

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

June 2, 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 2nd day of June, 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: Chief Fred Windisch of the Ponderosa Volunteer Fire Department; Chief Rich Jones of the Klein Volunteer Fire Department; 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. Steve Bresnen of Steve Bresnen & Associates, lobbyist 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 engineers for the Authority; Mr. John Peyton, P.E. of Cobourn Linseisen & Ratcliff, Inc., on-call engineers for the Authority; Mr. John Howell of The GMS Group, L.L.C., financial advisors for the Authority; Mr. Duncan Lamme of Legg Mason Wood Walker, Inc., financial advisors for the Authority; Mr. Fred Facker, editor for The 1960 Sun; Ms. Kim Canon, staff writer for The Houston Chronicle; Messrs. Art Morales and Mike Walker of Banc of America Securities LLC; Mr. Craig Brast of UBS PaineWebber, Inc.; Messrs. Marcus Deitz and J. Mark Breeding of Andrews & Kurth L.L.P.; Mr. Allen Watson of Cobb Fendley & Associates, Inc., acquisition services contractor for the Authority; Mr. Leonard Boschetti of Universal Field Services, Inc., acquisition services contractor for the Authority; 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.

LEGISLATIVE SESSION UPDATE

Mr. Bresnen first addressed the Board regarding the completion of the 78th Legislative Session that officially ended today. Mr. Bresnen reported that the Legislature passed the Authority's bill, Senate Bill 1725, sponsored by Senator Jon Lindsay and Representative Peggy Hamric. Mr. Bresnen then presented a memorandum summarizing the 2003 Authority legislation, including Senate Bill 1725, a copy of which is attached hereto. Mr. Bresnen reviewed the highlights of the bill as follows:

- Provides a continuous stream of revenue to satisfy the Authority's debt obligations related to areas that may be annexed into the Authority in the future.
- Authorizes contracts of unlimited duration between the Authority and a municipality.
- Requires the Authority to redraw voting district boundary lines when required by law or if the Authority takes in territory greater than 20 percent of the existing area of the Authority.
- Allows all types of political subdivisions and even private entities to participate in cooperative funding of Authority projects, where current law allows only utility districts to participate. Also makes the current mandatory cooperative funding provisions permissive.

Mr. Bresnen also reported that the Legislature passed House Bill 1541 (often referred to as the "AWBD Omnibus bill"), sponsored by Representative William Callegari, which included the provision that preserves the Authority's revenue stream from an area that may be annexed into the Authority. Mr. Bresnen noted that the language in House Bill 1541, although styled differently, would have the same legal effect as the language reflected in Senate Bill 1725.

Mr. Bresnen concluded with compliments to the Authority's lobbying team and Robin Bobbitt and Andy Johnson of Johnson Radcliffe. Mr. Bresnen noted that his lobbying team had complete cooperation and support from Senator Lindsay, Representative Hamric and Representative Callegari.

Director Sigler asked if the Legislature had removed the 40-year contract term limitation on the Authority's contract with the City of Houston (the "COH"). Mr. Bresnen reiterated that the Authority's legislation authorizes contracts of unlimited duration between the Authority and a municipality, including contracts entered after January 1, 2002, which would include the Authority's contract with the COH. Mr. Johnson stated that the intent of the provision was to afford the Authority the ability to extend the term of the contract with the COH.

Director Graham inquired what other items were included in House Bill 1541. Mr. Owen Parker of Harris County Municipal Utility District No. 109 noted that numerous items were included in House Bill 1541 that affect utility districts in many ways. Mr. Bresnen stated that Ms. C.J. Tredway handled House Bill 1541 during the legislative session. Mr. Johnson interjected that Johnson Radcliffe will prepare a

memorandum for distribution to clients summarizing the legislation that is pertinent to the Authority and utility districts.

Director Rendl then complimented Mr. Bresnen and his lobbying team for the fine job performed on behalf of the Authority.

Director Pulliam also thanked the lobbying team and inquired if there is anything that would apply to the Authority if the Governor calls a special legislative session. Mr. Bresnen responded that he could not think of anything that is proposed for the special session that would apply to the Authority.

Mr. Bresnen stated that it has been personally rewarding to see the vast progress that the Authority has made over the past three (3) years.

Director Rendl asked Mr. Schindewolf to send notes of appreciation to Senator Lindsay and his staff and to Representatives Hamric and Callegari and their staffs. Mr. Schindewolf commended the lobbying team and noted that the cooperation of Mr. Jon Vanden Bosch, P.E., Director of the COH Public Works and Engineering Department, Mr. Anthony Hall, City Attorney for the COH, and Mr. Al Haines, Chief Administrative Officer for the COH in connection with the passage of Senate Bill 1751.

Mr. Bresnen then exited the meeting.

