

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

October 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 October, 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 except Director Graham, thus constituting a quorum. Also attending the meeting were: 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. 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; Mr. Abraham Rubinsky of Schwartz Page & Harding, L.L.P., representing the Central Harris County Water Users Consortium (the "CHCWUC"); Mr. Paul Wallick, P.E. of Pate Engineers, Inc., engineers for the CHCWUC; Messrs. Malcolm Beckendorff, P.E. and Joe Wozny, P.E. of ARCADIS, on-call engineers for the Authority; Ms. Nancy Blackwell, P.E. of AEI Engineering, Inc., on-call engineers for the Authority; Mr. John Peyton, P.E. of Cobourn Linseisen & Ratcliff, Inc., on-call engineers for the Authority; Mr. Wayne Ahrens, P.E. of Dannenbaum Engineering Corporation, 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. Bob Collie 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. Len Boschetti of Universal Field Services, Inc. ("Universal"), right-of-way ("ROW")/easement acquisition consultant to the Authority; Messrs. Bill Fendley and Bobby Greer of Cobb Fendley & Associates, Inc. ("Cobb Fendley"), ROW/easement acquisition consultant to the Authority; Ms. Kim Canon, staff writer for the Houston Chronicle; Mr. Jason King, 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 and other consultants to the Authority 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.

BOARD MEMBER COMMENTS

Director Sigler noted that Director Graham was out of town at a convention and that he would preside over tonight's meeting.

Director Pulliam then thanked David Schnitzer for his assistance in organizing a successful town hall meeting in single-member voting District 3 and thanked Mr. Rolan for participating in the meeting.

PUBLIC COMMENT

Mr. Taylor Broun of Northwest Harris County Municipal Utility District No. 10 ("NW 10") questioned why the Authority needed to have two (2) attorneys present at the monthly meetings. Director Sigler then requested that Mr. Schindewolf respond to such inquiry. Mr. Schindewolf stated that he would address the question with Mr. Broun.

BUDGET MATTERS

Mr. Schindewolf then reported that a Budget Workshop meeting was held on September 29, 2003 at the Authority's office to review and discuss the proposed budget of the Authority for the fiscal year ending December 31, 2004. Mr. Schindewolf added that the Board had also reviewed the Authority's first Capital Improvement Plan (the "CIP") for 2004 through 2005 at the Budget Workshop. Mr. Schindewolf explained that the CIP would serve as a mapping tool for the Authority as it proceeds with the implementation of the Groundwater Reduction Plan (the "GRP") and noted that it addresses the following key areas:

- Groundwater Transfer Project (the "GTP") and related system improvements;
- Definition of alignment and purchase of required easements for the remainder of the 2010 Distribution System;
- Definition of alignment and purchase of required easements for the 2010 Transmission System;
- Central Control System; and
- Water reuse.

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 necessary amendments to the budget for the fiscal year ending December 31, 2003, as discussed in the Budget Workshop. A copy of the amended budget is filed in the Authority's records.

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 approve the budget for the fiscal year ending December 31, 2004. A copy of such budget is filed in the Authority's records.

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 approve the CIP for 2004-2005 and adopt a Resolution Approving and Implementing Capital Improvement Plan, a copy of which is attached hereto. A complete copy of the CIP can be found in the records of the Authority.

REPORTS

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

Ms. Payne reported that the Authority's Web site had 56,747 hits for the month of September. Ms. Payne announced that the Lowe's store in Tomball has initiated a long-term relationship with the Authority's Water Conservation Committee. Ms. Payne then thanked Diane Flynn of Postwood Municipal Utility District for the water conservation display located at the back of the meeting room. Ms. Payne also reported that the Red School had requested that the Authority provide water conservation materials for the school. Ms. Payne noted that earlier in the year surveys were sent to the utility districts within the boundaries of the Authority regarding the efforts of the utility districts to promote water conservation. Ms. Payne requested that the completed surveys be returned to the Authority. Director Pulliam asked if the survey can be accessed on the Authority's Web site. Ms. Payne responded that the survey is available on the Web site.

Ms. Payne then requested that Mr. Schnitzer report on the Water Users Advisory Group (the "WUAG") meeting held on October 2, 2003. Mr. Schnitzer reported that he was pleased with the interaction between the WUAG and the Board. Mr. Schnitzer noted that at the recent WUAG meeting, Mr. Schindewolf had explained the merits of adding three (3) additional on-call engineering firms to provide engineering services to the Authority. Mr. Schnitzer also commented on the success of the town hall meeting held in Mr. Pulliam's single-member voting district, and stated that Ben Solis and Taylor Broun had volunteered to organize a similar town hall meeting for single-member voting District 1. Mr. Schnitzer concluded with a suggestion that if anyone had an issue to be addressed during a WUAG meeting, to please submit the item on the WUAG link on the Authority's Web site.

