

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

May 5, 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 5th day of May, 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; Ms. Dyanne Clark from Representative Debbie Riddle's office; 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. John Howell of The GMS Group, L.L.C., financial advisors for the Authority; Messrs. Gene Shepherd and Duncan Lamme of Legg Mason Wood Walker, Inc., financial advisors for the Authority; Ms. Sonia Nezamzadeah, staff writer for The 1960 Sun; Mr. Ray Zobel, a member of the City of Houston Regional Advisory Board; Mr. Terry Thornton of Goldman Sachs & Co.; Mr. Art Morales of Banc of America Securities LLC; Messrs. Jamie Liang and Craig Brast of UBS PaineWebber, Inc.; Messrs. Mike Bartolotta, Trey Cash and Terrell Palmer of First Southwest Company; Messrs. Robert Collie and Marcus Deitz of Andrews & Kurth L.L.P. ("Andrews & Kurth"); Messrs. Allen Watson and Bobby Greer of Cobb Fendley & Associates ("Cobb Fendley"); Mr. Leonard Boschetti of Universal Field Services, Inc. ("Universal"); and Mr. Andrew P. Johnson, III, 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.

MESSAGE FROM THE PRESIDENT AND BOARD MEMBER COMMENTS

No comments were given by the President or the Board members.

PUBLIC COMMENTS

No public comments were given.

CONSENT AGENDA

Director Graham then reviewed with the Board the items reflected on the Consent Agenda. Director Graham 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 Graham stated that the only item on the Consent Agenda was approval of the minutes of the regular meeting of April 7, 2003. 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 the minutes of the regular meeting of April 7, 2003.

Director Graham noted that approval of the executive session minutes of March 3, 2003 would be deferred.

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 March 31, 2003, a copy of which is attached hereto. Ms. Plunkett stated that the budget comparison for three (3) months reflects that the Authority is approximately \$1.9 million under budget for the current fiscal year.

Ms. Plunkett reported that the Board packet also included information regarding a Public Funds Investment Act training workshop to be offered in Corpus Christi at the Association of Water Board Directors – Texas Summer Conference on Thursday, June 26, 2003, a copy of which is included in the Financial Report. Ms. Plunkett stated that Mr. Schindewolf and Director Pulliam are registered to attend and offered to assist with registering any other director interested in attending the workshop.

Upon motion by Director Sigler, seconded by Director Fessler, 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.

REVIEW AND ADOPT POLICIES AND PROCEDURES FOR PUBLIC INFORMATION ACT REQUESTS

Mr. Schindewolf explained that Ms. Bobbitt had submitted a draft of the proposed Policies and Procedures for Public Information Act Requests for the Board's review and recommended that action on

the matter be deferred until the Board's next regular meeting. 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 defer action on the matter.

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

Ms. Payne reported that last month, the Authority's Web site had 75,000 hits for an average of 2,500 hits per day. Ms. Payne reported that the Authority's Water Conservation Committee had recently met and presented an exhibit concerning Texas Water Development Board ("TWDB") water conservation materials. Ms. Payne noted that the Committee would be presenting a Mission Statement to the Board after Mr. Schindewolf's review.

Concerning the development of a community relations program, Ms. Payne reported that she, Ms. Sagstetter and Director Rendl were working together on the program. Ms. Payne noted that there was a form on the back table for information regarding community organizations that may want a speaker from the Authority.

Ms. Payne next reported that the Water Users Advisory Group (the "WUAG") met on May 1, 2003 and introduced Mr. Dave Schnitzer to report on the May 1st meeting. Mr. Schnitzer commended the Board regarding the successful negotiations with Commissioner Eversole and Mr. Art Storey of Harris County (the "County") regarding the use of the County right-of-way ("ROW") for the Authority's 2010 Water Distribution and Transmission System - Phase 1 Groundwater Transfer Projects. Mr. Schnitzer stated that the utility districts need to educate residents regarding the increase in water rates in the future.

Director Rendl noted that he recently sent an article to Ms. Payne entitled "Water Wars in Western Cities" which referenced Houston, Texas.

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 reported that he had attended a number of meetings over the last month with representatives of the Authority's law firm, representatives of the Engineer Manager, representatives of the various consulting engineering firms, Authority staff members, Authority directors and Ms. Payne.

