

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

July 23, 2002

The Board of Directors (the "Board") of the North Harris County Regional Water Authority (the "Authority") met in special workshop session, open to the public, at 7:00 p.m. on Tuesday, July 23, 2002, at the Ponderosa Volunteer Fire Department, 17061 Rolling Creek Drive, Houston, Texas, a public 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, except Directors Fessler and Rendl, thus constituting a quorum. Also attending the meeting were: Mr. Ed Shackelford, P.E., General Manager for the Authority; Ms. Barbara Payne of Payne Communications, communications coordinator for the Authority; Mr. Mike Baugher, P.E. of Turner Collie & Braden, Inc., Program Manager and alternate source study engineering consultants for the Authority; Mr. Wayne Ahrens, P.E. of Dannenbaum Engineering Corporation, on-call engineering consultants for the Authority; Messrs. Gerry Pate, P.E., J. E. Pate, P.E., and Ryan Hamilton of Pate Engineers Inc., on-call engineering consultants for the Authority; Messrs. Bob Jones, P.E., Bradley Jenkins, P.E., and Jason Kelly of Jones & Carter, Inc., on-call engineering consultants for the Authority; Mr. Dave Scholler, P.E. of Brown & Gay Engineers, Inc., on-call engineering consultants for the Authority; Mr. John Howell of The GMS Group, Inc., financial advisors for the Authority; Mr. Gene Shepherd of Legg Mason Wood Walker, Inc., financial advisors for the Authority; Ms. Amanda Waters of the 1960 Sun; Ms. Kim Canon and Ms. Paris Achen of the Houston Chronicle; Mr. Ray Zobel, a member of the City of Houston Regional Advisory Board; 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.

Director Sigler called the meeting to order and explained that the meeting is to be a technical presentation by the General Manager and engineering consultant team regarding the proposed implementation of the Phase 1 Integrated Water System Plan.

PRESENTATION

Mr. Shackelford then introduced himself and the three (3) Board members present at the meeting and announced that there were numerous handouts pertaining to tonight's presentation, including: 1) a printout of the PowerPoint presentation; 2) a 11"x17" color map of the Authority; 3) the Letter of Intent to Sell Water; 4) the Letter of Intent to Buy Water; 5) the Resolution Evidencing District's Intent to Buy/Sell Water; and 6) the Cost Comparison of New Well vs. Purchase of Water from the Authority. Mr. Shackelford noted that if someone did not receive a copy of the handouts, they would be posted on the Authority's Web site or a printed copy can be obtained from the Authority's office. Mr. Shackelford noted that the Authority's first deadline for districts to notify the Authority of their intent to buy or sell water is September 3, 2002.

Mr. Shackelford then reported that negotiations with the City of Houston for the purchase of surface water were progressing well and that a contract should be ready for the Board's consideration within the next 45 days.

Mr. Jones then addressed the group on the proposed Phase 1 Integrated Water System Plan, explaining that the plan was developed to provide a solution to water supply and quality problems prior to the 2010 surface water conversion date and enable the Authority to begin construction of portions of the 2010 distribution system. Mr. Jones also reviewed the proposed long-term and short-term pricing strategies. Information on the pricing strategies is included in the copy of the PowerPoint presentation attached hereto.

Mr. Jones then proceeded to review four (4) implementation projects being proposed and the related costs of such projects. Mr. Jones stated that the four (4) projects would help the greatest number of people in the area with water quality/quantity problems. Mr. Jones stressed that everything that is proposed to be constructed will be used in the 2010 distribution system and that the costs of the facilities will be spread over all entities within the Authority. Mr. Jones then reviewed an Annualized Cost Comparison - Water District Well vs. Purchase NHCRWA Well, a copy of which is attached hereto. Mr. Jones then reviewed the potential benefit to districts to sell water to or buy water from the Authority, noting that the North Harris County area has approximately twice the amount of water pumping capacity needed to meet the usage demands until 2010. Mr. Jones emphasized that every dollar that is not spent on capital projects between now and 2030 will result in a savings for everyone within the Authority.

Mr. Bobbitt next explained that form letters of intent for buying and selling water and a form Resolution Evidencing Intent to Buy/Sell Water to the Authority had been prepared and are available on the information table and will be available on the Authority's Web site. Copies of such items are attached hereto. Ms. Bobbitt noted that a correction would be made to the forms handed out at tonight's meeting to remove the word "million" from the reference concerning the amount of water in the forms. Ms. Bobbitt emphasized the importance of the districts communicating their intentions to the Authority by September 3, 2002, if at all possible, to enable the Authority to prepare its financial planning and allow 270 days' notice to the districts of the Authority's intent to issue debt. Ms. Bobbitt added that a contract between the Authority and each district desiring to buy or sell water will also be needed.

Mr. Shackelford noted that it will take the engineering consultant team approximately 18 to 24 months to design and construct any of the projects included in the Phase 1 Integrated Water System Plan. Mr. Shackelford added that he and the consultant team were willing to meet with the board of directors or consultants of any district to discuss the aspects of the Integrated Water System Plan in more detail.

QUESTION AND ANSWER PERIOD

Mr. Shackelford then opened the meeting to a question and answer period.

Q: Mr. Bob Koperwhats of Harris County Water Control and Improvement District No. 91 stated that his district was currently drilling a new well at a cost of approximately \$1 million. Mr. Koperwhats stated that his district will have an estimated 60 million gallons of excess water per year to sell to the Authority and asked if the districts will continue to operate their own water wells until the new water distribution lines are laid.

