

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

September 8, 2003

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 8th day of September, 2003, at the Authority's office at 3648 FM 1960 West, 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:

Ron Graham	President
Lenox A. Sigler	Vice President
Kelly P. Fessler	Secretary
Jim Pulliam	Treasurer/Investment Officer
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. Jimmie Schindewolf, P.E., General Manager for the Authority; Ms. Cynthia Plunkett, Financial Assistant for the Authority; Ms. Lisa Randecker, Executive Assistant for the Authority; Ms. Lisa Sagstetter, Community Relations Coordinator for the Authority; Ms. Barbara Payne of Payne Communications, communications coordinator for the Authority; Mr. Tom Rolen, P.E. of Turner Collie & Braden Inc. ("TC&B"), Engineer Manager for the Authority; Messrs. Bob Jones, P.E. and Adam Lambert of Jones & Carter, Inc., on-call engineers for the Authority; Mr. W. John Seifert, P.E. of LBG-Guyton Associates, on-call engineers for the Authority; Messrs. Malcolm Beckendorff, P.E. and Joe Wozny, P.E. of ARCADIS, on-call engineers for the Authority; Mr. Gene Shepherd of RBC Dain Rauscher Inc., co-financial advisors for the Authority; Mr. John Howell of The GMS Group, L.L.C., co-financial advisors for the Authority; Mr. Art Morales of Banc of America Securities LLC, and Mr. Michael Walker of Bank of America, underwriters for the Authority; Mr. Terrell Palmer of First Southwest Company, underwriters for the Authority; Mr. Craig Brast of UBS Financial Services Inc., underwriters for the Authority; Messrs. Bob Collie and Jerry Kyle of Andrews & Kurth L.L.P. ("Andrews & Kurth"), co-bond counsel for the Authority; Mr. Mark Breeding of Andrews & Kurth, right-of-way acquisition attorneys for the Authority; Mr. Fred Facker, staff writer for The 1960 Sun; and Ms. Robin S. Bobbitt and Mr. Andrew P. Johnson, III, attorneys, and Ms. Brooke T. Dold, paralegal, of Johnson Radcliffe Petrov & Bobbitt PLLC ("JRPB"), general counsel and co-bond counsel 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

Mr. Bob Bell of Fountainhead Municipal Utility District ("Fountainhead") stated that he had been questioned by the Federal Emergency Management Agency regarding his district's ability to

provide water during an emergency blackout situation and asked the Board what emergency plans the Authority has in order to supply water to the districts that will be purchasing water from the Authority. Director Pulliam stated that it is his understanding that the City of Houston has emergency back-up power at the Northeast Plant. Mr. Bell inquired what emergency plans the Authority has to be able to continue to provide water to the districts participating in the Groundwater Transfer Project between now and 2010. Director Sigler asked if Fountainhead had an emergency back-up system. Mr. Bell responded that Fountainhead does have an emergency power system. Director Sigler stated that water districts should plan to rely on their own back-up power systems. Director Graham stated that the Authority's Engineer Manager will need to look at the emergency power issue.

Mr. Bell then stated that Fountainhead will be one of the first districts to buy water from the Authority and stated that his board of directors is anxious to obtain and review a copy of the proposed Buy/Sell Agreement and inquired when such Agreement will be available. Mr. Johnson stated that the Buy/Sell Agreement will soon be distributed to the districts and that such issue will be discussed more later in the meeting.

REPORTS

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

Ms. Payne then asked Mr. Michael Murr, a member of the Authority's Water Conservation Committee (the "Committee"), to report to the Board. Mr. Murr read from a prepared statement, a copy of which is attached hereto. Mr. Murr stated that the Committee intends to make public education materials and presentations available to the water providers and water users within the Authority, as outlined in the Committee's Mission Statement. Mr. Murr added that the Committee will also continue and expand a Web site devoted to water conservation themes at www.stopthedrop.org. Mr. Murr noted that the Board's meeting packet included a copy of House Bill 2660, amending the Texas Water Code to require establishment of minimum levels of water conservation in water conservation plans. A copy of House Bill 2660 is attached hereto. Mr. Murr stated that the Committee intends to develop programs to assist the utility districts in their compliance with the provisions of House Bill 2660. In conclusion, Mr. Murr recommended and urged the Board to approve the use of the "opt-in" fees from Atascocita Acres, CMH Parks and Greenspoint Plaza Inn by the Committee as a one-time Water Conservation Educational Fund.

Director Rendl stated that he attended the last Committee meeting and was impressed with the ideas and proposals discussed at such meeting.

