

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

March 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 March, 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. Barbara Payne of Payne Communications, communications coordinator for the Authority; Mr. Tom Rolen, P.E. of AECOM Enterprises, Inc., Engineering Manager for the Authority; Mr. Mark Adam, P. E. of Alexander Engineering, Inc., on-call engineering consultants for the Authority; Mr. Jim Dannebaum, P.E. of Dannenbaum Engineering Corporation, on-call engineering consultants for the Authority; Mr. John Howell of The GMS Group, L.L.C., financial advisor for the Authority; Messrs. Gene Shepherd and Duncan Lamme of Legg Mason Wood Walker, Inc., financial advisor for the Authority; Mr. Ray Zobel, a member of the City of Houston Regional Advisory Board; Ms. Sonia Nezamedah of 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 ("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.

MESSAGE FROM THE PRESIDENT AND BOARD MEMBER COMMENTS

Director Graham first addressed the audience stating that he would like to forget about past problems and to look to the future. Director Graham noted that he has two (2) goals as President, including: 1) to improve relations and communications between the Authority and the utility district community; and 2) to complete the engineering studies and to start putting pipe in the ground in order to get water to the districts that need water before 2010. Director Graham further noted that the utility districts had requested that changes be made at the Authority and, as a result, there was not a video camera at

tonight's meeting. Director Graham then noted that persons behaving in an inappropriate manner would be removed from the meeting by the security officer.

Director Graham went on to report that Directors Pulliam and Fessler had agreed to attend the Water User Advisory Group ("WUAG") meetings and that they had attended the meeting on February 27, 2003. Director Graham noted that the Board respects the job that the utility district representatives do for their districts and that the Board would like to bury the hatchet and work together to get the job done. Director Graham then thanked the audience for their attendance and support.

Director Rendl then stated that he concurs with Director Graham's comments and noted that the feedback he received concerning the February 27th WUAG meeting was extremely positive. Director Rendl added that the survey crews were out looking at the proposed routes for the Groundwater Transfer Projects (the "GTP") and that Authority constituents were becoming very interested in what the Authority is doing. Director Rendl encouraged everyone to move forward in a positive manner.

Director Pulliam then commented that the WUAG meeting began with some tension but ended up going very well.

Director Fessler thanked the WUAG for the invitation to attend the meeting and noted that it was a good venue for positive and open communication.

Director Sigler next commented that he enjoyed his term as President of the Authority during a very challenging year and apologized for any mistakes he may have made or for stepping on anyone's toes. Director Sigler noted that he, too, concurred with Director Graham's statements. Director Sigler stated that with Mr. Schindewolf and Director Graham at the helm, the Authority will be able to move forward and that he has every confidence that the Authority can accomplish its goals.

PUBLIC COMMENTS

Director Graham then opened the meeting to fifteen (15) minutes of public comments and asked that all speakers step to the podium to make their comments.

Mr. Marvin Fesler of Reid Road Municipal Utility District No. 1 stated that he appreciated the Board's opening comments and stressed that he hoped the Board would not allow another speech like Mr. Moore made at the February 3, 2003 meeting. Mr. Fesler added that he did not appreciate the comments made by Mr. Moore. Director Graham noted that the video camera and the operator of the video camera were not at tonight's meeting.

Mr. Bob Koperwhats of Harris County Water Control and Improvement District No. 91 stated that he fully endorsed the opening comments made by the Board. Mr. Koperwhats noted that he hoped the Board realized the utility district community could contribute in a positive manner to the Authority and encouraged the utility districts to be patient. Mr. Koperwhats then made two (2) requests of the Board, including: 1) regarding violations of the Texas Commission on Environmental Quality (the "TCEQ") rules for director per diems and expense reimbursements, Mr. Koperwhats stated that the Texas Water Code requires names of attendees and descriptions of meetings the Board members attend and noted that the

expense records of the Board members do not have adequate detail; and 2) regarding the Open Meetings Act, Mr. Koperwhats stated that he did not meet with members of the board of his district for breakfast, lunch and dinner between monthly meetings and urged the Board to review the monthly expense forms turned in by Board members and to be sure that they are in compliance with the Authority's policies and procedures. Director Sigler then requested substantiation of Mr. Koperwhats' claims and allegations. Mr. Koperwhats then handed a copy of his information to the Authority's attorneys for distribution to the Board and General Manager, a copy of which is attached hereto. Mr. Koperwhats added that he had forwarded such information to the TCEQ.

