

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

July 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 July, 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. Jim Box, Chairman of the Board of Directors of the Harris-Galveston Coastal Subsidence District (the "HGCSA"); 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 Turner Collie & Braden Inc. ("TC&B"), Engineer Manager for the Authority; Mr. Wayne Ahrens, P.E. of Dannenbaum Engineering Corporation, on-call engineers for the Authority; Mr. Dave Scholler of Brown & Gay Engineers, Inc., on-call engineers for the Authority; Mr. John Peyton, P.E. of Cobourn Linseisen & Ratcliff, Inc., on-call engineers for the Authority; Mr. W. John Seifert, P.E. of LBG-Guyton Associates, on-call engineers for the Authority; Messrs. Gene Shepherd and Duncan Lamme of RBC Dain Rauscher Inc. ("RBC Dain Rauscher"), financial advisors for the Authority; Mr. Jason King, staff writer for The 1960 Sun; Messrs. Art Morales and Mike Walker of Banc of America Securities LLC; Messrs. Craig Brast and Gary Heinz of UBS Financial Services Inc.; Messrs. Bob Collie, Gene Locke and J. Mark Breeding of Andrews & Kurth L.L.P., co-bond counsel for the Authority; Ms. Marion Miller and Mr. Spencer Turpin of Corpro Companies, Inc. ("Corpro"), corrosion and cathodic protection engineering services contractor for the Authority; Messrs. Gerald Moreland and Eric Bassett of Advantica, Inc. ("Advantica"), surge analysis and transient hydraulic modeling engineering services contractor for the Authority; and Ms. Robin S. Bobbitt and Mr. Andrew P. Johnson, III, attorneys, and Ms. Brooke T. Dold, paralegal, of Johnson Radcliffe Petrov & Bobbitt PLLC, 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

The Board then gave a report concerning their tour of the City of Houston's (the "COH") Northeast Water Treatment Plant (the "Northeast Plant") on June 20, 2003. The Board complimented Ms. Payne on her article regarding the tour. Director Pulliam presented an aerial photograph of the facility he had taken from the plane on his return from the Association of Water Board Directors - Texas (the "AWBD") Summer Conference in Corpus Christi, Texas.

Director Rendl noted that his comments concerning the Public Information Act Request Policies and Procedures (the "Policies and Procedures") at the June meeting had been incorrect regarding charges for copies of documents of less than 50 pages, and stated that the Policies and Procedures, as adopted by the Board, contain the correct information.

PUBLIC COMMENTS

No public comments were given.

STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

Ms. Payne reported that last month, the Authority's Web site had 64,300 hits and that the most popular page on the Web site was the June, 2003 issue of Waterlines, a copy of which is attached hereto. Ms. Payne then announced that of the 25 utility districts recognized at the AWBD Summer Conference for efforts made toward water conservation, 11 of such districts are within the boundaries of the Authority. Ms. Payne reported that Ms. Carole Baker of the HGCSO had prepared a Water Conservation Legislation Summary and noted that copies of such summary were available on the back table. A copy of the summary is attached hereto. Ms. Payne stated that the Water Conservation Committee is planning a special workshop meeting in the near future.

Director Fessler commended Ms. Payne on the first color issue of Waterlines and the article on the Board's tour of the Northeast Plant.

Upon motion by Director Pulliam, seconded by Director Sigler, after full discussion and the question being put to the Board, the Board voted unanimously to approve the proposed Mission Statement of the Water Conservation Committee as it was presented at the June meeting. A copy of such Mission Statement is attached hereto.

GENERAL MANAGER'S REPORT

Mr. Schindewolf announced that today marked his six (6) month anniversary of employment with the Authority and then reviewed the General Manager's Report with the Board, a copy of which is attached hereto. Mr. Schindewolf stated that the Engineer Manager's Report would present a comprehensive report regarding the status of consultant activities.

Mr. Schindewolf reported that he had attended a number of meetings over the last month with representatives of the Authority's law firms, 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 next reported on the successful outcome of the bond validation lawsuit that was heard by Judge Bruce Oakley on June 23, 2003. Mr. Schindewolf noted that a more in-depth report on the lawsuit would be presented later in the meeting.

