

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

February 3, 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 3rd day of February, 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: Ms. Pat Wisniewski, representing Senator Jon Lindsay; Mrs. Kelly Fessler; Mrs. Jim Pulliam; 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; Messrs. Alan Potok, P.E. and Min Chu, P.E. of Turner Collie & Braden Inc. ("TC&B") and Mr. Tom Rolen, P.E. of AECOM Enterprises, Inc., Engineering Manager for the Authority; Mr. Carl Linseisen, P.E., of Cobourn, Linseisen and Ratcliff, Inc. ("CLR"), on-call engineering consultants for the Authority; Mr. Mark Adams, P. E. of Alexander Engineering, Inc. ("Alexander"), on-call engineering consultants for the Authority; Mr. Wayne Ahrens, P.E. of Dannenbaum Engineering Corporation ("Dannenbaum"), 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. Steve Bresnen, lobbyist for the Authority; Mr. Ray Zobel, a member of the City of Houston Regional Advisory Board; Ms. Sonia Nezamedah of the 1960 Sun; Ms. Kim Canon of the Houston Chronicle; and Mr. Andrew P. Johnson, attorney, and Ms. Brooke T. Dold, paralegal, of Johnson Radcliffe Petrov & Bobbitt PLLC ("Johnson Radcliffe"), 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.

BOARD MEMBER COMMENTS

Director Graham reported receipt of an e-mail from a constituent inquiring if the Authority might form an electrical aggregation group of the utility districts within the Authority. Director Sigler stated that he

had spoken with several people about the possibility. The Board asked Mr. Schindewolf to look into such matter.

PUBLIC COMMENTS

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

Mr. Andrew P. Johnson, a resident of Harris County Water Control and Improvement District No. 116, stated that he had resided in his utility district since 1985 and noted that he wanted to comment as a constituent of the Authority. Mr. Johnson appealed to the Board and to the utility district community to make a sincere commitment on both sides to improve communications and put a halt to the emotional roller coaster that occurs at the monthly Authority meetings. Mr. Johnson suggested that the Board select one (1) or two (2) members to offer an open dialogue between the Authority and the community. Director Sigler stated that he would meet with Mr. Johnson to appoint a Board member for such purpose. Mr. Schindewolf noted that he would also schedule another Water Users Advisory Group (the "WUAG") meeting prior to the March 3, 2003 meeting of the Authority. The Board concurred that a member of the Board should attend the WUAG meetings.

Mr. Dwight "Clint" Moore, a resident of Harris County Municipal Utility District No. 249 and a former member of the Board, then read a prepared statement, a copy of which is attached hereto. Mr. Moore commented on the belligerent behavior of the utility district directors and attorneys and on their vitriolic actions against the Authority Board members. Mr. Moore stated that Director Rendl, during his term as President of the Board, and Mr. Burke, during his term as Vice President, were guilty of the same actions that have culminated in the criminal actions against four (4) members of the current Board. Mr. Moore accused the utility district directors of acting as though they deserved to be treated with super constituent status within the Authority and further expressed his abhorrence of turning over the Authority Board to only utility district directors.

Mr. Bill Papp of Harris County Water Control and Improvement District No. 132 ("HCWCID No. 132") then called a point of order and asked Director Sigler to observe the three (3) minute limit on public comments. Director Sigler responded that he wanted to hear what Mr. Moore had to say.

Mr. Moore then stated that he strongly supported the termination of Mr. Shackelford as General Manager and that he had worked for Director Rendl's defeat during the last Directors Election. Mr. Moore then announced that Senator Lindsay and he were forming a new general purpose political action committee ("GPAC"), the Responsible Citizens for Regional Independence, and stated that the GPAC would be making a request for information under the Public Information Act.

Director Sigler then called on Mr. Roy Lackey of Harris County Municipal Utility District No. 368, who deferred to Ms. Sara Anderson, attorney for Smith, Murdaugh, Little & Bonham, L.L.P. Ms. Anderson handed her business card to Mr. Moore and directed him to call her, not Mr. Bonham, if he had questions relating to the actions taken by her clients. Mr. Moore then stated that he did not need to talk with paralegals, whereupon Ms. Anderson provided Mr. Moore with her State Bar of Texas number and asked for his. Mr. Moore stated that he was not an attorney.