Mr. Schindewolf then reported that he, Mr. Mike Baugher with Turner Collie & Braden Inc. and Mr. Rolan met with Messrs. Ron Neighbors, Tom Michel and Jace Houston of the Harris-Galveston Coastal Subsidence District (the "HGCSA") on April 22, 2003 to discuss final approval of the Authority Groundwater Reduction Plan (the "GRP"). Mr. Schindewolf noted that the Authority's GRP will be placed on the HGCSA agenda for approval on June 11, 2003.

Mr. Schindewolf reported that he, Director Graham and Mr. Baugher attended a presentation on April 24, 2003 by Mr. Mark Kasmarek, hydrologist for the U. S. Geological Survey (the "USGS") Water Resources Division, concerning the Groundwater Availability Modeling study that is being conducted by the USGS in cooperation with the TWDB and the HGCSA.

Mr. Schindewolf commended Ms. Payne and Ms. Sagstetter on the success of the WUAC meeting on May 1, 2003.

Mr. Schindewolf then briefly reported on the status of the Phase 1 Groundwater Transfer Project. Mr. Schindewolf noted that he has instigated a weekly Tuesday morning meeting with Mr. Rolen and other representatives of the Engineer Management Team and stated that the Engineer Manager's Report would go into greater detail on the matter.

Mr. Schindewolf next made recommendations concerning the proposed bond issuance regarding bond counsel, underwriter's counsel, financial advisors and underwriters' group. Mr. Schindewolf noted that at the March 3, 2003 meeting, the Board had approved a Resolution Making Official Findings Concerning Issuance of Debt and Establishing Procedure for Utility Districts to Make Capital Contributions and explained that such action was the first step in moving forward with the Authority's bond sale. Mr. Schindewolf went on to explain that the next step is for the Board to approve the Finance Team consisting of certain professional consultants, legal counsel and underwriters as follows:

Co-Financial Advisors: Legg Mason Wood Walker, Inc. and The GMS Group LLC;

Co-Bond Counsel: Johnson Radcliffe Petrov & Bobbitt PLLC and Andrew & Kurth L.L.P.;

Underwriters: First Southwest Company and UBS PaineWebber, Inc., as Co-Senior Bookrunning Managers and Banc of America Securities LLC, Goldman Sachs & Co. and RBC Dain Rauscher, as Senior Managers.

Mr. Schindewolf noted that the Board packet included a proposed agreement with Andrews & Kurth and recommended the Board's approval of such agreement, a copy of which is attached hereto.

Mr. Schindewolf then reported that the Board packet also included an Order Authorizing Various Actions to Prepare for the Issuance of the Authority's Bond Anticipation Notes, Series 2003 and Revenue Bonds, Series 2003; and Other Matters Relating Thereto and recommended that the Board approve such Order.

Mr. Shepherd then explained that the first bond financing would set the pattern to be used on all subsequent bond fundings of the Authority. Mr. Shepherd stated that he would meet with Moody's Investors Services and Standard and Poor's tomorrow concerning the rating process, and stated that he expects the Authority to receive an investment grade rating on the bond issue.

Director Fessler then asked what Bank of America would be doing for the Authority that Klein Bank is not already doing. Mr. Shepherd noted that the line of credit from Klein Bank was limited to \$3 million, and that the use of line of credit from Bank of America is in an amount up to \$50 million.

Director Pulliam asked if Mr. Shepherd saw any problems ahead with the bond financing. Mr. Shepherd stated that the prospects were good for obtaining a very favorable interest rate on the bonds. Director Sigler inquired what interest rates the City of Houston (the "COH") gets on their bonds.

Mr. Shepherd estimated in the 5.25% range and noted that the Authority's interest rate should be less than the COH rate. Director Rendl pointed out that Mr. Howell's initial analyses used a 6% interest rate.

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 Finance Team as recommended by the General Manager and to approve the agreement with Andrews & Kurth.

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 Order Authorizing Various Actions to Prepare for the Issuance of the Authority's Bond Anticipation Notes, Series 2003 and Revenue Bonds, Series 2003; and Other Matters Relating Thereto, a copy of which is attached hereto.

Mr. Schindewolf continued with his General Manager's Report and next discussed ROW and easement acquisition matters in connection with the 2010 Water Distribution and Transmission System. Mr. Schindewolf recapped his report from the Board's April 7, 2003 meeting concerning his communications with the County and the Harris County Flood Control District, and reported that Mr. Art Storey, Director of Harris County Public Infrastructure Department, came to the Authority's office on April 17, 2003, accompanied by key departmental heads, to discuss the Authority's use of County ROW for waterline construction. A copy of Mr. Storey's follow-up memorandum to the meeting is attached hereto.