Mr. Schindewolf then reported on his attendance at the June 20th tour of the COH's Northeast Plant and the AWBD Summer Conference.

Mr. Schindewolf next reported that pursuant to Section 3.03 of the Water Supply Contract Between the City of Houston, Texas and the Authority, dated December 16, 2002, the Authority's payment of its pro-rata share of treated water facilities cost in the amount of \$51,492,844 had been wired from the Bank of America to the designated COH account the morning of July 1st. Copies of correspondence related to such payment are attached hereto.

Concerning the certification of the Authority's Groundwater Reduction Plan (the "GRP") by the HGCSO, Mr. Schindewolf reported that he, Tom Rolan, Mike Baugher and Director Rendl had attended the HGCSO meeting on June 11, 2003, at which time the Authority's GRP was certified. Mr. Schindewolf then stated that Mr. Box, President of the HGCSO Board, was in the audience and asked him to address the Board.

Mr. Box congratulated the Board and stated that the certification of the Authority's GRP is quite an accomplishment for the Authority. Mr. Box also requested that his name be added to the distribution list for the Authority's Waterlines publication.

Mr. Schindewolf then continued his report and noted that Mr. Rolan would report on the status of the 2010 Water Distribution and Transmission System, Phase 1 Groundwater Transfer Project.

Mr. Schindewolf then concluded his report noting that miscellaneous administrative matters and correspondence were included in the meeting packets, 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 briefly reviewed the meetings that he had attended with the General Manager, representatives of utility districts, right-of-way ("ROW")/easement acquisition consultants and other Authority consultants during the prior month.

Mr. Rolan reported that the design engineers had initiated design and topography surveys of the five (5) Groundwater Transfer Projects to bring water to various districts by 2005 and 2006.

Mr. Rolen reported that the Authority and the West Harris County Regional Water Authority continue to work with 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. Mr. Rolen stated that the efforts had been successful and that the County has now approved the routes of the Authority's first five (5) water line projects.

Concerning the ROW acquisition, Mr. Rolen reported that Mr. Breeding and the ROW acquisition team had identified various issues and problems in connection with the water line transmission routes and were continuing to work on the easement acquisitions. Mr. Rolen commended Mr. Breeding and the ROW acquisition team for the outstanding job they were doing.

Mr. Rolen confirmed that the Authority will put transmission pipes in the ground before the end of the year and noted that the utility districts' interconnected water systems can be used to provide interim water supplies, if necessary. Mr. Rolen also reported that the updated information regarding the utility districts that have indicated a desire to buy or sell water had been submitted to the design engineers. A brief discussion then ensued as to whether the Authority can satisfy the buyer/seller demands from the utility districts.

BOND VALIDATION LAWSUIT REPORT

Mr. Schindewolf then asked Mr. Locke to review the bond validation lawsuit. Mr. Locke reported that he and Mr. Johnson had handled the trial before Judge Bruce Oakley of the 234th Judicial District of Harris County, Texas on June 23, 2003. Mr. Locke noted that the court approved all of the Findings of Fact and Conclusions of Law submitted to the court by the Authority. Mr. Locke concluded his remarks by stating that the Authority got all of the issues validated that it asked for and that the Final Judgment was issued on June 24, 2003. A copy of the Final Judgment is attached hereto.

Director Pulliam then commended Mr. Locke and Mr. Johnson and their staff and commented on the amount of patience and finesse that had been necessary over the last two (2) years to accomplish the successful outcome of the lawsuit.

Director Rendl noted that although he and Mr. Locke had sat on opposite sides of the table from him in the past concerning annexation issues, it was a pleasure to have him on the Authority's side for the lawsuit.

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 June 2, 2003 and the special meeting of May 19, 2003. 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 approve the minutes of the regular meeting of June 2, 2003 and the special meeting of May 19, 2003, as written.

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 May 31, 2003, a copy of which is attached hereto. Ms. Plunkett stated that the budget comparison for five (5) months reflects that the Authority is approximately \$3 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 reported that since the June meeting, Harris County Municipal Utility District No. 360 has withdrawn its intent to make a capital contribution and noted that there are now a total of 26 districts that intend 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 RESOLUTION ADOPTING AMENDED AND RESTATED PROCEDURAL RULES

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 proposed Resolution Adopting Amended and Restated Procedural Rules for the Authority.