PRESENTATION BY THE PONDEROSA VOLUNTEER FIRE DEPARTMENT AND THE KLEIN VOLUNTEER FIRE DEPARTMENT

Mr. Schindewolf then introduced Chief Fred Windisch of the Ponderosa Volunteer Fire Department (the "Ponderosa VFD") and Chief Rich Jones of the Klein Volunteer Fire Department (the "Klein VFD"). Chief Windisch stated that he was present to make an appeal to the utility districts to respond to the National Fire I.S.O. audit surveys that have been or will be distributed by the Ponderosa VFD and the Klein VFD to the utility districts in the respective service areas and within the Authority. Chief Windisch stated that by responding to the surveys, the insurance rates within the service areas can be lowered. Chief Windisch explained that the national rating system rates each fire department on a scale of 1 (best) to 10 (worst). Chief Windisch stated that the Ponderosa VFD and the Klein VFD currently have mid-range ratings and that moving up one (1) or two (2) rating levels results in a significant savings on insurance costs.

Chief Jones explained that the rating was divided into three (3) sections, including: 1) dispatch (10%); 2) the fire department (50%); and 3) water distribution system (40%). Chief Jones requested that the Authority be aware of the importance of the Authority's water distribution system, including the placement of fire hydrants as the 2010 Water Distribution and Transmission System is developed.

Director Graham inquired if water interconnect lines benefit the fire department ratings. Chief Windisch responded that interconnected lines do positively impact the ratings. Director Graham noted that most fire departments receive a rating of 5 and reported that the COH Fire Department and the Tomball Fire Department recently obtained ratings of 1.

Mr. Garey Nelson of Bammel Utility District ("Bammel") asked how often the rating audits are performed. Chief Jones responded that the surveys were previously performed every ten (10) years but now fire departments can request a survey. Chief Windisch stated that a rating of 3 or 4 places a fire department in the upper 12% in the nation. Chief Jones noted that the Klein VFD currently has a residential rating of 5 and a non-residential rating of 9. Chief Jones stated that the Klein VFD should be able to obtain a rating of 3. Chief Windisch stated that the Ponderosa VFD currently has a rating of 3.

Ms. Gloria Malek of Northwest Harris County Municipal Utility District No. 10 inquired if the Cy-Fair Volunteer Fire Department (the "Cy-Fair VFD") is going to be audited. Chief Windisch stated that the Cy-Fair VFD will also be obtaining audit surveys.

Mr. David Schnitzer of Northwest Harris County Municipal Utility District No. 22 then suggested that the Authority arrange a meeting with utility district representatives to inform them about the importance of completing and returning the audit surveys.

Mr. Bill Papp of Harris County Water Control and Improvement District No. 132 then asked if the Ponderosa VFD and the Klein VFD have done all that they can do to improve their fire fighting services and that they just need to encourage the utility districts to return the surveys. Chief Windisch stated that Mr. Papp's statement was correct.

Director Rendl suggested that the Ponderosa VFD and the Klein VFD send out letters concerning the audit surveys to the utility district attorneys, rather than to the operators. Mr. Schindewolf stated that his staff could assist with providing the attorney contact information to the Ponderosa VFD and the Klein VFD.

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 May 5, 2003 and the executive session of March 3, 2003. 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 May 5, 2003 and the executive session of March 3, 2003, as written.

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

Ms. Payne reported that last month, the Authority's Web site had 70,256 hits for an average of 2,195 hits per day. Ms. Payne reported that the Authority's Water Conservation Committee had recently met and developed a Mission Statement, a copy of which is attached hereto. Ms. Payne then reviewed the three (3) components of the Mission Statement, including: 1) implementing the educational and administrative strategies outlined in the Authority's Water Conservation Plan to encourage efficient water

use; 2) developing public education materials and presentations to make available to the water providers and water users within the boundaries of the Authority; and 3) providing an accessible clearinghouse of ongoing research in the areas of efficient use of water supplies and reuse/reclaimed water projects. Ms. Payne then acknowledged Ms. Diane Flynn's work on the water conservation exhibit at the back of the meeting room. Ms. Payne noted that the Water Conservation Committee would award a door prize at the end of the meeting. It was determined that approval of the Mission Statement would be placed on the July meeting agenda.

Ms. Payne next summarized her activities over the past month. Ms. Payne stated that letters were sent to utility district presidents and operators to ascertain what water conservation programs were already in effect. Ms. Payne added that the water conservation area on the Authority's Web site has been expanded. Ms. Payne noted that she had provided water conservation articles to Mr. Facker to publish from time to time in The 1960 Sun. Ms. Payne added that the most recent edition of Waterlines would be mailed to 125,000 homes within the Authority on or before June 15, 2003.

Ms. Payne next reported that Director Rendl has been asked to make a presentation to the 1960 Democratic Club on Monday, June 8th.