Mr. Schindewolf reported that on April 21, 2003, he met with Commissioner Eversole, who reiterated his personal commitment to work with Mr. Schindewolf and the Authority to accomplish the goals of the Authority as they relate to designing and constructing the Authority's surface water transmission and distribution system.

Mr. Schindewolf proceeded to report on the progress to develop a real estate and easement acquisition process. Mr. Schindewolf noted that the Engineer Manager gathered information about consulting firms who are in the business of real estate acquisition and that four (4) firms had been interviewed, including Cobb Fendley; Universal; Lockwood, Andrews & Newman, Inc.; and Crossland Acquisition, Inc. Mr. Schindewolf recommended the firms of Cobb Fendley and Universal and requested authorization to negotiate and enter into contracts with such firms.

Director Rendl inquired why the General Manager was recommending two (2) firms. Mr. Schindewolf stated that he and the Engineer Manager were not sure how quickly ROW/easement acquisitions would proceed with only one (1) firm working for the Authority, and that there was a benefit to create some competition between the firms. Director Rendl stated that he did not want the firms to overlap their responsibilities. Director Sigler stated that he was not familiar with either firm. Mr. Schindewolf noted that representatives of the firms were in the audience and introduced Mr. Watson of Cobb Fendley. Mr. Watson briefly discussed his firm's credentials in the ROW acquisition industry since 1989. Mr. Watson stated that he and his firm had experience working with utility company designs. Director Sigler questioned the statement, and Mr. Watson clarified that he is a civil engineer and that Cobb Fendley designs utility systems.

Mr. Boschetti of Universal then addressed the Board and explained that his firm is a nationwide firm with 300 to 400 employees. Mr. Boschetti noted that he had been involved with ROW acquisitions for the COH wastewater plan and the Houston Area Water Corporation water line.

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 authorize the General Manager to negotiate and enter into contracts with Cobb Fendley and Universal.

Concerning miscellaneous correspondence received during the month, Mr. Schindewolf noted that Ms. Plunkett had compiled a master list of the utility districts that had responded to the Authority's Letter of Intent to Issue Debt. A copy of the updated list and related correspondence is attached hereto. Mr. Schindewolf stated that there were several other items included in the Board packet, copies of which are attached hereto.

ENGINEER MANAGER'S REPORT

Mr. Rolan then presented the Engineer Manager's Report, a copy of which is attached hereto. 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 his team was reviewing two (2) groundwater studies for the proposed Regional Water Plant No. 1 prepared by LBG-Guyton Associates.

Mr. Rolan further reported that SURVCON Inc. had completed three (3) out of four (4) control surveys. Mr. Rolan noted that his team was working on a draft of the ROW policies and procedures, which will be fine tuned by Cobb Fendley and Universal.

Concerning his meeting with County officials, Mr. Rolan noted that Mr. Storey wants the West Harris County Regional Water Authority and the Authority to develop common construction specifications for the water lines to be constructed within the County's road and drainage ROWs.

Mr. Rolan next briefly discussed the fact that the proposed transmission line down Champion Forest Drive had been re-routed to a Centerpoint Energy easement. Director Fessler commended the Engineer Manager for his work on the re-routing.

ATTORNEY'S REPORT

Mr. Johnson reported that the COH had approved and executed the Interim Treated Water Supply Contract between the COH and the Authority in connection with the Authority's provision of water service to Emerald Forest Utility District ("Emerald Forest"), and the attorneys are working to finalize the proposed agreement between Emerald Forest and the Authority.

Mr. Johnson next reported on the status of the Consumers Water Corporation/Suburban Utility Company litigation and referenced a memorandum from Mr. Ross Radcliffe and Ms. Kaye Corprew of Johnson Radcliffe, a copy of which is attached hereto, and a proposed Settlement Agreement in connection with such matter that had been included in the Board packet. Mr. Johnson stated that it is likely that the

entities will end up paying all of the pumpage fees owed to the Authority. 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 authorize Johnson Radcliffe and the General Manager to proceed with negotiations concerning the proposed Settlement Agreement and to authorize the President and Secretary to execute settlement documents as needed.

Mr. Johnson then reported that the newly authorized Finance Team was working on a financing plan to present at a special meeting of the Board scheduled for Monday, May 19, 2003 at the Authority's office at 7:00 p.m.

PUBLIC COMMENTS

No public comments were given.

NEXT MEETING

Mr. Schindewolf announced that the next regular meeting of the Board would be held on Monday, June 2, 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 2nd day of June, 2003.

/s/Kelly Fessler

Secretary, Board of Directors

(SEAL)