Ms. Anderson then stated that she has always addressed the Board with courtesy and behaved respectfully. Ms. Anderson also stated that she had never been belligerent, but polite, unlike the previous speaker. Ms. Anderson pointed out that the Authority was created to provide a conduit between the utility districts and a supply of surface water. Ms. Anderson stated that she hoped Mr. Johnson's suggestion to establish an open dialogue between the utility districts and the Board would happen, but added that as long as Clint Moore and Jon Lindsay are involved in the dialogue, she did not think her clients will be showing up.

Mr. Lackey next addressed the Board and stated that he was in favor of Mr. Johnson's idea. Mr. Lackey then read a statement, a copy of which is attached hereto. Mr. Lackey stated that the Board had adopted an attitude of secrecy and questioned why Clint Moore is representing Senator Lindsay and the four (4) Board members in connection with the recent complaint filed with the District Attorney's office. Speaking to Director Sigler, Mr. Lackey reported that at the Meet and Greet activity on January 24, 2003, at the Association of Water Board Directors – Texas (the "AWBD") Mid-Winter Conference, Director Sigler told him and several others, "Whenever you directors tell the Board to do something, then we work to do the opposite." Director Sigler stated that Mr. Lackey took his statement out of context. Mr. Lackey responded that he had not taken the statement out of context.

Director Rendl then asked to clarify a point for Mr. Moore's benefit. Director Rendl stated that he had nothing to do with the filing of the recent complaints with the District Attorney's office against the other four (4) Board members. Representatives of several of the utility districts who filed the complaint then stood up and stated that Mr. Rendl's statement was correct.

Director Sigler then called on Mr. A. F. "Bud" Gessel of Timber Lane Utility District ("Timber Lane"), who asked the Board to consider giving financial support to the Spring Community Playground Project. Mr. Gessel reported that the project had fallen short of its goal to raise \$112,000. Mr. Gessel noted that although the project would be located within Timber Lane, the facility would be open to the public. Director Fessler asked Mr. Schindewolf to consider the request and determine if a contribution from the Authority is feasible.

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 first item on the Consent Agenda was approval of the minutes of the regular meeting of January 6, 2003. Director Sigler noted that Ms. Lisa Sagstetter had been added to the list of people in attendance on page 1. Director Sigler noted that approval of the executive session minutes of December 2, 2002 and January 6, 2003 would be deferred.

Director Sigler next stated that the second item on the Consent Agenda was approval of an Amended Order Establishing Well Pumpage Fees and Water Importation Fees for Fiscal Year Ending

December 31, 2003 and Adopting Rules and Regulations Concerning Measuring Well Pumpage and Water Importation and Collecting Fees regarding a clarification of the Authority's import fee.

Director Sigler then stated that the third item on the Consent Agenda was to authorize the General Manager and attorneys to proceed with negotiations with the Central Harris County Water Users Consortium (the "CHCWUC") for cost sharing in the construction, financing and maintenance of the proposed surface water transmission line. A copy of the CHCWUC letter requesting such negotiations is attached hereto.

Director Sigler stated that the fourth and last item on the Consent Agenda was to adopt and authorize execution of bank resolutions regarding the Authority's Klein Bank accounts.

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 items, as outlined above.

LEGISLATIVE AGENDA FOR THE 78th LEGISLATIVE SESSION

Mr. Bresnen then reviewed the Authority's proposed agenda for the 78th Legislative Session, a copy of which is attached hereto. Mr. Bresnen reported that the committees for the House of Representatives and the Senate have been appointed and stated that the chairmen of the committees were excellent. Director Graham expressed concern about lengthening the amount of time the Authority will provide utility districts notice of the Authority's intent to issue bonds. Director Sigler stated that there is so much legislation already in place that limits wastewater effluent reuse and asked if there would be any changes in this area during the legislative session. Mr. Bresnen stated that he was not sure at this point if water reuse issues will be addressed during the session. Director Pulliam inquired as to what other legislation might affect the Authority. Mr. Bresnen responded that over 6,000 bills would be filed this legislative session and that many of the bills will be monitored to identify those which might impact the Authority. Mr. Bresnen went on to report that Senator Frank Madla will sponsor a bill to amend Chapter 49 of the Texas Water Code. Mr. Bresnen further noted that the Madla bill would be reviewed by the Natural Resources Committee that Senator Kenneth Armbrister chairs and on which Senator Lindsay is a member, and that the Authority's lobbying team will monitor the bill's progress closely. Director Pulliam inquired if the legislative session will deal with junior and senior water rights issues. Mr. Bresnen stated that it does not appear that the session will be focused on water rights issues.

