

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

January 6, 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 6th day of January, 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:

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: Mrs. Al Rendl; Mrs. Kelly Fessler; Mr. Ed Shackelford, P.E., General Manager for the Authority; Ms. Cynthia Plunkett, Financial Assistant for the Authority; Ms. Lisa Sagstetter, Administrative Assistant for the Authority; Ms. Barbara Payne of Payne Communications, communications coordinator for the Authority; Messrs. Alan Potok, P.E. and Min Chu, P.E. of Turner Collie & Braden Inc. ("TC&B"), Program Manager for the Authority; Mr. Tom Rolen, P.E. of AECOM Enterprises, Inc.; Mr. Nathan Billiot of ARCADIS; Mr. J. E. Pate, P.E. of Pate Engineers, Inc. ("Pate"), on-call engineering consultants for the Authority; Messrs. Bradley Jenkins, P.E. and Jason Kelly of Jones & Carter, Inc. ("Jones & Carter"), on-call engineering consultants for the Authority; Messrs. Jim Dannenbaum, P.E. and Wayne Ahrens, P.E. of Dannenbaum Engineering Corporation ("Dannenbaum"), on-call engineering consultants for the Authority; Mr. Dave Scholler, P.E., of Brown & Gay Engineers, Inc. ("Brown & Gay"), on-call engineering consultants for the Authority; Mr. John Howell of The GMS Group, L.L.C., financial advisor for the Authority; Mr. Gene Shepherd of Legg Mason Wood Walker, Inc., financial advisor for the Authority; Mr. Ray Zobel, a member of the City of Houston Regional Advisory Board; Mr. Fred Facker of the 1960 Sun; Ms. Kim Canon of the Houston Chronicle; and Ms. Robin S. Bobbitt and Mr. Andrew P. Johnson, attorneys, 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 then read a statement concerning the Board's decisions and the resignation of Mr. Shackelford, a copy of which is attached hereto. Director Sigler stated that the agenda item regarding the resignation of Mr. Shackelford would not be debated or argued. Mr. Sigler noted that public comments would be taken for the time allocated as long as the discussion remains professional and courteous.

BOARD MEMBER COMMENTS

Director Rendl then read a statement, a copy of which is attached hereto. Director Rendl stated that the other Board members are having private discussions regarding Mr. Shackelford, his replacement and the operations of the Authority. Director Rendl added that he has purposely been excluded from discussions and demanded that all further discussions on Authority matters be held in open, public meetings.

PUBLIC COMMENTS

Director Sigler then opened the meeting to fifteen (15) minutes of public comments.

Mr. Brad Dill of BD Realty Advisors, L.L.C. expressed concern and confusion over why Mr. Shackelford's position as General Manager was in question tonight, since Mr. Shackelford is the most qualified person for the General Manager position. Mr. Dill stated that any replacement for Mr. Shackelford would be inferior.

Mr. Owen Parker of Harris County Municipal Utility District No. 109 stated that he had been attending Authority meetings for two-and-one-half (2-1/2) years and up to now, had remained quiet. Mr. Parker stated that the Board continuously votes the opposite from the wishes of its constituents, especially his representative, Mr. Fessler. Mr. Parker then stated that regardless of what the Board may think of the utility district community, they are the Authority's constituency.

The Board then recognized Mr. Roy Lackey of Harris County Municipal Utility District No. 368, who stated that he would like to defer his comments until the public comment period at the end of the meeting.

Mr. Bill Smyrl of Harris County Fresh Water Supply District No. 61 then stated that he agreed with the previous comments made by Director Rendl and stated that there are only two (2) people at the Board table who represent the utility district community, Director Rendl and Mr. Shackelford, and that the other members of the Board should be ashamed of themselves. Mr. Smyrl stated that the actions of the Board were an outrage and will be remembered at the 2004 directors election.

Mr. Bob Koperwhats of Harris County Water Control and Improvement District No. 91 then read a statement concerning the Board's actions, a copy of which is attached hereto. Mr. Koperwhats also stated that he has been monitoring the Directors' monthly expense statements and noted that two (2) of the directors meet regularly, collect per diems and charge their meals to the Authority.

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 stated that the only item on the Consent Agenda was approval of the minutes of the regular meeting of December 2, 2002. Mr. Sigler noted that there was a correction to be made to page 10, paragraph three (3), of such minutes concerning engineering costs. 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 Consent Agenda item, as outlined above.

Approval of the executive session minutes of December 2, 2002 was deferred.

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 eleven (11) months ending November 30, 2002, a copy of which is attached hereto. Ms. Plunkett stated that the budget comparison reflects that the Authority is approximately \$3.4 million under budget for the fiscal year ending December 31, 2002.

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 approve the Financial Report and the payment of the checks reflected therein.