Concerning the development of a community relations program, Ms. Payne reported that she, Ms. Sagstetter and Director Rendl were working together on the program.

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, the Authority's financial advisors, Authority staff members, Authority directors, Ms. Payne and various utility district representatives.

Mr. Schindewolf went on to report that he had spent an extensive amount of time during the last several weeks in negotiations with the COH representatives of the COH Public Works and Engineering Department and Legal Department regarding the Authority's legislation.

Mr. Schindewolf next reported that the Engineer Manager had submitted the Authority's final Groundwater Reduction Plan (the "GRP") to the Harris-Galveston Coastal Subsidence District (the "HGCSO") on May 30, 2003, for review and approval at the June 11, 2003 meeting of the HGCSO. Mr. Schindewolf noted that Mr. Rolan had copies of the GRP to provide to the Board this evening.

Mr. Schindewolf added that the Engineer Manager's Report would address the status of the 2010 Water Distribution and Transmission System, Phase 1 Groundwater Transfer Projects.

Concerning miscellaneous administrative matters and correspondence, Mr. Schindewolf noted that the meeting packet included memorandums regarding various legislative issues, copies of which are attached hereto.

ENGINEER MANAGER'S REPORT

Mr. Rolen then presented the Engineer Manager's Report, a copy of which is attached hereto. Mr. Rolen briefly reviewed the meetings that he had attended with the General Manager, representatives of utility districts, right-of-way ("ROW") and easement acquisition specialists and other Authority consultants during the prior month.

Mr. Rolen reported that the Authority's efforts to persuade Harris County (the "County") officials to allow the Authority to use the County's road and drainage ROWs for the 2010 Water Distribution and Transmission System had been successful and that the County had approved the routes of the Authority's first five (5) water line projects. Mr. Rolen noted that he will continue to work out technical and logistical issues with the County staff.

Concerning the ROW acquisition system development, Mr. Rolen reported that the ROW Acquisition team had met with Mr. Breeding to review and develop the ROW acquisition process. Mr. Rolen stated that the Policy and Procedures for Easement Acquisition were being prepared and explained that later in the meeting, Mr. Breeding would present a resolution concerning the ROW acquisition process.

Mr. Rolen reported that he and Mr. Schindewolf had toured the Houston Area Water Corporation's Northeast Water Treatment Plant, intake structure and discharge pipeline construction sites on May 21, 2003.

Mr. Rolen further reported that all five (5) of the corridor projects were complete and the control surveys had been completed.

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 April 30, 2003, a copy of which is attached hereto. Ms. Plunkett stated that the budget comparison for four (4) months reflects that the Authority is approximately \$2.4 million under budget for the current fiscal year.

Ms. Plunkett next reported that she had updated the list of utility districts that intend to make capital contributions for their percentage share of the Authority's first bond issue, a copy of which is attached hereto. Ms. Plunkett noted that 27 districts have indicated their intent to make capital contributions.

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.

REVIEW AND ADOPT PUBLIC INFORMATION ACT REQUEST POLICIES AND PROCEDURES

The Board was then reminded that at the May 5, 2003 meeting, the proposed Public Information Act Request Policies and Procedures was presented to the Board for consideration, but that action on such matter was deferred until tonight's meeting. 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 Public Information Act Request Policies and Procedures, a copy of which is attached hereto. It was noted that such Public Information Act Request Policies and Procedures will become an exhibit to the Authority's Amended and Restated Procedural Rules.

FINANCIAL TEAM REPORT

Mr. Lamme then addressed the Board to report on the proposed issuance of bond anticipation notes ("BANs"), bonds and/or use of a line of credit. Mr. Lamme reported that on June 12, 2003, the Authority's financing team will make a rating presentation to Moody's and Standard & Poor's in connection with the proposed financing.

Mr. Lamme further reported that he had just received, prior to leaving for tonight's meeting, the proposed commitment letter from Bank of America for a \$110,000,000 line of credit, a copy of which is attached hereto. Messrs. Lamme and Johnson then reviewed the terms and conditions of the proposed credit facility with the Board. Mr. Johnson explained that the \$110,000,000 would be a privately placed BAN with Bank of America, with a term of one (1) year, which would allow the Authority to issue installments or draw down on the line of credit as needed by the Authority for the COH payment and estimated construction draws related to Phase 1 of the Authority's 2010 Water Distribution and Transmission System through June, 2004. Mr. Lamme explained that by having the \$110,000,000 line of credit, the Authority would have time to get its permanent financing in place while the bond market is favorable.