GENERAL MANAGER'S REPORT

Mr. Schindewolf then reviewed the General Manager's Report with the Board, a copy of which is attached hereto. Mr. Schindewolf stated that he was requesting that the Board defer action on the Agreements for Professional Engineering Services. Mr. Schindewolf noted that the Engineer Manager's Report would include a comprehensive report regarding the status of the engineering consultant activities.

Mr. Schindewolf then announced that the Authority's Budget Workshop will be held on Monday, September 22, 2003, at 6:00 p.m. at the Authority's offices and noted that the budget for the fiscal year ending December 31, 2004 will be an action item at the October 6, 2003 meeting.

Mr. Schindewolf next reported that Ms. Bobbitt and Mr. Rolen had met with Mr. Abraham Rubinsky of Schwartz, Page & Harding, L.L.P., attorneys for the Central Harris County Water Users Consortium (the "CHCWUC"), on August 19, 2003, to review the draft of the proposed Agreement for Joint Financing, Construction, and Maintenance of Surface Water Transmission Facilities by and between the Authority and the CHCWUC (the "Joint Agreement"). Mr. Schindewolf reported that the Authority is now waiting on a revised draft from Mr. Rubinsky that incorporates the Authority's comments on the Joint Agreement and that such item will likely be on the October 6th meeting agenda.

Mr. Schindewolf then reported that on August 22, 2003, he, Ms. Bobbitt, Mr. Rolen, and Ms. Nancy Blackwell and Mr. Mark Adam of AEI Engineering, Inc. had met with Mr. Ed Small, attorney with Jackson Walker LLP, who represents several golf course owners, Mr. Joe B. Allen, attorney with Allen Boone Humphries LLP, who represents several districts within the Authority, and Mr. Doug Shannon, General Manager of Northgate Country Club, to discuss the implementation of the use of reclaimed water for irrigation purposes on golf courses within the boundaries of the Authority. Mr. Schindewolf stated that the group agreed to work toward developing three (3) prototype water reuse projects at Northgate Country Club, Raveneaux Country Club and Cypress Lakes Golf Club.

Mr. Schindewolf next reported that on August 26, 2003, at the request of State Representative Corbin Van Arsdale, he, Director Graham, Mr. Rolen and Mr. Ross Radcliffe of JRPB met with members of the Jones Road Coalition for Safe Drinking Water (the "Coalition") to discuss contaminated private water well problems in the Jones Road area near Tower Oaks. Director Rendl asked if the group had discussed the recent legislation that gives counties the authority to assist with these types of problems. Director Sigler stated that he did not understand what role the Authority had in this matter since the Coalition did not have a water infrastructure and are not included in the boundaries of the Authority. It was noted that there are approximately 800 individual wells located in the affected area, but that only approximately 160 of the wells are producing contaminated water. Ms. Bobbitt added that the Coalition must decide whether they are willing to form a special utility district or a water supply corporation to address the water supply problem. Mr. Schindewolf added that he has asked Mr. Rolen to contact the Harris County (the "County") Department of Public Infrastructure to determine what steps have been initiated by the County to address and/or assist with the water contamination problem.

Concerning the 2004 Director Election, Ms. Bobbitt reported that the County is in the process of revising the proposed Election Services Agreement between the County and the Authority relating to the Authority's director election to be held on February 7, 2004 and that a finalized agreement will be forwarded to Mr. Schindewolf for review and approval.

Concerning financial matters, Mr. Shepherd reported that the Authority's Series 2003 Senior Lien Revenue Bonds (the "Series 2003 Bonds") Working Group (the "Bond Group") met on August 14, 2003, with Standard & Poor's and Moody's Investors Services to discuss the ratings on the Series 2003 Bonds and reported that such meeting went extremely well and was very positive.

Mr. Shepherd added that the Bond Group had also met earlier today to review and approve the bond documents, including a draft of the Preliminary Official Statement (the "POS") for the Series 2003 Bonds, a copy of which was included in the Board meeting packets and is on file in the Authority's records. Director Pulliam inquired if the form of the POS will remain the same for subsequent bond issues of the Authority. Mr. Shepherd stated that the form of the POS will be the same. Ms. Bobbitt noted that the POS will be updated with each subsequent bond issuance. Director Pulliam commented that the financial information in connection with the Series 2003 Bonds seems complicated and inquired if the Authority staff will be able to track the numerous funds that will need to be established. Mr. Schindewolf stated that he and Ms. Plunkett have been very involved in the bond financing and are aware of the various requirements associated with the Series 2003 Bonds. Director Pulliam noted that the Authority will need to consider hiring an assistant for Ms. Plunkett in the near future in light of the additional financial requirements in connection with the Series 2003 Bonds. Director Sigler asked whether the fact that the Authority's bonds are backed by pumpage fee revenues rather than taxes like most utility districts mattered to the rating agencies. Mr. Shepherd stated that it should not make a difference to the rating agencies and noted that revenue bonds typically sell at a slightly higher yield than tax-supported bonds.