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

Ms. Payne reported that last month, the Authority's Web site had 57,762 hits or an average of approximately 2,000 hits per day. Ms. Payne reported the addition of a new discussion forum on the Web site in accordance with Director Graham's suggestion at the December meeting. Ms. Payne reported that the update of the Authority's Resource Directory was 90% complete and would be distributed to the Board and the General Manager within the next several weeks.

Ms. Payne reported that the next Water Lines would be ready within the next seven (7) to ten (10) days. Ms. Payne noted that she was working to form a Water Conservation Committee as discussed with the Board during the 2003 budget process. Director Pulliam asked how many members are proposed to be on such committee. Ms. Payne recommended a committee of no more than ten (10) members, with an appointment for a one (1) year term, and noted that Michael Murr, Bill Papp and Diane Flynn had expressed an interest in serving on the committee.

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 Ms. Payne's report.

UPDATE ON CITY OF HOUSTON WATER SUPPLY CONTRACT AND FINANCE MATTERS

Mr. Shackelford reported that the Water Supply Contract (the "Contract") by and between the City of Houston (the "COH") and the Authority was approved by the COH City Council on December 11th pursuant to Ordinance No. 2002-1123, a copy of which is attached hereto. Mr. Shackelford noted that the Authority has the option to make annual interest payments to the COH in the amount of \$2,626,135 until

treated water is delivered to the Authority or make a lump sum payment of \$51,498,844 for the Authority's initial 31 million gallons per day of treated water capacity. Mr. Shackelford then reviewed the three (3) alternate dates in the Contract that trigger when the \$51.5 million payment would be due from the Authority, including 1) within 90 days of execution of the Contract, such date being March 11, 2003; 2) at the time the Authority's Groundwater Reduction Plan (the "GRP") is certified by the Harris-Galveston Coastal Subsidence District (the "HGCSA"); or 3) no later than July 1, 2003. Mr. Shackelford noted that representatives of the HGCSA have stated they will allow the Authority to obtain the GRP certification up to the annual renewal date that has been designated for water well permits within the Authority, such date being August 31, 2003. Mr. Shackelford added that a letter had been mailed to all utility districts with well permit renewal dates prior to August, recommending that they amend their permit renewal dates to coincide with the August 31, 2003 date in order to avoid the possible imposition of disincentive fees as a result of the deferred certification of the Authority's GRP.

Mr. Shackelford next reviewed a handout with four (4) scenarios for minimizing the Authority's 2003 interest costs, a copy of which is attached hereto. Mr. Shackelford recommended that the Board select Case 4, which includes the Authority selling bond anticipation notes ("BANs") in June 2003 in order to make the lump sum payment to the COH by no later than July 1, 2003 with the BAN proceeds. Mr. Shackelford noted that the Authority would need to sell bonds to fund the infrastructure of the Phase 1 Implementation Plan Projects (formerly known as the Groundwater Transfer Projects) in December 2003 or January 2004, and that such bond issue would include repayment of the BANs. Mr. Shackelford stated that the Case 4 scenario would result in a savings of approximately \$400,000 in interest costs for the Authority. Director Rendl inquired if the COH was aware of the Authority's proposed timing for making the payment under the Contract. Mr. Shackelford stated that the COH was aware of the payment timing and did not seem to have a problem with the Authority making the payment by no later than July 1, 2003. Ms. Bobbitt interjected that the Contract was specifically negotiated to include the three (3) payment options.

Mr. Shackelford then asked the Board for approval to defer payment to the COH until July 1, 2003, to postpone the GRP certification until the June HGCSA meeting and to authorize the General Manager and Financial Advisor to arrange for a \$3 million line of credit with Klein Bank for use in making an interest payment to the COH if the BANs are not issued. 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 approve Mr. Shackelford's recommendation regarding the Case 4 financing option, including deferring the \$51.5 million payment to the COH until July 1, 2003, selling BANs to make such lump sum payment and to authorize the General Manager and Financial Advisor to arrange for a \$3 million line of credit at Klein Bank.

Director Graham then asked Mr. Howell how long it would take to issue the BANs. Mr. Howell responded that it is anticipated that the BANs would be sold in early May and funded in June.

Mr. Roy Lackey asked if the \$51.5 million amount included soft costs for the issuance of the BANs. Mr. Howell stated that the issuance costs for the transaction will likely be less than \$1 million and are not included in the \$51.5 million amount. Mr. Howell noted that to date, he has had one (1) meeting with Klein Bank concerning the line of credit.