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 reported that a great deal of his time for the month had focused on the Authority's budget, the CIP and Buy/Sell Agreements. Mr. Schindewolf commended the Authority's staff and Mr. Rolon on their work in preparing the Authority's budget and the CIP.

Mr. Schindewolf next asked Mr. Shepherd to provide an update on the status of financial matters, including the Authority's \$124,685,000 Senior Lien Revenue Bonds, Series 2003 (the "Bonds"). Mr. Shepherd reported that the financial team was in the process of preparing for the closing on and delivery of the Bonds on October 16, 2003. Mr. Shepherd noted that the Authority's Bonds were sold on September 17, 2003, at a net effective interest of 4.9327%, that Financial Guaranty Insurance Company will insure the Bonds and that the Bonds received an enhanced credit rating of AAA as a result of the municipal bond insurance. Mr. Shepherd noted that interest only will be payable on the Bonds through 2009 and that principal payments will begin in 2010.

Director Rendl then commended Mr. Howell, the financial team, Ms. Plunkett and Mr. Schindewolf for their excellent work on the bond issue.

Mr. Schindewolf next called on Mr. Collie to report on the final revisions to the Authority's Master Resolution and First Supplemental Resolution Authorizing the Issuance of the Bonds. Mr. Collie stated that there were several minor changes needed on the documents subsequent to the sale of the Bonds and recommended that the Board approve Consent Agenda item G.2.

Mr. Breeding was then called on by Mr. Schindewolf to present a status report on the ROW/easement acquisitions. Mr. Breeding stated that the ROW/easement acquisitions were moving along on schedule and that numerous easements have now been acquired. Mr. Breeding reported that the first project to go forward with construction will be Project 1C (along Bammel-North Houston, north of Beltway 8 to Richey Road) and that there are 17 parcels of land to be acquired in connection with such project. Mr. Breeding stated that 11 parcels had been conveyed to the Authority and that five (5) condemnation suits are pending. Mr. Breeding further reported that the ROW/easement acquisition team had reached an agreement with Exxon/Mobil earlier today concerning an addendum to their easement document. Mr. Breeding then briefly reviewed the status of the other projects and stated that Cobb Fendley and Universal were doing a fine job in negotiating the ROW/easement acquisitions.

Director Sigler asked how the ROW/easement acquisitions team proposed to bore under gas stations. Mr. Breeding explained that the boring would be done only in the ROW or easement area where the Authority has an easement and not directly under the gasoline tanks.

ENGINEER MANAGER'S REPORT

Mr. Rolan then presented the Engineer Manager's Report, a copy of which is attached hereto. Mr. Rolan 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. Rolan next reported on the status of the 2010 Water Distribution and Transmission System, Phase 1 GTP. Mr. Rolan reported that TC&B had received comments from the City of Houston (the "COH") on the plans and specifications for Project 1C last week and noted that advertising for bids for the project would begin soon.

Mr. Rolan then reported that the engineering design work for the remaining four (4) GTPs was 70% to 80% complete and that the plans and specifications for such projects will be forwarded to Harris County (the "County") and the COH for review and approval as they are finalized.

Mr. Rolan stated that several utility district directors have expressed concern with the timetable for getting water to the utility districts with arsenic problems and inquired about the willingness of the Authority to advise the Texas Commission on Environmental Quality (the "TCEQ") about the Authority's GTP and the Authority's efforts to assist the utility districts with water quality problems. Mr. Rolan added that the WUAG had been advised that the matter had been discussed with the TCEQ in August and that the issue will be further discussed with the TCEQ.

Mr. Rolan further noted that the town hall meeting held by Director Pulliam seemed to be very beneficial to the participants in the GTP.

Mr. Rolan then briefly commented on the Authority CIP for 2004-2005 and thanked the Board for approving the CIP earlier in the meeting.

Director Rendl then commended Mr. Rolan on the CIP and asked that TC&B keep the Board apprised of the arsenic issue and the Environmental Protection Agency's January 2006 deadline for the implementation of the new maximum contaminant level for arsenic. Director Pulliam inquired if the deadline for compliance can be changed. Mr. Rolan reported that TC&B is continuing to work with the TCEQ on the matter.