Director Rendl stated that he had received several phone calls from residents with concerns regarding future increases in the Authority's pumpage fees. Mr. Lamme explained that although he had no specifics yet, the financing team is working with the rating companies to structure the debt with the greatest flexibility to the Authority and stated that the pumpage fees will be "ramped up" gradually to fit the debt structure. Mr. Schindewolf noted that the Authority should be able to discuss the escalating pumpage fees with the utility districts within the next three (3) months and suggested that the Water Users Advisory Group would be a good venue to discuss the future increases in pumpage fees. Director Rendl asked that both the Board and the utility districts be kept informed on the pumpage fee matter.

Upon motion by Director Sigler, seconded by Director Rendl, after full discussion and the question being put to the Board, the Board voted unanimously to accept and authorize execution of the Bank of America commitment letter dated May 30, 2003.

ADOPTION OF RESOLUTION AUTHORIZING ISSUANCE OF BOND ANTICIPATION NOTE, SERIES 2003

Messrs. Johnson and Deitz then reviewed the proposed Resolution Authorizing the Issuance of Authority Bond Anticipation Note, Series 2003; and Containing Other Matters Relating Thereto, a copy of which is attached hereto. Mr. Deitz noted that the document being presented is the most recent draft of the Resolution, but that the Resolution may require further revision. Mr. Deitz stated that the form of the Note Purchase Agreement, attached as an exhibit to the Resolution, would mirror the terms of the Bank of America commitment letter. Mr. Johnson added that the Bank of America commitment letter and the Note Purchase Agreement are binding contracts of the Authority to issue permanent funding to pay off the debt to the Bank of America.

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 and approve the Note Purchase Agreement.

ROW ACQUISITION POLICIES AND PROCEDURES AND AUTHORIZE GENERAL MANAGER TO PROCEED WITH PREPARATION AND IMPLEMENTATION OF SAME AND RESOLUTION DECLARING THE EXISTENCE OF A PUBLIC NECESSITY

Mr. Schindewolf then introduced Mr. Breeding to discuss Regular Agenda item nos. 3.d and 3.e. Mr. Breeding explained that the proposed Resolution Declaring the Existence of a Public Necessity for the Construction of Facilities for the Transportation, Distribution, and Delivery of Water, Including Reasonable and Necessary Appurtenances Thereto, and Authorizing the Acquisition, by Donation, Purchase, or Exercise of the Power of Eminent Domain, of Property and Property Interests Necessary for such Facilities would serve two (2) functions, including: 1) determine that a public necessity for the ROW easement acquisitions is in the public interest; and 2) delegate the Board's authority to the General Manager to effectuate the process of acquiring the ROWs and easements.

Upon motion by Director Rendl, seconded by Director Sigler, after full discussion and the question being put to the Board, the Board voted unanimously to adopt such Resolution, a copy of which is attached hereto.

Mr. Roy Lackey of Harris County Municipal Utility District No. 368 asked if the acquisition of regional water well sites was authorized in the Resolution. Mr. Schindewolf responded it was his understanding that "appurtenances" would include regional water well sites. Mr. Breeding concurred.

Director Rendl then stated that a lot of important decisions were being made in a very condensed period of time and commended the consultants on their excellent work.

ATTORNEY'S REPORT

Mr. Johnson reported that the deadline of May 30th had passed regarding the submission of resolutions by utility districts regarding their intent to make a capital contribution to the Authority for their percentage share of the Authority's first bond issue. Mr. Johnson noted that the form of the Capital

Contribution Contract was available on the Authority's Web site and stated that he hoped to send the individual contracts to the 27 participating utility districts by the end of the week.

PUBLIC COMMENTS

Ms. Gloria Malek of Northwest Harris County Municipal Utility District No. 10 commended the Authority and the consultants for all of their work.

Mr. Nelson of Bammel inquired if new rates for photocopies had been implemented in connection with the adoption of the Public Information Act Request Policies and Procedures. Mr. Johnson stated that the rates included in the Public Information Act Request Policies and Procedures were those recommended by the Texas Building and Procurement Commission.

A question was then asked whether there had been any discussion with the Texas Commission on Environmental Quality (the "TCEQ") to expedite the review of bond applications from utility districts issuing debt to pay their share of the Authority's first bond issue. Mr. Johnson stated that the TCEQ will want to see a copy of the Authority's Water Supply Contract with the COH and the utility district's Capital Contribution Contract with the Authority from each district submitting bond applications to issue bonds to pay their pro rata share of costs to the Authority.

Mr. Bob Koperwhats of Harris County Water Control and Improvement District No. 91 asked if the Board would consider amending Procedural Rules of the Authority at the next meeting. Director Graham stated that the Board was waiting for the end of the legislative session to make any revisions and that the matter would be included on the July meeting agenda.

NEXT MEETING

Mr. Schindewolf then confirmed that the next regular meeting of the Authority would be held on Monday, July 7, 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 7th day of July, 2003.

/s/Kelly Fessler

Secretary, Board of Directors

(SEAL)