Mr. Shackelford next reviewed a draft of a Project Timeline for Compliance with the HGCSO Regulatory Plan (the "Timeline"), a copy of which is attached hereto. Mr. Shackelford explained that the Timeline also reflects the future payments to be made to the COH and the dates for making reservations with the COH for increased surface water capacity. Director Sigler asked if the Board needed to approve the Timeline. Mr. Shackelford stated that the Timeline would be submitted with the COH Contract to the HGCSO in connection with the certification of the Authority's GRP. Ms. Bobbitt suggested that the Timeline remain in draft until the GRP is finalized and submitted to the HGCSO.

Mr. Shackelford further reported that the Authority had received a letter from the attorneys for the Central Harris County Water Users Consortium (the "CHCWUC"), a copy of which is attached hereto, requesting initiation of negotiations regarding the joint construction, financing and maintenance of the water transmission line from point of delivery from the COH's Northeast Water Purification Plant at U.S. Highway 59 and Beltway 8, west along Beltway 8. Director Sigler asked if the CHCWUC has a GRP. Ms. Bobbitt responded that the CHCWUC is in the process of preparing its GRP and noted that the ten (10) participating districts in the CHCWUC are filing applications with the HGCSO to amend their water well permit renewal dates to November 2003. Ms. Bobbitt stated that authorization of negotiations with the CHCWUC would be included on the February agenda.

GENERAL MANAGER'S REPORT

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

Mr. Shackelford first explained to the Board that there was approximately \$225,000 of budgeted but unexpended funds for Program Management under the existing TC&B contract that can be used for the three (3) unprogrammed tasks identified and recommended by TC&B and authorized by the General Manager in order for the Engineering Manager to proceed as quickly as possible with the Board's December 2nd directive to expedite certain engineering activities associated with the Phase 1 Implementation Plan Projects and the Integrated Water System Project (the "IWSP"). Copies of the Work Authorization Requests describing the unprogrammed tasks and totaling \$104,235 are attached hereto. Mr. Shackelford explained that Task 1 addresses the preparation of schedules for the 2010 water system for compliance with the GRP and the Phase 1 Implementation Plan Projects, that Task 2 identifies standards/guidelines for the development of engineering projects, including budgeting of manhours for meetings with design engineers, and that Task 3 addresses design issues previously raised, including water stagnation, water system design criteria and other water quality issues. Upon motion by Director Rendl, seconded by Director Fessler, after full discussion and the question being put to the Board, the Board voted unanimously to ratify approval of fiscal year 2002 unprogrammed Tasks 1, 2 and 3 related to the Phase 1 Implementation Plan Projects and the 2010 IWSP.

Mr. Shackelford then explained that Jones & Carter and Pate had reviewed the initial letters of intent from utility districts to participate in the Phase 1 Implementation Plan Projects and made a recommendation to go forward with the four (4) projects that were previously presented to and approved by the Board. Mr. Shackelford went on to explain that due to the receipt of additional letters of interest and possible changes in the circumstances of districts who had previously expressed an interest in the Phase 1

Implementation Plan Projects, it has been recommended by TC&B to revisit the Phase 1 Implementation Plan Projects recommendation and confirm the utility districts that are still interested in the projects, to update the recommendation to include any new letters of interest and to establish project priorities. A copy of the TC&B recommendation letter is attached hereto. Upon motion by Director Rendl, seconded by Director Fessler, after full discussion and the question being put to the Board, the Board voted unanimously to ratify the authorization for Jones & Carter and Pate to update the recommendation, including the new letters of interest, and to establish project priorities based on current conditions.

Mr. Shackelford next reported that authorization had been given for the preparation of the corridor studies by Pate, Jones & Carter, Cobourn Linseisen & Ratcliff, Inc., Brown & Gay and Dannenbaum subsequent to the Board's December meeting, but that ratification of such authorization is required. Mr. Shackelford explained that TC&B had identified five (5) projects that need to proceed in a timely manner in order to meet the Authority's deadline to deliver water to districts in need of water by the summer of 2004. Mr. Shackelford explained that the projects consist of four (4) corridor studies and one (1) water plant site investigation. 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 ratify authorization for the preparation of the corridor studies and site investigation by the engineering firms referenced above. Correspondence related to such projects and copies of the maps depicting the corridor studies and water plant site location are attached hereto.

Director Graham questioned why Project 5 in the TC&B letter regarding the site investigation was necessary if the Authority was looking at leasing a well from Hewlett-Packard USA ("HP"). Mr. Shackelford stated that there had been no response from HP regarding the Authority's interest in leasing the well and it was appropriate to investigate the possible location of a well site in case something cannot be worked out with HP. Director Rendl asked if the use of existing wells would be considered before proceeding with the drilling of a new well. Mr. Shackelford responded that usage of existing wells will certainly be considered. Director Graham then commented that Project 6 regarding the Louetta Road corridor had been greatly modified and inquired regarding the reason for such modification. Mr. Shackelford stated he was not certain of the reason for the modification and would have to further review the matter. Director Sigler asked what the cost was for Project 5. Mr. Rolen responded that the total estimated cost for the project was \$4.5 million, but that he did not know the cost of the corridor study. Mr. Potok stated that the corridor study cost for Project 5 was around \$25,000.