ATTORNEY'S REPORT

Concerning the status of the Buy/Sell Agreements, Mr. Johnson reported that he had received comments from several attorneys representing utility districts that intend to enter into Buy/Sell Agreements with the Authority and has incorporated such comments into the documents. Mr. Johnson noted that the most significant change was to Section 3.08 of the Regulations for Buy/Sell Agreements for Implementation of the GTP (the "Regulations") to clarify that in the event a utility district annexes land, the annexed land can be served by the district without further approval from the Authority. Mr. Johnson reported that the Authority's engineers are holding meetings with the attorneys and engineers of the participating utility districts to match supply and demand needs. Mr. Schindewolf noted that the Authority will not commit to provide more water than what can be supplied. Mr. Rolan noted that it is possible that a utility district planning to build a new water well may end up selling water to the Authority and that the Authority will also need to consider the drilling of regional wells.

Director Fessler then asked what action the Board needs to take tonight on this matter. Mr. Johnson stated that Consent Agenda item G.3 deals with the approval of the amended Regulations and the form of the Buy/Sell Agreement and will authorize the General Manager to negotiate and enter into the Buy/Sell Agreements with the participating utility districts. Director Pulliam asked who would keep track of the water supply needs and commitments reflected in the Buy/Sell Agreements. Mr. Schindewolf responded that the Engineering Manager, the Financial Assistant and the General Manager will be responsible for monitoring and managing the Buy/Sell Agreements.

Mr. Johnson then gave a status report on the Capital Contribution Contracts, noting that Consent Agenda item G.4 deals with the approval of an amendment to Section 3.07 of the Capital Contribution Contract, adopted on May 19, 2003, to clarify the circumstances under which a Capital Contribution Credit would be paid to a utility district.

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

continue to express an interest in trying to negotiate a payment plan for the payment of the delinquent pumpage fees and that her office is working with the owners on such matter.

Concerning the 2004 Directors Election, Ms. Bobbitt reported that she had received a revised draft of the proposed Election Services Agreement between the County and the Authority (the "Agreement") and that she is in the process of reviewing the Agreement prior to submitting it to Mr. Schindewolf for execution. Director Pulliam asked for clarification on holding an election if a position is unopposed. Ms. Bobbitt noted that Section 2.053 of the Texas Election Code, as amended, provides that upon receipt of certification that a candidate for election is unopposed from the entity responsible for having the official ballot prepared, the governing body by order or ordinance may declare each unopposed candidate elected to office and cancel the election.

Ms. Bobbitt then reported that Consent Agenda item G.5 would approve and authorize execution of the Water Supply Agreement with Emerald Forest Utility District ("Emerald Forest"). Ms. Bobbitt stated that in June 2002, the Authority initiated negotiations with the COH for an Interim Water Supply Contract (the "Interim Contract") to enable the Authority to provide water to a 100-acre tract that was annexed by Emerald Forest. Ms. Bobbitt briefly reviewed the history of the Emerald Forest Agreement and noted that the Interim Contract was finally approved by the COH in March 2003. Ms. Bobbitt added that once the Interim Contract was in place, the Authority then proceeded to finalize the terms of the Emerald Forest Agreement. Ms. Bobbitt noted that the Authority will buy water from the COH at the rate of \$1.26/1,000 gallons for blended water and \$1.13/1,000 gallons for surface water, once surface water is available through the COH Willowbrook line, and will sell water to Emerald Forest in accordance with the Authority's Pricing Policy. Ms. Bobbitt added that Emerald Forest will also receive a depreciated asset credit in accordance with the Pricing Policy.

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 there were five (5) items on the Consent Agenda, including: 1) approval of the minutes of the regular meeting of September 8, 2003; 2) review and approval of the terms of sale of the Authority's Bonds and ratify and confirm the Master Resolution and First Supplemental Resolution Authorizing the Issuance of Such Bonds and the Terms of Sale Thereof, and Matters Incident Thereto; 3) adoption of an Amended Order Establishing Regulations for Buy/Sell Agreements and Implementation of the Groundwater Transfer Program; 4) adoption of Order Amending Form of Capital Contribution Contracts; and 5) approval and authorization to execute the Water Supply Agreement with Emerald Forest. Upon motion by Director Fessler, 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 Master Resolution and First Supplemental Resolution, the two (2) Orders and the Emerald Forest Agreement are attached hereto.

REGULAR AGENDA

FINANCIAL ASSISTANT'S REPORT

Director Sigler 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 August 31, 2003, a copy of which is attached hereto. Ms. Plunkett stated that the budget comparison for eight (8) months reflects that the Authority continues to be approximately \$3.2 million under budget for the current fiscal year. 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 approve the Financial Report, the monthly investment report and the payment of the checks reflected therein.