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 Authority's proposed agenda for the 78th Legislative Session.

Mr. Bresnen stressed that he and the other members of the lobbying team view their work as an interactive process with the Authority. Mr. Bresnen encouraged the Board and its consultants to contact him at any time during the session. Mr. Bresnen then exited the meeting at 8:05 p.m.

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 12 months ending December 31, 2002, a copy of which is attached hereto. Ms. Plunkett stated that the budget comparison reflects that the Authority was approximately \$3.6 million under budget for the fiscal year ending December 31, 2002. Ms. Plunkett reported that the Authority recently received \$120,207.59 in grant funds from the Texas Water Development Board.

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 97,000 hits and that on two (2) days during the month, there were over 6,500 hits. Ms. Payne reported that the new discussion forum that was placed on the Web site in accordance with Director Graham's suggestion had 2,000 visits in two (2) weeks of service and suggested that all of the Board members sign onto the new forum. Ms. Payne then reported on her progress with the Water Conservation Committee and stated that the first meeting would be held at the Authority's office on February 18, 2003 at 4:00 p.m. Ms. Payne noted that Michael Murr, Bill Papp, Diane Flynn, Carol Baker and Dave Scholler have expressed interest in serving on such committee.

Ms. Payne next reported that the WUAG met on January 16, 2003 to meet Mr. Schindewolf. Ms. Payne then asked Mr. Linseisen, President of Harris County Water Control and Improvement District No. 113, to report on the meeting. Mr. Linseisen stated that the meeting was a good meeting and lasted for approximately three (3) hours. Mr. Linseisen reported that the members of the WUAG had stated that they felt that the hiring of TC&B as the Engineering Manager was not in the Authority's best interest and had asked Mr. Schindewolf to be frugal with the Authority's funds. Mr. Linseisen noted that the WUAG was pleased that Mr. Schindewolf understands the immediacy of proceeding with the Groundwater Transfer Projects (the "GTP") and stated that the meeting ended on a positive note. Mr. Linseisen added that Mr. Schindewolf had asked for 45 days to get oriented in his new position before he schedules another WUAG meeting. Mr. Linseisen concluded his report with a recommendation that one (1) or two (2) WUAG members be appointed as advisors to the Board. Director Pulliam asked Mr. Linseisen to work on the details of the proposed advisory board. Mr. Linseisen stated that the WUAG should appoint the representatives to serve on the advisory board.

GENERAL MANAGER'S REPORT

Director Sigler then called on Mr. Schindewolf to review his General Manager's Report, a copy of which is attached hereto. Mr. Schindewolf briefly reviewed the meetings and events that he had attended over the last several weeks.

Concerning the GTP and 2010 Integrated Water System Project ("2010 IWSP"), Mr. Schindewolf reported that Mr. Rolen will report in greater depth in his report, but noted that Pate Engineers, Inc. ("Pate"), Jones & Carter, Inc. ("Jones & Carter"), Dannenbaum and CLR, on-call engineering firms for the Authority, were moving along quickly with the 2010 Distribution Corridor Studies, and that Brown & Gay Engineers, Inc. ("Brown & Gay") has been authorized to proceed with a water plant siting study.

Mr. Johnson next reported on financial matters related to the payment to the City of Houston (the "COH") for the Authority's treated water capacity and anticipated engineering and construction costs, including the notice to the utility districts regarding the Authority's intent to issue debt. Mr. Johnson reported that the Authority's attorneys and financial advisors had recently met to discuss the proposed sale of bond anticipation notes ("BANs") to make the \$51,498,844 capital payment to the COH for the Authority's initial 31 million gallons per day of treated water capacity. Mr. Johnson explained that the Authority would combine the GTP construction costs and repayment of the BAN amount in the proposed bond issue and will be proceeding with the 270-day notice to the utility districts of the Authority's intent to issue bonds. Mr. Johnson requested that the Board authorize the attorneys and financial advisors to proceed with the issuance of the 270-day notice to the utility districts of the Authority's intent to issue bonds. A motion was then made by Director Pulliam and seconded by Director Graham to authorize the attorneys and financial advisors to proceed with preparing the notice to the utility districts and to commence work on the components of the bond issuance. Further discussion then ensued.