Director Fessler then stated he would work with Ms. Plunkett on the Authority's expense reimbursement form to provide additional space for a more descriptive explanation of the meeting and/or expense item.

CONSENT AGENDA

Director Graham then reviewed with the Board the items reflected on the Consent Agenda and suggested that the second item on the Consent Agenda be moved to the General Manager's Report. 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 move Consent Agenda item no. 2 to the General Manager's Report.

Director Graham then stated that the only remaining item on the Consent Agenda was approval of the minutes of the regular meeting of February 3, 2003 and the executive session minutes of December 2, 2002, January 6, 2003 and February 3, 2003. 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 Consent Agenda item, as outlined above.

FINANCIAL REPORT

Director Graham then recognized Ms. Plunkett, who reviewed the Financial Report with the Board, including the monthly investment report and the budget comparison for the month ending January 31, 2003, a copy of which is attached hereto. Ms. Plunkett stated that the budget comparison reflects that the Authority was approximately \$761,126 under budget for the month.

Director Rendl reported that a constituent recently questioned whether the Authority's funds should be invested only in TexPool or be more diversified. Ms. Plunkett stated that she had spoken with the constituent and had reviewed the Authority's investment policy with him. Mr. Howell then commented that the Authority's investments are fine in TexPool, but that the Authority may want to look at additional investment options. Director Pulliam asked if the Board should limit the amount of funds invested in TexPool. Mr. Howell stated that TexPool has a competitive rate, but that he would be glad to review the Authority's investments and discuss the matter further with Ms. Plunkett. The Board concurred that this was a good idea.

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.

CONSIDER REQUEST FROM DIRECTORS GRAHAM, SIGLER, PULLIAM AND FESSLER FOR REIMBURSEMENT OF DEFENSE ATTORNEY'S FEES

Consideration of this matter was deferred.

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

Ms. Payne reported that last month, the Authority's Web site had 93,030 hits for an average of 3,200 per day. Ms. Payne further noted that 15% of the hits were visits to the new discussion forum and reported that there were a total of 10,198 hits on February 13, 2003 and 8,159 hits on February 26, 2003.

Ms. Payne then introduced Mr. Russell Lambert, the Webmaster for the Authority's Web site.

Ms. Payne next noted that the update of the Authority's District Resource Directory had been completed and provided copies to the Board, the General Manager and the Authority consultants.

Ms. Payne went on to report that the first meeting of the Authority's Water Conservation Committee had been held on February 20, 2003. Ms. Payne reported that the members of the Water Conservation Committee include: Ms. Carole Baker of the Harris-Galveston Coastal Subsidence District (the "HGCSA"), Ms. Diane Flynn of Post Wood Municipal Utility District ("Post Wood"), Ms. Carol Fraser, a science teacher, Mr. Michael Murr of Harris County Municipal Utility District No. 18, Mr. Bill Papp of Harris County Water Control and Improvement District No. 132, Mr. Mike Plunkett of Eagle Water Management and Mr. Dave Scholler, P. E. of Brown & Gay Engineers, Inc.

Concerning the WUAG, Ms. Payne reported that Mr. Bill Black of Northampton Municipal Utility District and Mr. David Schnitzer of Northwest Harris County Municipal Utility District No. 22 had been appointed spokespersons for the WUAG at Authority meetings. Ms. Payne reported that the Webmaster would be adding a WUAG topic page to the Authority's Web site.

Ms. Payne then introduced Mr. Black, who reported on the February 27th WUAG meeting. Mr. Black extensively reviewed the discussions at the meeting and emphasized the benefits of having the open dialogue session with Directors Pulliam and Fessler. Mr. Black stated that he considered the WUAG meeting as being a breakthrough in Director Graham's goal of better communication with the utility districts. Mr. Black added that it has been determined that in the future, the WUAG meetings will be held on the Thursday preceding the Authority's regular meeting date, from 6:30 to 8:00 p.m., at the Authority's office. Mr. Black expressed the WUAG's appreciation to Mr. Schindewolf and Ms. Payne for their efforts.