RESOLUTION AMENDING FEES OF OFFICE

Ms. Bobbitt reported that House Bill 3214, effective June 20, 2003, amended Section 49.060, Texas Water Code, regarding director fees of office. Ms. Bobbitt explained that the amendment increases the limit on the fees of office that a director may receive from \$6,000 to a maximum of \$7,200 per year. Ms. Bobbitt stated that if the Board desires to increase the annual maximum, the Board must adopt a resolution implementing such increase. 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 Amending Fees of Office, a copy of which is attached hereto.

Mr. Johnson then entered the meeting at 7:35 p.m.

CAPITAL CONTRIBUTION CONTRACTS

Mr. Johnson reported that the form of the Capital Contribution Contract (the "Contract") was complete and that he had spoken with all but one (1) of the attorneys representing the 26 districts that intend to make capital contributions to the Authority. Mr. Johnson indicated that copies of the Contract would be e-mailed to the attorney for each participating district for adoption and execution. Mr. Johnson suggested that the President and Secretary of the Authority's Board execute all of the signature pages for the Contracts

to facilitate the process of getting the executed Contracts to the utility districts. Mr. Johnson noted that Mr. Schindewolf will manage the final compilation and distribution of the executed Contracts.

Director Rendl stated that Mr. Paul Bacon, attorney for Bilma Utility District, had called him concerning the status of the Contracts and requested that Mr. Johnson contact Mr. Bacon.

Director Graham then congratulated Mr. Johnson on his efforts in connection with the bond validation lawsuit.

PROFESSIONAL ENGINEERING SERVICES AGREEMENTS

Mr. Schindewolf reported that TC&B has recommended that the Authority enter into an Agreement for Professional Engineering Services with Advantica for surge analysis and transient hydraulic modeling services and an Agreement for Professional Engineering Services with Corpro for corrosion and cathodic protection services. Mr. Rolan briefly explained the need for the specialty services and stated that representatives from Advantica and Corpro were present to answer questions from the Board.

Director Sigler then questioned whether the Authority's water lines will be compatible with the COH's water lines. Mr. Spencer Turpin of Corpro responded that the Authority's water lines will be compatible with the COH's water lines by utilizing the appropriate cathodic protection technology.

Director Rendl inquired if different technologies can be used on the same water line. Mr. Turpin explained that the two (2) technologies may be used in different areas of the proposed integrated water distribution and transmission system.

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 the General Manager to negotiate and enter into Professional Engineering Services Agreements with Advantica and Corpro and to authorize execution of such contracts, copies of which are attached hereto.

UPDATE ON ROW/EASEMENT ACQUISITION

Mr. Schindewolf then reported that the ROW Policies and Procedures Manual is in the final stages of preparation and will be submitted to the Board for approval at a later date.

Mr. Breeding then reported that Cobb Fendley & Associates, Inc. ("Cobb Fendley") and Universal Field Services, Inc. ("Universal") had accomplished a great deal since the Board's June meeting. Mr. Breeding reported that a notebook with all of the easement documents and offer letter forms to be used by the ROW acquisition team had been compiled and further reported that title analyses were being performed on numerous tracts, as needed. Mr. Breeding noted that as the easement surveys are completed, the appraisals are being requested. In conclusion, Mr. Breeding reported that no major ROW acquisition problems had been identified to date.

Mr. Breeding then briefly reviewed and discussed with the Board the proposed Payment Procedures to be used in the ROW acquisition process, a copy of which is attached hereto. Mr. Breeding

explained that Cobb Fendley and Universal will have the responsibility of delivering payment for the easements to the property owners. Mr. Breeding noted that the approval of the Payment Procedures by the Board will enable the ROW acquisition team to proceed with the easement acquisitions in a timely and efficient manner. Mr. Breeding explained that offers for easement acquisitions up to \$10,000 can be paid directly by Cobb Fendley and Universal from their own accounts, if they so choose, with the expectation that such funds will be reimbursed to the respective firm by the Authority within ten (10) business days of the Authority receiving a request for reimbursement. Mr. Breeding further explained that if the offer price or the negotiated price for an easement exceeds \$10,000, the Authority will process the payment request and fund the acquisition of the property. Mr. Breeding added that the ROW acquisition firms are not obligated to tender more than \$50,000 on behalf of the Authority for more than ten (10) business days without reimbursement from the Authority.

