

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

September 29, 2003

The Board of Directors (the "Board") of the North Harris County Regional Water Authority (the "Authority") met in special workshop session, open to the public, at 6:00 p.m. on Monday, the 29th day of September, 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 Fessler	-	Secretary
Jim Pulliam	-	Treasurer
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. Gene Shepherd of RBC Dain Rauscher Inc., co-financial advisors for the Authority; Mr. John Howell of The GMS Group, L.L.C., co-financial advisors for the Authority; Mr. Tom Rolen, P.E. of Turner Collie & Braden Inc., Engineer Manager for the Authority; Ms. Kim Canon, staff writer for the Houston Chronicle; Ms. Robin S. Bobbitt and Mr. Andrew P. Johnson, attorneys, and Ms. Brooke T. Dold, paralegal, of Johnson Radcliffe Petrov & Bobbitt PLLC, attorneys for the Authority. A copy of the sign-in sheets for those in attendance at the meeting 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.

Mr. Schindewolf first requested that Mr. Shepherd brief the Board on the September 18, 2003 sale of the Authority's \$124,685,000 Senior Lien Revenue Bonds, Series 2003 (the "Series 2003 Bonds"). Mr. Shepherd reviewed the pricing packet and reported that the Series 2003 Bonds were sold in a strong market, at an interest rate of 4.93%, which was substantially lower than the projected interest rate for the bond issue. Mr. Shepherd noted that in addition to the proceeds received from the sale of the Series 2003 Bonds, the Authority will receive \$32.5 million in capital contributions from utility districts who have issued their own debt to fund their pro rata share of the Groundwater Transfer Project Program (the "GTP"). Director Rendl commended the working group of the Authority's Series 2003 Bonds (the "Bond Group") and the Authority staff for the successful sale of the Authority's Series 2003 Bonds. Mr. Schindewolf also commended the Authority's Bond Group, the Authority staff and other consultants who worked on the bond issue.

REVIEW OF PROPOSED BUDGET AMENDMENTS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2004

Mr. Schindewolf then explained that there are three (3) sections of the Authority's budget to review at tonight's meeting, including: 1) the 2004-2005 Capital Improvement Plan (the "CIP"); 2) Long-Term Debt Information; and 3) the Operating Budget for the 2004 Fiscal Year. A copy of the budget workshop packet, previously distributed to the Board, is attached hereto.

Mr. Schindewolf noted that the CIP is the first CIP to be developed by the Authority. Mr. Schindewolf explained that the CIP includes all of the projects that the Authority plans to undertake during 2004 and 2005, including engineering design, engineering management, real estate acquisition, construction, construction management and construction materials testing related to the development and implementation of the Authority's GTP. Mr. Schindewolf added that Mr. Rolan will review the CIP in more detail with the Board.

Mr. Schindewolf then noted that the Long-Term Debt Information is also new to the Authority's budgeting process and is necessary as a result of the requirements established in connection with the sale of the Series 2003 Bonds. Mr. Schindewolf noted that the Long-Term Debt Information will be reviewed by Ms. Plunkett and Mr. Howell.

Mr. Schindewolf next explained that the proposed operating budget for the fiscal year ending December 31, 2004 (the "2004 Budget") was prepared by the Authority staff members in conjunction with various representatives of the Authority's consulting team, including legal counsel, financial advisors, engineering management and public relations. Mr. Schindewolf pointed out that the Authority's budget for the fiscal year ending December 31, 2003 (the "2003 Budget") had included three (3) new employee positions that had not been filled, but are being carried over to the 2004 Budget. Mr. Schindewolf also noted that the 2004 Budget includes a 3% cost of living increase for Authority employees. Mr. Schindewolf added that Ms. Plunkett, Ms. Payne and he will review the 2004 Budget in more detail with the Board.

REVIEW OF CAPITAL IMPROVEMENT PLAN

Mr. Rolan then proceeded with his review of the CIP reflecting a total of \$118.5 million in Project Authorizations, a copy of which is included in the attached budget packet. Mr. Rolan explained that the CIP specifies Project Authorization amounts rather than project expenditure amounts, but noted that the funds would be encumbered in 2004 for use in 2004 through 2006. Mr. Rolan added that a majority of the CIP will be funded from the proceeds of the Series 2003 Bonds, but that an additional \$11.587 million is estimated to be needed in 2005. Mr. Rolan then responded to various questions from the Board.