Director Rendl then asked Ms. Payne to consider other avenues to reach the public regarding the proposed routes of the GTP. Ms. Payne stated that she and Mr. Schindewolf had already been discussing

such matter. Ms. Payne noted that a woman's real estate group in the area of the Authority has requested a presentation by the Authority and stated that the presentation would be a good public relations opportunity for the Authority. Director Rendl suggested that the Authority have a formatted presentation prepared for any of the Board members or consultants to use to speak about the GTP. Ms. Payne added that she and Mr. Schindewolf were working on such a presentation.

GENERAL MANAGER'S REPORT

Mr. Schindewolf next reviewed his General Manager's Report with the Board, a copy of which is attached hereto. Mr. Schindewolf then briefly reviewed the meetings and events that he had attended over the last month, including meetings with the Authority's attorneys, representatives of the Engineer Manager, representatives of the various consulting engineering firms, the Authority's financial advisors, Ms. Payne, Authority staff members, Board members and the WUAG. Mr. Schindewolf added that he had also met with several districts regarding the GTP and that a meeting is being scheduled with Harris County officials, including Art Storey and Commissioner Jerry Eversole, to discuss easement and right-of-way acquisition matters related to the Authority's water distribution lines.

Concerning Phase 1 of the GTP and the 2010 Water Distribution and Transmission System, Mr. Rolan then presented the Engineer Manager's Report, a copy of which is attached hereto, and reported that he and Mr. Schindewolf had met with the on-call engineering consultants to review draft reports on the water plant siting studies and GTP corridor alignments. Mr. Rolan noted that Turner Collie & Braden Inc. ("TC&B") was trying to re-open discussions with Hewlett Packard regarding the purchase or lease of their water well located near Highway 249 and Louetta Road. Mr. Rolan stated that it is the intent of TC&B to work closely with the utility districts located near the proposed water line corridors as work progresses and to focus on the neighborhood concerns. Mr. Rolan noted that there are currently five (5) projects and several well installations proposed in the GTP.

Director Rendl inquired as to the motivation for the installation of additional wells. Mr. Rolan explained that the actual number of wells drilled by the Authority will be determined by the amounts of water to be bought and sold by districts prior to 2010.

Mr. Schindewolf went on to report that he had been working with the attorneys, Engineer Manager and financial advisors on the financial matters related to the payment due to the City of Houston (the "COH") and the anticipated engineering and construction costs associated with the GTP and 2010 Water Distribution and Transmission System, including the notice to districts regarding issuance of debt by the Authority. Mr. Howell then reported that the financial advisors had completed the preliminary sizing for the first bond issue, which includes the issuance of bond anticipation notes by the Authority proposed to be sold to meet the July 1st COH payment due date and to cover a portion of the GTP costs. A copy of the Preliminary Summary of First Bond Issue is attached hereto. Mr. Howell noted that the total bond issue requirement is estimated to be \$160,550,000 and added that bond proceeds are expected to be received in either late 2003 or early 2004.

Director Rendl then noted that the Authority needs to begin educating the public about the actual cost of water expressed in a cost per 1,000 gallons as the Authority goes forward with the GTP. Director

Rendl stated that the Board members and consultants need to be familiar with the incremental cost increases as the Authority approaches 2010, and that the Board members must be able to convey the information to the Authority's residents.

Mr. Schindewolf next recognized Mr. Johnson to address the legal aspects of the proposed bond issuance by the Authority. Mr. Johnson referred to and briefly reviewed with the Board the Resolution Making Official Findings Concerning Issuance of Debt and Establishing Procedures for Utility Districts to Make Capital Contributions (the "Resolution Making Official Findings") included in the Board meeting packets, a copy of which is attached hereto. Mr. Johnson went on to review the proposed notice to utility districts concerning the Authority's intent to issue debt, a copy of which is attached hereto. Mr. Johnson explained that the utility districts would be required to notify the Authority if they will finance their share of the Authority's capital costs by adopting and submitting a District Contribution Resolution to the Authority by no later than May 15, 2003. Mr. Johnson noted that a special financial workshop has been scheduled for March 31, 2003 at 6:00 p.m. to provide information to the utility districts on the proposed bond issue and the factors which could influence a district's decision to make a capital contribution. Mr. Johnson noted that Capital Contribution Contracts would be due back to the Authority by August 15, 2003, and district capital contributions would be required to be deposited with the Authority by September 30, 2003.

