

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

April 7, 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 7th day of April, 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: 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., Engineer Manager for the Authority; Mr. Wayne Ahrens, P.E. of Dannenbaum Engineering Corporation, on-call engineering consultants for the Authority; Mr. Dave Scholler, P. E. of Brown & Gay Engineers, Inc. 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; Ms. Janet Hill of Null-Lairson, P.C. ("Null-Lairson"), auditors 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 and stated that he appreciated the audience's cooperation at the March meeting and requested that such cooperation continue at tonight's meeting.

PUBLIC COMMENTS

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

Ms. Brenda Shell of Malcomson Road Utility District ("Malcomson Road") stated that her district's capital contribution was approximately \$2 million and asked several questions regarding what advantages there are for Malcomson Road to finance their capital contribution, rather than having the Authority issue bonds for the district's portion of the capital contribution. Messrs. Howell and Johnson then gave brief explanations regarding the pros and cons of a district financing its capital contribution versus financing the capital contribution through the Authority. Director Rendl commented that the capital contribution amounts were calculated on the 2002 pumpage amount and that, as the area within the Authority grows, a district's percentage share of the pumpage will decline.

CONSENT AGENDA

Director Graham then stated that the only item on the Consent Agenda was approval of the minutes of the regular meeting of March 3, 2003 and the executive session minutes of March 3, 2003. Director Graham noted that the minutes of the executive session of March 3, 2003 would be deferred. Upon motion by Director Sigler, seconded by Director Pulliam, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of the regular meeting of March 3, 2003, as written.

REVIEW AND APPROVE AUDIT REPORT

Mr. Schindewolf then introduced Ms. Hill to the Board, who reviewed the draft of the Authority's audit report for the fiscal year ending December 31, 2002, a copy of which can be found in the files of the Authority. Ms. Hill then briefly reviewed the audit with the Board and stated that Null-Lairson had issued an unqualified and clean audit opinion.

Director Sigler commented that he thought that the Water Supply Contract with the City of Houston (the "COH") was a 40-year in perpetuity contract. Ms. Bobbitt clarified that the COH contract had an initial term of 40 years, but that the contract has provisions for renewal.

Mr. Bill Papp of Harris County Water Control and Improvement District No. 132 then asked how a district's capital payment would be reflected on the Authority's books. Mr. Howell responded that it is likely that, as the lines and facilities are constructed, they would be reflected in the Authority's audit report as assets and in the audit of the district making a capital contribution as an investment. Mr. Johnson added that the specific procedures and details for reflecting the capital contributions on the Authority's books had not yet been discussed with Null-Lairson.

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 audit report for the fiscal year ending December 31, 2002, to authorize the President to execute the Annual Filing Affidavit and to authorize the Authority's attorney to file such audit and Affidavit with the appropriate governmental authorities.

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 February 28,

2003, a copy of which is attached hereto. Ms. Plunkett stated that the budget comparison for two (2) months reflects that the Authority is approximately \$1.4 million under budget for the current fiscal year.

Ms. Plunkett then reviewed correspondence to and from Klein Bank regarding the Authority's request for financing of up to \$3 million and from Hays Utility Service Corporation requesting a refund of \$5,227.31 to Harris County Water Control and Improvement District No. 136 ("HCWCID No. 136") due to the failure of such district's well meter, copies of which are attached hereto. Ms. Plunkett noted that a refund to HCWCID No. 136 would be issued as a credit to them on their first quarter 2003 pumpage fees.

Upon motion by Director Sigler, seconded by Director Pulliam, after full discussion and the question being put to the Board, the Board voted unanimously to approve the 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

Mr. Johnson reported that he had been asked to determine available sources of payment for reimbursement of legal expenses incurred for the Directors' defense against the criminal complaint filed with the Harris County District Attorney's office for alleged violations of the Open Meetings Act, Chapter 551, Texas Government Code and for costs of expungement of the criminal records of all the Directors, as permitted by law. A copy of Mr. Johnson's letter to Director Graham regarding such matter is attached hereto. 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 adopt a Resolution Providing for Payment of Defense Costs, a copy of which is attached hereto.

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

Ms. Payne reported that last month, the Authority's Web site had 97,842 hits for an average of 2,650 per day and stated that on March 12, 2003, there were 6,431 hits. Ms. Payne further noted that the major item of interest on the Web site was the capital contribution matter and commended those present in the audience that used the new forum area to submit questions in advance of the Financial Workshop held on March 31, 2003. Ms. Payne noted that a CD video of the Financial Workshop is available and that the PowerPoint presentation of the Financial Workshop is on the Web site. Ms. Payne stated that a list of Frequently Asked Questions from the Financial Workshop was being compiled and would be posted on the Authority's Web site.

Ms. Payne next reported that there would be a meeting of the Authority's Water Conservation Committee on April 15, 2003. Ms. Payne further reported that Director Rendl had recently given an excellent presentation to the Women's Counsel of Realtors at Raveneaux Country Club.

Ms. Payne reported that the next Water Users Advisory Group meeting would be the Thursday before the May meeting, such date being May 1st.

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 stated that a great deal of time and effort during the last several weeks had gone into preparing for the Financial Workshop held on March 31, 2003. Director Graham complimented the consultants on the success of the Financial Workshop presentation.

Ms. Plunkett then reported on the status of the utility district well permit amendment requests to the Harris-Galveston Coastal Subsidence District (the "HGCSA"). Ms. Plunkett reported that all 60 permit amendment requests had been received by the HGCSA as of April 2, 2003. Ms. Plunkett noted that the Authority expended a total of \$1,400 on the permit amendment application fees compared to the original cost estimate of \$3,000. A copy of Ms. Plunkett's summary report and well owner list is attached hereto. Mr. Schindewolf then expressed his appreciation to Ms. Plunkett for her persistence in obtaining 100% compliance and to the well permittees for their cooperation and assistance.