PROGRAM MANAGER'S REPORT

Mr. Rolen then presented the Program Manager's Report, a copy of which is attached hereto. Mr. Rolen reported that December had been a busy month and included working on the draft of the Project Implementation Plan as directed by the Board at the December 2nd meeting, a copy of which was previously provided to the Board and General Manager for review.

ATTORNEY'S REPORT

Ms. Bobbitt reported that she was in receipt of several oral comments concerning the proposed Water Supply Agreement with Emerald Forest Utility District ("Emerald Forest") and will be further discussing the proposed Agreement with the Emerald Forest attorney.

Concerning the Authority's pending litigation against Consumers Water Corporation and Suburban Utility Company, Ms. Bobbitt reported that a discovery and trial schedule had recently been received from the court and was provided to the Board at tonight's meeting. A copy of such schedule is attached hereto.

EXECUTIVE SESSION

Director Sigler then adjourned the meeting at 8:20 p.m. and announced that the Board would convene in executive session at 8:35 p.m., pursuant to Section 551.074, Texas Government Code, as amended, to discuss personnel matters.

RECONVENE IN OPEN SESSION

Director Sigler then reconvened the meeting in open session at 9:47 p.m.

Upon motion by Director Graham, seconded by Director Pulliam, 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 Rendl voting in opposition, to accept the resignation of Mr. Shackelford as General Manager of the Authority, to authorize the Authority's attorneys to negotiate a separation agreement with Mr. Shackelford and to authorize Director Sigler to approve and execute such separation agreement upon finalization. A copy of Mr. Shackelford's resignation letter is attached hereto.

Director Rendl then stated that for the record, he wanted the public to know that Mr. Shackelford's resignation had been forced by other members of the Board.

Director Sigler then presented a memorandum to the Board recommending the employment of Jimmie Schindewolf as the new General Manager of the Authority, a copy of which is attached hereto.

Director Fessler then made a motion to employ Jimmie Schindewolf as General Manager of the Authority, effective January 7, 2003, at a base salary of \$140,000, and to authorize the Authority's attorneys to negotiate the terms of his employment contract and present such contract to the Board for approval at the February 3rd meeting. Such motion was seconded by Director Graham and discussion ensued. Director Rendl then stated that the Board should appoint an interim General Manager, interview potential candidates for the position and go about the process in an orderly fashion. Director Fessler then called the question. The Board voted four (4) votes in favor and one (1) vote opposed, with Director Rendl voting in opposition, to approve Director Fessler's motion.

Director Sigler then stated that at the December meeting it was suggested that the Board hold a series of meetings to improve communications between the Authority and the utility district community. Director Sigler suggested that the Board schedule a special meeting on either January 15th or 18th to

introduce Mr. Schindewolf and to conduct a question-and-answer session with the utility district directors. Director Rendl then suggested that Ms. Sagstetter contact the Board members to schedule such meeting.

PUBLIC COMMENTS

Director Sigler then called on Messrs. Koperwhats and Papp regarding their public comments, who both stated they had no further comments.

Director Rendl then expressed his appreciation to Mr. Shackelford for his service to the Authority and commended him for his decorum and composure during the last two (2) weeks and throughout tonight's ordeal. The audience responded with a standing ovation and applause.

Mr. Gordon Landwermeyer of Westador Municipal Utility District then appealed to the Board to improve their communications with the utility district board members. Mr. Landwermeyer likened the relationship between the Board and the utility district community to a failing marriage. Mr. Landwermeyer asked the Board to make their reasons known for the actions that they take, such as the engagement of TC&B and the actions concerning Mr. Shackelford. Mr. Landwermeyer further noted that rumors circulate because the Board does not give reasons for its actions.

Mr. Garey Nelson of Bammel Utility District then noted that the Project Manager's Report reflected that 75 manhours were expended, but did not reflect the dollar amount expended. Mr. Nelson then noted that the Authority's Amended and Restated Procedural Rules call for the annual election of officers at the January meeting, an item that was not scheduled on tonight's agenda. Mr. Nelson urged the Board to follow the policies and procedures.

NEXT MEETING

Mr. Shackelford then announced that the next regular meeting of the Board would be held on February 3, 2003 at the Authority's office at 7:00 p.m.

There being no further business to come before the Board, the meeting was adjourned at 10:07 p.m.

PASSED, APPROVED AND ADOPTED this 3rd day of February, 2003.

/s/Ron Graham

Secretary, Board of Directors

(SEAL)