Mr. Schindewolf then called on Mr. Kyle to review items F.2 and F.3 on the Consent Agenda. Mr. Kyle explained that approval and adoption of the Amended and Restated First Supplemental Resolution Authorizing Issuance of the Authority's Series 2003 Bonds essentially approves the POS and authorizes the Pricing Committee and the Authority's financial and legal consultants to proceed with the sale and issuance of the Series 2003 Bonds. Mr. Kyle then explained that approval and adoption of the Resolution Appointing Members and Alternates to Pricing Committee establishes the Pricing Committee to act on behalf of the Board in connection with the sale of the Series 2003 Bonds.

Mr. Schindewolf then called on Mr. Breeding to report on the status of the right-of-way ("ROW")/easement acquisitions. Mr. Breeding reported that nine (9) ROW/easement acquisitions for Project 1C (along Bammel-North Houston, north of Beltway 8 to Richey Road) had been completed and seven (7) condemnation suits had been filed, two (2) of which were set for hearing on September 18th and September 30th. Mr. Breeding reported that the ROW/easement acquisition team is working on an addendum to the ROW/easement documents in connection with the negotiations with Exxon/Mobil. Concerning Project 1A (along Bammel-North Houston from Richey Road to T.C. Jester), Mr. Breeding reported that most of the land along the corridor is undeveloped and the owners are concerned that the construction of the Authority's waterline will hinder access to their property. Mr. Breeding reported that Project 1B involves a fee strip owned by CenterPoint Energy from Bammel-North Houston to FM 1960 and that negotiations for such easements were ongoing. Mr. Breeding next reported that Project 4 involves a CenterPoint Energy easement strip from Willow Chase to Louetta Road and acquisition of the underlying owner rights. Mr. Breeding reported that Project 6 (along Louetta Road to State Highway 249) includes crossing the Hewlett-Packard property and other commercial tracts, and that the ROW/easement acquisition team is involved in negotiations with such property owners. Mr. Breeding concluded his report by stating that good progress is being made on the ROW/easement acquisitions.

ENGINEER MANAGER'S REPORT

Mr. Rolen then presented the Engineer Manager's Report, a copy of which is attached hereto. Mr. Rolen briefly reviewed the meetings that he had attended with the General Manager, representatives of utility districts, ROW/easement acquisition consultants and other Authority consultants during the prior month.

Mr. Rolen next reported on the status of the 2010 Water Distribution and Transmission System, Phase 1 Groundwater Transfer Project. Mr. Rolen reported that the plans for Project 1C had been submitted to the County for review and added that the design engineering firms were working hard to complete the design work for the remaining four (4) Groundwater Transfer Projects as quickly as possible.

Mr. Rolen then noted that TC&B had updated the cost summary in the POS to integrate the ROW/easement acquisition cost estimates.

Mr. Rolen next reported that TC&B is also working on the Authority's first Capital Improvement Plan to be presented to the Board at the Budget Workshop meeting later in September.

Director Pulliam then reported that he met with Mr. Rolen several weeks ago to discuss whether high or low pressure lines should be used in the Groundwater Transfer Project and asked if any decision had been made on this issue. Mr. Rolen stated that TC&B has been working closely with the utility district engineers to determine whether high or low pressure lines will meet the needs of the utility districts and added that a hybrid system will likely be used. Mr. Rolen noted that TC&B is also looking at the possibility of completing other portions of the Authority's transmission system to help avoid possible water stagnation problems.

ATTORNEY'S REPORT

Ms. Bobbitt then reported on the status of the pending litigation against Consumers Water Corporation ("Consumers") and Suburban Utility Company ("Suburban"). Ms. Bobbitt stated that JRPB had recently received a Setting Reminder from the court and noted that the Docket Call for the lawsuit is scheduled for October 17, 2003, at 11:00 a.m. and that the trial is set for the two (2) week period beginning October 27, 2003. Ms. Bobbitt stated that the owners of Suburban and Consumers had recently expressed an interest in trying to negotiate a payment plan for the payment of the delinquent pumpage fees. Ms. Bobbitt added that the attorney for Consumers and Suburban had requested a letter from the Authority concerning the statutory authority of the Authority to levy and collect pumpage fees from well owners and the actual amount now due the Authority for use with the TCEQ in connection with their application for a tariff increase. Ms. Bobbitt added that such letter has been prepared, but that JRPB is waiting to receive the actual pumpage numbers from Consumers and Suburban before finalizing and forwarding the letter.