Mr. Schindewolf next discussed the right-of-way (the "ROW") and easement acquisition matters in connection with the 2010 Water Distribution and Transmission System. Mr. Schindewolf noted that he and the corridor consultants had made tremendous strides forward with Harris County (the "County") and the Harris County Flood Control District (the "HCFCD"), and that Mr. Storey, Public Infrastructure Department Director for the County, had agreed to allow the use of the HCFCD ROWs for the Authority's 2010 Water Distribution and Transmission System. Mr. Schindewolf reported that the Authority would also need to use the County ROWs, if possible. Mr. Schindewolf added that a follow-up meeting with Mr. Storey and Mr. Jackie Freeman, Engineering Director for the County, the Engineer Manager and the corridor consultants will be scheduled in two (2) weeks to review the findings of the corridor studies. Mr. Schindewolf further explained that the Authority will need to adopt policies and procedures for the acquisition of the ROW/easements and will need to utilize one (1) or more ROW acquisition firms to obtain all of the necessary ROW/easements. Mr. Schindewolf added that he will provide a recommendation concerning the engagement of ROW acquisition firms at the Board's May meeting.

Director Rendl inquired if the Authority was still working with CenterPoint Energy concerning the use of their ROW. Mr. Schindewolf responded affirmatively, particularly with regard to the Cutten Road water line.

Concerning miscellaneous correspondence received during the month, Mr. Schindewolf noted that he, Mr. Rolan and Ms. Bobbitt had met with representatives of the Central Harris County Water Users Consortium (the "CHCWUC") concerning the cost sharing of the water transmission line from the point of delivery by the COH (U.S. Highway 59 and Beltway 8) west to the point or points of delivery to the CHCWUC. A copy of Mr. Schindewolf's letter to Mr. Rubinsky, attorney for the CHCWUC, is 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.

Director Rendl then recommended that Ms. Payne and the Authority's consultants begin to focus on addressing the concerns of residents within the Authority regarding the route of the water transmission lines and the construction activity. Ms. Payne stated that she was already moving forward with developing a community public relations program and will schedule a meeting with Mr. Schindewolf, Mr. Rolan and Director Rendl to discuss the proposed program.

ENGINEER MANAGER'S REPORT

Mr. Rolan then presented the Engineer Manager's Report, a copy of which is attached hereto, and noted that he and Mr. Schindewolf were holding weekly briefings on the various engineering activities, which have been very helpful and productive. Mr. Rolan then briefly reviewed the meetings that he had attended with representatives of utility districts, ROW and easement acquisition specialists and other Authority consultants during the prior month. Mr. Rolan reported that Jones & Carter, Inc. was exploring various alternatives for routing the water transmission lines for Project 1b, and estimated that all of the corridor surveys would be complete by the end of April. Mr. Rolan added that SURVCON INC. had initiated work on the control studies.

Mr. Rolan next reported that a draft of a policies and procedures manual for acquisition of ROW/easements was in process. Mr. Rolan further reported that the engineering team was continuing to develop standards regarding design engineering for the Groundwater Transfer Program.

Director Rendl then encouraged all of the utility districts to have their engineers look at the Authority's proposed routes for the location of the water transmission and distribution lines and to communicate with the Authority concerning potential problems or alternative routes.

Director Pulliam inquired if the Engineer Manager is working from a written plan that would enable the Authority to have pipes in the ground by next year. Mr. Rolan responded that they are working from a written plan. Director Pulliam requested that he be supplied with a copy of such plan. Mr. Rolan stated that he would provide a copy of the plan to Director Pulliam and the other Board members.

ATTORNEY'S REPORT

Ms. Bobbitt reported that Mr. Radcliffe of Johnson Radcliffe is proposing to negotiate a settlement of the litigation regarding the delinquent pumpage fees owed by Consumers Water Corporation and Suburban Utility Company, the details of which will be brought to the Board for approval.

PUBLIC COMMENTS

Director Graham then opened the floor to additional public comment.

Director Graham first recognized Ms. Gloria Malek of Northwest Harris County Municipal Utility District No. 10, who asked several questions concerning the amount of the defense costs for the four (4) Board members. Director Graham stated that \$8,000 was the expense incurred with the defense associated with the criminal complaint, and \$7,000 was the expense to expunge the records of the four (4) Board members.

The Board then recognized Mr. Mark Newman of Harris County Municipal Utility District No. 322, who asked why the Authority's insurance did not cover the Directors' defense costs. Mr. Johnson explained that the Authority had insurance coverage up to \$10,000 if the charges against the Directors were dismissed without any admission of guilt or the Directors were exonerated and, therefore, since a "no bill" was returned by the Grand Jury, the Authority could file a claim and recover some of the defense costs under the insurance policy. Director Sigler commented that it may prove more expensive for the Authority to file an insurance claim if it results in increased insurance rates. Mr. Johnson suggested that he, Mr. Schindewolf and Director Graham further review the matter and report back to the Board. Director Graham observed that most of the people present at the meeting had never had to pay defense costs, and that most insurance coverage is for criminal charges and not civil actions. Director Graham suggested that the Authority increase its coverage for this type of claim in the future.

NEXT MEETING

Mr. Schindewolf then announced that the next regular meeting of the Board would be held on Monday, May 5, 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 8:05 p.m.

PASSED, APPROVED AND ADOPTED this 5th day of May, 2003.

/s/Kelly Fessler

Secretary, Board of Directors

(SEAL)