A: Mr. Shackelford responded that all of the utility districts will continue to own and operate their respective water systems.

Q: Mr. Ray Cicconi of Harris County Water Control and Improvement District No. 116 asked if there will be a letter sent out to the districts regarding the letter of intent to buy or sell water and the proposed Integrated Water System Plan.

A: Mr. Shackelford stated that the matter had not been considered because invitations to this meeting were made from information gathered at the recent round of Town Hall meetings. Mr. Shackelford added that the suggestion would be taken under advisement.

Q: Dennis Reilly of Cypresswood Utility District ("Cypresswood") then questioned the application of the depreciation credit on a district's water facilities.

A: Mr. Jones explained that the depreciation credit would be calculated from the date the facility was put in service and explained that the Authority will need information from districts pertaining to the dates of construction and capital costs of their water facilities to calculate the applicable depreciation credits. Mr. Jones noted that although the information presented at tonight's meeting discussed the depreciation credit in terms of an amount per 1,000 gallons, in actuality the credit would be applied on an annual basis.

Q: Sam Khazzoum of Cypresswood asked how the depreciation credit of \$0.77/1,000 gallons was derived.

A: Mr. Jones explained that the credit reflected in the handout information was an average calculation of real costs from a number of districts within the Authority.

- Q: Michael Murr of Harris County Municipal Utility District No. 118 inquired whether special subsidence studies had been done to project what effects the proposed Integrated Water System Plan may have on subsidence in the area.
- A: Mr. Jones explained that the total amount of water pumped in the area will be the same whether it is pumped from one district or many districts and is not expected to cause additional subsidence. Mr. Jones noted that the districts colored pink on the displays were districts with known water supply or water quality problems and that the Authority would not be buying water from those districts.
- Q: Mark Brooks with Young & Brooks asked what was the thinking regarding the difference between the \$1.25/1,000 gallons the Authority will pay to buy water from a district and the \$1.70/1,000 gallons the Authority will charge districts to buy water from the Authority.
- A: Mr. Jones explained that the difference would be for certain costs incurred by the Authority to operate, administer and maintain the integrated water distribution system.
- Q: Ken Kana of Faulkey Gully Municipal Utility District then asked whether the proposed Authority water system would be pressurized and whether the Authority or the districts will be responsible for treating the water received from the Authority.
- A: Mr. Jones explained that the Authority's system is proposed to be a high pressure system and that the districts will continue to be responsible for operating and maintaining their respective systems. Mr. Jones added that the districts within the Authority have already purchased one water system, a groundwater system, and now are essentially buying a second system. Mr. Jones explained that as the conversion process evolves through 2030, the Authority will need to address issues such as the strategic placement of regional wells, storage capacity and the treatment of groundwater being blended with surface water.
- Q: Mark Edwards of Bammel Utility District indicated that his district needs to discuss with the Authority consultants the district's desire to expand its facilities to serve additional development in the district.
- A: Mr. Jones briefly noted that certain guidelines will apply to the depreciation credits and that the depreciation credits will be pro rated based on groundwater production.
- Q: Rubin Gonzalez of Harris County Municipal Utility District No. 24 then stated that his district was interested in selling water and asked to see an indication of those present at the meeting regarding what their districts will do.
- A: Mr. Shackelford stated that he would ask for a straw vote on such matter later in the meeting.
- Q: Larry LaHaie of Northwest Harris County Municipal Utility District No. 15 asked what would be done to assist the districts located farther out from the proposed Phase 1 Integrated Water System Plan projects that will have need for additional water capacity.

- A: Mr. Jones stated that outside of the 2010 service area, the Authority may need to install regional water wells to serve several pods or groups of districts in need of an additional supply of water in order to avoid having each district construct a well and incur additional capital costs.
- Q: Mr. LaHaie stated that his district has built a new well that is much larger than what the district needs in anticipation of the projected growth in the area and asked whether the districts and new users in the area should work together to analyze and plan future water needs.
- A: Mr. Shackelford agreed that the districts need to work with the Authority to coordinate efforts and plan for future water needs.
- Q: James Williams of Harris County Water Control and Improvement District No. 110 stated that his district currently has two (2) wells and projects a need for a third well by 2004.
- A: Mr. Shackelford replied that the district needs to meet with him to discuss its future needs.
- A: Mr. Jones stressed the importance of districts identifying themselves as either buyers or sellers of water.
- Q: Mark Brooks asked why a "buyer" that cannot supply its own water needs should receive a depreciation credit for its facilities.
- A: Mr. Jones again reviewed the benefits and how the Integrated Water System Plan is designed to serve as an equalizer for all districts.

Mr. Shackelford then asked for a show of hands of districts interested in buying water from the Authority. Approximately 20 hands were raised in response to such question. Mr. Shackelford then asked for a show of hands of districts interested in selling water to the Authority. Approximately 15 hands were raised in response to such question.

- Q: Frank Robinson of Harris County Municipal Utility District No. 26 asked whether the North Harris County area was still preparing for conversion to surface water.
- A: Mr. Shackelford responded that the Authority is most definitely under a mandate from the Harris-Galveston Coastal Subsidence District to begin surface water conversion no later than 2010.

There being no further business, the meeting was adjourned at 8:15 p.m.

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

/s/Ron Graham

Secretary, Board of Directors

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