Director Graham expressed concern about how the pro rata cost to each utility district would be determined. Mr. Johnson noted that the notice would be general sizing information, but would not include specific dollar amounts, and stated that the notice would allow the utility districts to begin the process of determining whether they will make a capital contribution to finance their pro rata shares of the project. Mr. Johnson reported that another meeting was scheduled later this week with the General Manager, attorneys, engineers and financial advisors to begin developing a formula for determining the pro rata share of costs.

Mr. Larry LaHaie of Northwest Harris County Municipal Utility District No. 15 stated that the utility district directors cannot go back to their boards and make financial decisions without more specific information concerning the dollar amounts. Director Rendl concurred that the utility districts needed the Authority to establish a percentage for each well owner in order for each well owner to determine how they will fund their respective pro rata share of the project cost. Mr. Schindewolf noted that the 2002 pumpage figures would be available from the Harris-Galveston Coastal Subsidence District (the "HGCS") in March. Ms. Plunkett added that the Authority already has many of the pumpage reports from the well users in-house. Mr. LaHaie asked if the pro rata shares of the project costs would be based on pumpage numbers. Mr. Schindewolf responded that they would.

Following full discussion and the question being called, the Board voted unanimously to authorize the attorneys and financial advisors to proceed with preparing the notice to the utility districts and to commence work on the components of the bond issuance.

Continuing his report, Mr. Schindewolf reported that at the December 2, 2002 meeting, the Board had authorized the amendment and extension of the Agreement for Professional Services with TC&B (the "TC&B Agreement") regarding their role as engineering manager. Mr. Schindewolf reported that the

TC&B Agreement had been negotiated and recommended that the Board approve such agreement and authorize its execution. Mr. Schindewolf provided a brief overview of the TC&B Agreement and stressed that the Engineering Manager requires written permission from the General Manager to proceed with any projects. 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 and authorize execution of the TC&B Agreement, a copy of which is attached hereto.

Mr. Taylor Broun of Northwest Harris County Municipal Utility District No. 10 ("NW No. 10") then noted, for the record, that the WUAG had strongly recommended that TC&B not be hired as the Authority's Engineering Manager.

Mr. Schindewolf next reported that the Addendums to Agreements for Professional Engineering Services and revised scope of services for on-call engineering services with Alexander, Brown & Gay, CLR, Dannenbaum, Jones & Carter and Pate had been prepared for the Board's approval and execution. 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 Addendum to Agreements for Professional Engineering Services for on-call engineering service and authorize execution of same. Copies of such Addendums are attached hereto.

Mr. Schindewolf then reviewed the Agreement for Professional Engineering Services with LBG-Guyton Associates ("LBG-Guyton") for on-call engineering services. Mr. Schindewolf explained that LBG-Guyton could provide broad expertise in groundwater hydrology and availability and recommended approval of the Agreement. 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 and authorize the execution of the Agreement with LBG-Guyton. A copy of such Agreement is attached hereto.

Ms. Plunkett then reported on the status of the utility district well permit amendment requests to the HGCSO. Ms. Plunkett stated that 59 letters were sent to well owners on December 5, 2002, requesting them to extend their well permit expiration date to coincide with the Authority's expiration date of August 31, 2003. Ms. Plunkett reported that a second letter was sent on January 20, 2003 to well owners who had not yet submitted their permit amendment applications. Ms. Plunkett stated that as of January 28, 2003, the HGCSO had received a total of 37 applications requesting extension of well permit expiration dates. Ms. Plunkett stated she would continue to monitor the matter. Copies of the letters and the well owner list are attached hereto.

Mr. Schindewolf then reviewed various other items included in the Board meeting packets and provided to the Board at tonight's meeting, including a notice from the Texas Water Conservation Association (the "TWCA") regarding the 2003 Annual Convention to be held March 19-21, 2003 in Austin, Texas and a notice from the AWBD regarding registration for the 2003 Summer Conference to be held June 26-28, 2003 in Corpus Christi, Texas. 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 authorize the General Manager and the Board to attend the TWCA and AWBD conferences.

Mr. Schindewolf noted that miscellaneous items of correspondence had been included in the meeting packets, copies of which are attached hereto.

ENGINEERING MANAGER'S REPORT

Mr. Rolen then presented the Engineering Manager's Report, a copy of which is attached hereto. Mr. Rolen reported that Task 2002-1 regarding the Project Implementation Plan was 92% complete; that Task 2002-2 regarding the Corridor Studies is moving along quickly and is 72% complete; and that Task 2002-3 regarding the Technical Issues Investigation was now underway. Mr. Rolen then reviewed the list of major activities planned for the month and the key current program issues to be addressed/resolved, as reflected on page 2 of the Report.