CONSENT AGENDA

Director Graham then reviewed with the Board the items reflected on the Consent Agenda. Director Graham 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 Graham stated that there were three (3) items on the Consent Agenda, including: 1) approval of the minutes of the special meeting of August 4, 2003 and the regular meeting of August 4, 2003; 2) adoption of an amended and restated First Supplemental Resolution Authorizing Issuance of the Authority's Series 2003 Bonds; Prescribing the Terms and Conditions Thereof; Providing for the Payment Thereof and the Security Therefor; and Making Other Provisions Regarding Such Bonds and Matters Incident Thereto; and 3) adoption of a Resolution Appointing Members and Alternates to Pricing Committee Established to Act on Behalf of the Board in Connection with the Sale of the Authority's Series 2003 Bonds. Upon motion by Director Sigler, seconded by Director Pulliam, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Consent Agenda items, as outlined above. Copies of the two (2) Resolutions are attached hereto.

REGULAR AGENDA

FINANCIAL ASSISTANT'S REPORT

Director Graham then recognized Ms. Plunkett, who reviewed the Financial Report with the Board, including the monthly investment report, the checks being presented for payment and the budget comparison for the month ending July 31, 2003, a copy of which is attached hereto. Ms. Plunkett stated that the budget comparison for seven (7) months reflects that the Authority is approximately \$3.5 million under budget for the current fiscal year. Director Pulliam asked if there were plans to diversify the investment of the Authority's funds, as previously discussed. Ms. Plunkett responded that at the August meeting, the Board had authorized her to open new accounts at Bank of America in connection with the Series 2003 Bonds and authorized the opening of additional investment accounts in TexPool, TexSTAR and TexPool Prime.

Ms. Plunkett next reported that she had updated the list of utility districts that intend to make capital contributions for their percentage share of the Authority's first bond issue, a copy of which is included in the Report. Ms. Plunkett reported that there are now a total of 24 districts that intend to make capital contributions, and that all of the Capital Contribution Contracts have been finalized and executed. Ms. Plunkett noted that the Authority will receive an estimated \$32,573,077.01 in capital contributions from the utility districts.

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.

DISCUSSION REGARDING APPROVAL OF USE OF 2003 "OPT-IN" FEES FOR WATER CONSERVATION EDUCATION PROJECTS

Director Rendl first stated that the Board had heard Mr. Murr's statement about the Water Conservation Committee's plans for the implementation of water conservation activities within the Authority and the legislation that will require implementation of water conservation programs by utility districts and made a motion that the Board approve the use of designated 2003 "opt-in" fees to

establish a Water Conservation Educational Fund. Director Fessler stated that the idea to use the designated "opt-in" fees to fund special water conservation projects was not well received at the August meeting and, therefore, use of the "opt-in" fees for water conservation educational projects is being proposed. Director Fessler stressed that only the designated "opt-in" fees and not Authority pumpage fees would be for water conservation education projects within the Authority as recommended by the Committee. Director Fessler then seconded Director Rendl's motion. Discussion of the matter then ensued. Director Pulliam stated that funds to be allocated to the Committee should be included in the Authority's budget. Ms. Payne responded that such funds would be included in the annual budget. Director Fessler stated that regardless of whether the funds are in the budget, the Board is still in control of how the funds are used. Directors Pulliam and Graham stated that they did not feel comfortable with the proposal and stated that the matter should be discussed in connection with the Authority's 2004 budget process. Director Sigler stated that the motion should be tabled. Mr. Johnson explained that the motion had been seconded and, therefore, the motion could not be tabled at this time. Mr. Johnson further explained that the motion could be called, amended, or withdrawn. Director Rendl stated that he thought using the "opt-in" fees was a good way to allocate funds to the Committee. Director Pulliam commented that he believes the Committee will require more funds than what is available from the designated "opt-in" fees. Director Fessler stated that he would withdraw his second to Director Rendl's motion. Director Rendl stated that he would withdraw his motion and wait to discuss the matter at the Budget Workshop in September.