REVIEW OF LONG-TERM DEBT INFORMATION

Mr. Howell then reviewed the Sources and Uses of Funds from the Series 2003 Bonds with the Board, a copy of which is included in the attached budget packet. Mr. Howell noted that pursuant to the bond covenants contained in the Master Bond Resolution for the Series 2003 Bonds, the Authority is required to maintain a two (2) month Operation Maintenance Reserve Fund and 25% of the Authority's annual debt service payments in the Authority's Coverage Fund. Mr. Howell stated that the bond insurance obtained for the Series 2003 Bonds improved the

interest rate received on the Series 2003 Bonds and increased the rating on the Series 2003 Bonds to AAA. Mr. Howell then responded to questions from the Board. Mr. Howell continued with a review of the ongoing flow of funds and budgeted cash flow projections. Mr. Howell noted that an investment plan will be needed for the Authority's debt service funds. Mr. Schindewolf added that Ms. Plunkett and Mr. Howell will review the Authority's Investment Policy with the Board, including any necessary revisions, at the Board's November meeting.

The Board then received public comments from the floor regarding capital contributions made by utility districts and the participants in the GTP.

REVIEW OF THE PROPOSED 2004 OPERATING BUDGET

Ms. Plunkett then reviewed the budget comparison for the 2003 Budget and the proposed 2004 Budget, a copy of which is included in the attached budget packet. During the review of pumpage fee revenues, Director Rendl asked if the Authority is receiving timely information from the Harris-Galveston Coastal Subsidence District (the "HGCSO") concerning annual pumpage amounts by well permittees located within the Authority's boundaries. Ms. Plunkett responded that the HGCSO is not providing the Authority monthly reports, but noted that many of the utility district operators report the pumpage amounts directly to the Authority. Director Pulliam asked where the HGCSO is headed concerning the issuance and renewal of water withdrawal permits. Ms. Plunkett explained that the HGCSO will begin issuing the water withdrawal permits in the name of both the district and the Authority in 2004.

Ms. Plunkett next reviewed the budgeted expenses for 2004. Director Graham stated that it was not his understanding that the Authority would be subsidizing any of the utility districts that participate in the GTP. Director Rendl then stated that throughout all of the discussions concerning the GTP, the main concern was to achieve an arrangement that was fair to the utility districts and to the Authority and to prevent additional wells from being drilled. A lengthy discussion then ensued concerning the revenues and expenses from the sale and purchase of water by utility districts participating in the GTP. Ms. Plunkett then continued her review of the budgeted expense line items.

Ms. Payne then reviewed the Communications Services portion of the 2004 Budget, a copy of which is included in the attached budget packet. Ms. Payne explained that most of the data had been transferred to the web based information management system that will go online in January, 2004. Ms. Payne noted that \$83,200 had also been budgeted for water conservation education. A discussion then ensued regarding community communications and the Authority's commitment to water conservation.

Mr. Schindewolf then reviewed the Management Services portion of the proposed 2004 Budget, a copy of which is included in the attached budget packet. A discussion ensued concerning salaries, benefits, insurance, office space and office equipment expenses.

Ms. Plunkett then reviewed the Miscellaneous Services and Capital Outlay sections of the 2004 Budget, copies of which are included in the attached budget packet. Director Sigler noted that the proposed 2004 Budget was smaller than the 2003 Budget. Mr. Schindewolf then

expressed his thanks to Ms. Plunkett, Mr. Rolen, the Authority's staff and consultants for their work on the 2004 Budget.

Mr. Schindewolf then announced that the CIP, the 2004 Budget and any amendments to the 2003 Budget would be presented for approval at the Board's October 6, 2003 meeting.

There being no further business to come before the Board, the meeting was adjourned.

PASSED, APPROVED AND ADOPTED this 8th day of December, 2003.

/s/Kelly Fessler

Secretary, Board of Directors

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