UPDATE ON CAPITAL CONTRIBUTIONS

Ms. Plunkett next reported that the meeting packet included an updated list of Capital Contributions from utility districts, a copy of which is attached hereto. Ms. Plunkett stated that 16 utility districts out of 24 had made their capital contributions.

AGREEMENT FOR JOINT FINANCING, DESIGN, CONSTRUCTION, OPERATION AND MAINTENANCE OF SURFACE WATER TRANSMISSION FACILITIES BETWEEN CHCWUC AND THE AUTHORITY (THE "JOINT AGREEMENT")

Mr. Schindewolf reported that he was ill over the weekend and consequently did not have an opportunity to review the proposed Joint Agreement with the CHCWUC and did not feel comfortable recommending approval of the Joint Agreement this evening. It was noted that a copy of the proposed Joint Agreement was included in the Board meeting packets. Ms. Bobbitt then briefly reviewed the terms of the proposed Joint Agreement and explained that the estimated construction costs for the 60-inch transmission line are \$41,205,446 to be shared by the Authority and the CHCWUC based on the capacity each entity has in the transmission line, with the Authority paying an estimated \$37,241,482 (90.38%) and the CHCWUC paying an estimated \$3,963,964 (9.62%) of such costs.

Mr. Rubinsky then addressed the Board and stated that ten (10) utility districts are participating in the CHCWUC and gave a summary of the CHCWUC's organizational and operating structure. Mr. Rubinsky noted that the CHCWUC is also in the process of negotiating a Water Supply Contract with the COH that is very similar to the contract the Authority has with the COH. A brief discussion then ensued concerning the route of the proposed 60-inch transmission line from the COH point of delivery to the Authority.

Ms. Bobbitt went on to explain that the CHCWUC was under some tight time constraints to conclude negotiations with the COH and the Authority in order to get the CHCWUC's GRP approved by the Harris-Galveston Coastal Subsidence District (the "HGCSA"). Ms. Bobbitt then briefly outlined the major terms of the proposed Joint Agreement. Ms. Bobbitt stated that the structure and terms of the Joint Agreement are very similar to those found in the Authority's contract with the COH. Ms. Bobbitt then encouraged the Board to review the proposed Joint Agreement in order for action to be taken on the Joint Agreement at the November meeting.

Director Rendl inquired what requirements or provisions are included in the proposed Joint Agreement to require the CHCWUC to pay its pro rata share of costs. Mr. Rubinsky responded that the CHCWUC will collect pumpage fees similar to the Authority's pumpage fees to pay its pro rata share of costs. Mr. Rubinsky added that it is anticipated that the CHCWUC will become a water authority at the 2005 legislative session, at which time they will sell bonds to pay their pro rata share of the construction costs for the 60-inch transmission line.

Ms. Bobbitt further noted that the meeting packet included a copy of the proposed letter agreement between the COH, the CHCWUC and the Authority regarding the metering of water received from the COH and explained that the letter agreement is being utilized to address the water metering issue in order to avoid the need to amend the Authority's contract with the COH.

Mr. Broun inquired if there was a projected completion date for construction of the transmission line. Ms. Bobbitt responded that the proposed Joint Agreement identifies 2009 as the completion date for the transmission line in order to meet the January 2010 surface water conversion compliance date of the HGCSO. Mr. Broun asked if the transmission line might be completed earlier than such date. Director Rendl stated that if a need arises for the transmission line to be completed earlier, he believes the Board would consider such matter.

Mr. Schindewolf stated that many of the utility districts have inquired about moving up the construction dates of the GTP. Mr. Schindewolf added that the Houston Area Water Corporation has voted to move forward with construction of Phase 2 of the COH Northeast Water Treatment Plant.

GENERAL MANAGER'S ACTION ITEMS

Mr. Schindewolf then recommended that the Board authorize the General Manager to negotiate and enter into Agreements for Professional Engineering Services for on-call engineering services with Klotz Associates, Inc., Binkley & Barfield, Inc., and Epsilon Engineering, Inc. 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 approve and authorize the execution of the Agreements with the three (3) engineering firms for on-call engineering services, copies of which are attached hereto.

NEXT MEETING

Mr. Schindewolf then confirmed that the next regular meeting of the Authority would be held on Monday, November 3, 2003, at 7:00 p.m. at the Authority's offices

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

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

/s/Kelly P. Fessler

Secretary, Board of Directors

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