Director Rendl then expressed his concern that the ability of a district to make a capital contribution does not promote water conservation.

Ms. Payne noted that notice of the financial workshop would be included in the February/March Action Report, in addition to a follow-up postcard reminder. Ms. Payne added that the location of the workshop had not yet been finalized.

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 adopt the Resolution Making Official Findings, as presented.

Mr. Schindewolf next stated that the Engineer Manager has recommended that the Authority enter a contract with SURVCON, INC. ("SURVCON") for control surveying services for the GTP that is currently under design, as well as those projects that will be undertaken as part of the 2010 Water Distribution and Transmission System. Director Sigler asked what information is provided by control surveying services. Mr. Schindewolf explained that someone needs to provide horizontal and vertical survey controls for use by the design engineers in connection with the various construction projects of the Authority. Director Rendl asked if such information is available from Harris County, the COH or the State of Texas. Mr. Schindewolf stated that the information to be provided by SURVCON is not available from such entities. 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 for Professional Surveying Services with SURVCON, a copy of which 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 as of February 26, 2003, the HGCSO had received a total of 51 applications requesting extension of well permit expiration dates. Ms. Plunkett stated that nine (9) well

owners still need to file their applications by March 10, 2003. Ms. Plunkett added that she will be following up with such well owners this week. A copy of Ms. Plunkett's summary report and well owner list is attached hereto.

Mr. Schindewolf noted that miscellaneous correspondence received during the month was included in the Board meeting packets, copies of which are attached hereto.

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 General Manager's Report.

ATTORNEY'S REPORT

Mr. Johnson reported that Johnson Radcliffe has been working on the Authority's bond validation suit and plans to file the suit by the end of this week. Director Fessler asked if there would be any obstacles expected in connection with the bond validation suit. Mr. Johnson responded that he had met with representatives of the COH concerning the bond validation suit and does not expect any opposition from the COH.

Ms Bobbitt reported that she is still waiting on the COH to approve the Interim Water Supply Agreement in connection with the provision of water service to Emerald Forest Utility District, but expects the item to be on a COH agenda within the next several weeks.

Concerning the status of pending litigation regarding delinquent pumpage fees, Ms. Bobbitt reported that Mr. Radcliffe of Johnson Radcliffe is attempting to negotiate a settlement of the litigation, the details of which will be brought to the Board for approval.

PUBLIC COMMENTS

Director Graham then opened the floor to additional public comment prior to convening the Board in executive session.

Director Graham first recognized Ms. Diane Flynn of Post Wood. Ms. Flynn requested clarification concerning utility district capital contributions. Ms. Flynn stated that as she understands it, a district could issue its own debt to fund its pro rata share of capital costs or pass such cost through to the district's residents by increasing the pumpage fee. Director Rendl noted that if a district pays the capital cost up front, it will pay based on the district's 2002 water pumpage amount and will receive a rebate or credit annually against the pumpage fee. Director Pulliam inquired if making a capital contribution would give a district a tax advantage. Director Rendl stated that it would depend on whether the district issues debt to fund the capital contribution and levies taxes to fund such debt. Director Pulliam asked if the districts will earn interest on their capital contribution. Mr. Howell explained that the Authority would either raise funds by issuing bonds or receiving capital payments from utility districts. Mr. Howell went on to explain that the Authority would pay districts based on the interest rate that the Authority pays its bondholders.

A member of the audience then asked if the utility districts will be required to pay the full amount of their capital contribution or if they can pay a portion of the total amount. Mr. Johnson responded that the

Intent Resolution is set up for payment of the full capital contribution amount, but added that the feasibility of a partial payment is under review by the Authority's consultants.

Mr. Terry Thornton with Goldman Sachs then stated that with regard to the investment of Authority funds, very few public entities handle their own fund investment activities.

EXECUTIVE SESSION

Director Graham then adjourned the meeting at 9:00 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 Graham then reconvened the meeting in open session at 12:40 a.m.

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 authorize execution of the Employment Agreement with Jimmie Schindewolf, a copy of which can be found in the Authority's files.

NEXT MEETING

Mr. Schindewolf then announced that the next regular meeting of the Board would be held on Monday, April 7, 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 12:42 a.m.

PASSED, APPROVED AND ADOPTED this 7th day of April, 2003.

/s/Kelly Fessler

Secretary, Board of Directors

(SEAL)