ATTORNEY'S REPORT

Mr. Johnson reported that Johnson Radcliffe is still waiting on the COH to approve the Interim Water Supply Agreement (the "Agreement") in connection with the provision of water service to Emerald Forest Utility District. Director Graham asked why it was taking so long to obtain approval of the Agreement. Mr. Schindewolf responded that he had contacted the COH regarding the matter and was told that the Agreement was sitting in the Legal Department.

EXECUTIVE SESSION

Director Sigler then adjourned the meeting at 9:05 p.m. and announced that the Board would convene in executive session at 9:15 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 10:45 p.m.

Upon motion by Director Fessler, seconded by Director Graham, after full discussion and the question being put to the Board, the Board voted unanimously to approve and authorize execution of the Trust Adoption Resolution, Adoption Agreement and Administrative Services Agreement regarding the General Manager 401(a) Money Purchase Plan with ICMA Retirement Corporation and authorize execution of any other necessary documents relating to same. Copies of such items are attached hereto.

Concerning approval of the Employment Agreement with the General Manager, Director Sigler stated that a special meeting of the Board would be scheduled to further discuss the parameters of the Agreement, and that Mr. Johnson would continue to negotiate the terms of such Agreement and confer with the President regarding same.

ELECTION OF OFFICERS

Director Sigler next stated that the Board would now consider the election of officers. Director Fessler moved that the Board approve the following slate of officers: Ron Graham, President; Lenox Sigler,

Vice President; Kelly Fessler, Secretary; Alan Rendl, Assistant Secretary; and Jim Pulliam, Treasurer/Investment Officer. Director Rendl suggested that the motion be amended to elect Jim Pulliam as President. Director Pulliam then seconded Director Fessler's motion. The Board voted four (4) votes in favor and one (1) vote opposed, with Director Rendl voting in opposition, to approve the slate of officers as proposed by Director Fessler.

PUBLIC COMMENTS

Director Sigler then called on Ms. Gloria Malek of NW No. 10, who stated that it was not an appropriate use of Authority funds to consider making a financial donation to the Spring Community Playground Project. Director Fessler stated that he thought it would be a nice visible amenity the Authority could contribute to, since the constituents in his single-member voting district will not see the water transmission and distribution lines constructed by the Authority. Director Fessler added that he had requested that Mr. Schindewolf look into the request made earlier by Timber Lane. Ms. Malek then asked each Board member if Clint Moore was speaking for them. Director Sigler stated that the Board would not be polled, but that he would respond to the question. Director Sigler then stated that no, Clint Moore does not speak for the Board, but he is a citizen of the Authority and can speak his mind.

Mr. Koperwhats of Harris County Water Control and Improvement District No. 91 was then recognized by the Board, but deferred any comment.

Ms. Francis Bland of Tattor Road Utility District commented that the utility district directors all represent the same people as the Authority's Board and that there is no room here for party affiliations. Director Sigler noted that he had voiced the same concern three (3) years ago.

Mr. Fesler of Reid Road Municipal Utility District No. 1 was called to give public comment, but it was noted that he had already exited the meeting.

Mr. David Schnitzer of Northwest Harris County Municipal Utility District No. 22 commended Mr. Johnson regarding his plea for an open dialogue between the Board and the utility districts. Mr. Schnitzer stated that he took strong exception to Mr. Moore's speech and thanked Mr. Schindewolf for holding the recent WUAG meeting.

Mr. Bill Papp of HCWCID No. 132 then expressed thanks to Director Sigler for his year as President, welcomed Mr. Schindewolf to the Authority, thanked Mr. Johnson for his input and wished good luck to Director Graham as the new President of the Board. Mr. Papp stated that he found Mr. Moore's speech objectionable, and that Mr. Moore had overstepped his bounds by representing that he spoke for the Board.

NEXT MEETING

Mr. Schindewolf then announced that the next regular meeting of the Board would be held on Monday, March 3, 2003, at the Authority's office at 7:00 p.m., and that he would try to schedule a special meeting of the Board to finalize the Employment Agreement with the General Manager.

There being no further business to come before the Board, the meeting was adjourned at 11:10 p.m.

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

/s/Kelly Fessler

Secretary, Board of Directors

(SEAL)

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