Director Sigler inquired what would happen if a property owner cannot provide a clean title for an easement. Mr. Breeding responded that a special condemnation process would be utilized to acquire easements with title problems, if necessary.

Director Fessler noted that the ROW acquisition firms could be issuing checks in a total cumulative amount of \$100,000 a month. Mr. Breeding concurred and stated that the easement acquisitions from Hewlett Packard would likely be sizeable and that these types of acquisitions would be brought to the Board for approval.

Upon motion by Director Rendl, seconded by Director Fessler, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Payment Procedures for ROW acquisitions.

RESIGNATION OF LEGG MASON WOOD WALKER, INC.

Mr. Schindewolf next reported that the Board meeting packets included a letter from Mr. Richard Marvin of Legg Mason Wood Walker, Inc. ("Legg Mason") advising the Authority of the resignations of Messrs. Shepherd and Lamme from such firm and waiving the 30-day notice period if the Authority chooses to terminate the relationship with his firm. A copy of such letter is attached hereto. Mr. Schindewolf added that he was recommending termination of Legg Mason and that the Authority enter a new contract with RBC Dain Rauscher in order for the Authority to continue its relationship with Messrs. Shepherd and Lamme. 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 terminate its Financial Advisory Contract with Legg Mason, effective July 7, 2003.

APPROVE FINANCIAL ADVISORY AGREEMENT WITH RBC DAIN RAUSCHER

Mr. Schindewolf then explained that Messrs. Shepherd and Lamme are now associated with RBC Dain Rauscher. Mr. Schindewolf stated that Mr. Shepherd had submitted a Financial Advisory Agreement that had been reviewed by Ms. Bobbitt, Mr. Johnson and Mr. Collie and recommended the Board's approval of such Financial Advisory Agreement. 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

approve and authorize the execution of the Financial Advisory Agreement with RBC Dain Rauscher, a copy of which is attached hereto.

PETITIONS FOR CONSENT TO INCLUDE ADDITIONAL LANDS IN THE AUTHORITY

Ms. Bobbitt then explained that the Authority had recently received requests from CMH Parks, Greenspoint Plaza Inn and Atascocita Acres (collectively, the "Petitioners") for the inclusion of their properties in the Authority in order to be included in the Authority's GRP. Ms. Bobbitt stated that Petitions had been prepared and submitted to the Petitioners and as of tonight's meeting, executed Petitions had been received from CMH Parks and Greenspoint Plaza Inn. Ms. Bobbitt explained that the third Petition from Atascocita Acres is expected to be received within the next several days. Ms. Plunkett stated that the Petitioners would be required to pay fees to join the Authority based on the fee schedule previously adopted by the Board. The fees to be paid are as follows: CMH Parks - \$12,500; Greenspoint Plaza Inn - \$18,750; and Atascocita Acres - \$12,500. Ms. Plunkett added that each Petitioner would also pay pumpage fees back to January 1, 2002. Ms. Plunkett stated that she would prepare a letter to each of the Petitioners notifying them of the Board's action and indicating the total amount of fees each party must pay to the Authority. Ms. Bobbitt noted that no action to revise the Authority's boundaries would be taken until the fees are paid and all of the required documentation is submitted by the Petitioners.

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 accept the Petitions and authorize the Financial Assistant to prepare the appropriate letters to the Petitioners. Copies of the three (3) letters requesting inclusion and the two (2) Petitions are attached hereto.

PUBLIC COMMENTS

No public comments were offered.

NEXT MEETING

Mr. Schindewolf then confirmed that the next regular meeting of the Authority would be held on Monday, August 4, 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 4th day of August, 2003.

/s/Kelly Fessler

Secretary, Board of Directors

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