GENERAL MANAGER'S ACTION ITEMS

Mr. Schindewolf then explained that upon approval of the proposed Order Establishing Regulations for Buy/Sell Agreements and Implementation of the Groundwater Transfer Project (the "Order"), the Authority staff will distribute the Order and proposed Groundwater Transfer Project Regulations (the "Regulations") to the board presidents and attorneys of the utility districts for review and comment. Mr. Johnson then briefly reviewed the Order and the Regulations, a copy of which is attached hereto. Mr. Johnson stated that the Buy/Sell Agreement will be a form agreement with the Regulations attached to each agreement. Director Rendl asked if the Board approves the Order tonight, would there still be time to revise the document if the buy/sell participants have revisions or comments. Mr. Johnson responded that there would be time to make any necessary revisions and that any such revisions would be brought back to the Board at the October meeting. Director Rendl then encouraged the utility districts to review and forward their comments on the proposed form of the Buy/Sell Agreement and Regulations back to the Authority as soon as possible. Several members of the audience then asked how soon the Buy/Sell Agreement would be available for review. Mr. Johnson stated that the Buy/Sell Agreement would be distributed within the next several days to the utility districts and attorneys. Mr. Johnson added that the documents will also be available on the Authority's Web site.

Mr. Jones then briefly reviewed the terms of the proposed Buy/Sell Agreement, stating that it was not a "take or pay" contract. Mr. Jones explained that each buyer will pay for the water they take and if the pumpage fee increases, the cost of water will increase accordingly and sellers will continue to receive the same amount for water sold to the Authority. Mr. Jones stated that by moving forward with the Buy/Sell Agreement and the Groundwater Transfer Project, it is estimated that the Authority will realize approximately \$100 million in avoided costs. Mr. Jones further stated

that the proposed form of the Buy/Sell Agreement appears to match the needs of the utility districts, is very fair and reflects all of the concepts of the Groundwater Transfer Project that were originally contemplated and discussed.

Director Graham then requested clarification on the definition of "Water Production Facility" reflected in the Buy/Sell Agreement. Mr. Johnson stated that such term does not include a district's transmission lines or meters and stated that the definition would be revised. Director Graham then stated that he was concerned as to whether Harris County Municipal Utility District No. 151 and Prestonwood Forest Utility District are still interested in purchasing water from the Authority. Mr. Johnson stated that the Groundwater Transfer Project contract process has been accelerated in order to get firm commitments from the prospective buyers and sellers of water. Director Rendl pointed out that when it comes to entering into the Buy/Sell Agreement, some of the Groundwater Transfer Projects may not go forward if the buyers and/or sellers associated with a particular project have withdrawn their interest in buying or selling water. Upon motion by Director Rendl, seconded by Director Sigler, after full discussion and the question being put to the Board, the Board voted unanimously to approve and adopt the Order Establishing Regulations for Buy/Sell Agreements and Implementation of the Groundwater Transfer Project and the accompanying Regulations, subject to any revisions that may be necessary upon distribution of the documents to the utility districts.

Mr. Rolen then noted that many of the engineering consultants for the buyer/seller districts have been working closely with TC&B on the Groundwater Transfer Project, but that the districts need to receive and act on the Buy/Sell Agreement as soon as possible in order to keep the Groundwater Transfer Project moving forward.

PETITION FOR CONSENT TO INCLUDE ADDITIONAL LAND IN THE AUTHORITY

The Board next considered a Petition for Consent to Include Additional Land in the Authority from Lochinvar Golf Club ("Lochinvar"), a copy of which is attached hereto. Ms. Plunkett reported that Lochinvar will pay \$18,750 in "opt-in" fees and past pumpage fees back to January 1, 2002. Upon motion by Director Sigler, seconded by Director Pulliam, after full discussion and the question being put to the Board, the Board voted unanimously to approve and accept the Petition from Lochinvar.

NEXT MEETING

Mr. Schindewolf then confirmed that the next regular meeting of the Authority would be held on Monday, October 6, 2003, at 7:00 p.m. at the Authority's offices and that a Budget Workshop meeting will be held on Monday, September 22, 2003, at 6:00 p.m. at the Authority's offices.

PUBLIC COMMENTS

Mr. Taylor Broun of Northwest Harris County Municipal Utility District No. 10 asked when the next Water Users Advisory Group meeting would be held. Mr. Schindewolf stated that he was not sure, but that he would meet with Ms. Payne about scheduling the next meeting.

Mr. Gordon Landwermeyer of Westador Municipal Utility District then stated he has been in favor of the Groundwater Transfer Project from the beginning, but that as a result of the explanations presented at tonight's meeting, he is just now understanding the economics of the plan.

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

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

/s/Kelly Fessler

Secretary, Board of Directors

(SEAL)

S:\NHCRWA\Minutes\09-08-03-Regular.DOC