reminded the Board that at a special meeting held December 28, 2002, the Board suspended collection of the import fee for 180 days or through the end of June, 2002. Mr. Shackelford reminded the Board that the purpose of the suspension of the import fee collection was to allow the Authority to have an opportunity to provide the City of Jersey Village ("Jersey Village") information on the estimated future water rates based on a surface water supply contract with the COH to enable Jersey Village to make a decision on whether they will assign their COH water supply agreement to the Authority. Mr. Shackelford went on to explain that all of such information is not yet available from the COH and, therefore, cannot yet be provided to Jersey Village. Mr. Shackelford added that the Ramblewood subdivision, located in the unincorporated area of Harris County, near the City of Humble ("Humble"), has received all of its water supply from Humble for many years due to well contamination problems. Mr. Shackelford stated that because Jersey Village and Ramblewood have conditions existing prior to the creation of the Authority, they should both be addressed under a single option if possible. Mr. Shackelford then reviewed with the Board a memorandum dated May 30, 2002 that he had prepared regarding the options available to the Board regarding the import fee matter, a copy of which is attached hereto.

After a brief discussion concerning the three (3) options, Mr. Shackelford recommended that the Board adopt and implement option no. 3. Mr. Shackelford explained that option no. 3 allows any entity with a prior condition including, but not limited to, receiving water from outside the Authority prior to the creation of the Authority, having water supply negotiations underway or having an executed water supply agreement with another entity in place, prior to the creation of the Authority to be exempt from the imposition of the import fee. Mr. Shackelford further recommended that the Authority honor its commitment to provide Jersey Village with the estimated water rates for 2010, 2020 and 2030 once they are available and that a time limit be placed on the Authority's offer to Jersey Village to reimburse them for the capital expenses incurred for their interconnect line with the COH. 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 adopt option no. 3 as recommended and outlined by Mr. Shackelford. It was noted that placing any type of time limit on the Authority's offer to Jersey Village concerning the purchase of the COH interconnect line was not included in Director Rendl's motion.

Mr. Shackelford then announced the dates of the remaining Town Hall meetings, a copy of the schedule is attached hereto.

Mr. Shackelford then reminded the Board and the audience of the upcoming Town Hall meetings scheduled for District No. 1 on June 4<sup>th</sup>, District No. 4 on June 6<sup>th</sup>, District No. 5 on June 10<sup>th</sup> and District No. 3 on June 13<sup>th</sup>. Mr. Shackelford added that the addresses for the Town Hall meeting can be found on the Authority's Web site.

#### ATTORNEY'S REPORT

Ms. Bobbitt next briefly reported on the status of negotiations with the COH. Director Rendl asked if Ms. Bobbitt felt that the negotiations with the COH were moving at a reasonable pace. Ms. Bobbitt responded that she felt the negotiations were going well and moving forward at a good pace. Director Rendl then asked if Ms. Bobbitt foresaw any "deal breakers" ahead in the negotiations. Ms. Bobbitt responded that so far, no major problems or issues have arisen during the negotiations. Ms. Bobbitt noted that representatives for both the CHCWUG and the WHCRWA have been participating with the Authority in all of the negotiation meetings with the COH. Ms. Bobbitt noted that although each of the entities have different issues that concern them, the COH has stated that the same basic contract will be used for each entity.

#### NEXT MEETING

Director Sigler announced that the next regular meeting of the Board would be held on Monday, July 1, 2002, at 7:00 p.m. at the Ponderosa Volunteer Fire Department.

#### PUBLIC COMMENT

Director Sigler then opened the floor to additional public comments.

Mr. Roy Lackey of Harris County Municipal Utility District No. 368 asked for a clarification concerning the use of a canal system to deliver surface water. Mr. Shackelford explained that the raw water costs include water from the COH facilities through the Coastal Water Authority canals. Mr. Lackey then stated that the Town Hall meetings have been an excellent source of information and commended the Authority's efforts to consider the needs of the utility districts.

Mr. Garey Nelson of Bammel Utility District asked if Jersey Village is included in the Authority's GRP. Mr. Shackelford responded that Jersey Village has not been included in the Authority's GRP. Mr. Dale Brown, City Manager of Jersey Village then stated that Jersey Village was included in the original draft of the COH's GRP, but that the draft GRP recently submitted by the COH to the HGCSO does not include Jersey Village.

### EXECUTIVE SESSION

Director Sigler then adjourned the regular meeting at 8:35 p.m. and announced that the Board would convene in executive session pursuant to Section 551.071(2), Texas Government Code, as amended, to consult with its attorneys regarding matters covered by the attorney-client privilege.

Director Sigler then reconvened the meeting in open session at 9:40 p.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 1<sup>st</sup> day of July, 2002.

/s/ Ron Graham  
Secretary, Board of Directors

(SEAL)