

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

August 4, 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 4th day of August, 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: State Representative Debbie Riddle of District 150 and Mr. Mike Riddle; Mrs. Kelly Fessler; 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. Lisa Sagstetter, Community Relations Coordinator for the Authority; Ms. Barbara Payne of Payne Communications, communications coordinator for the Authority; Mr. Tom Rolen, P.E. of Turner Collie & Braden Inc., Engineer Manager for the Authority; Mr. Wayne Ahrens, P.E. of Dannenbaum Engineering Corporation, on-call engineers for the Authority; Mr. Dave Scholler, P.E. of Brown & Gay Engineers, Inc., on-call engineers for the Authority; Messrs. John Peyton, P.E. and Scott Fair 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. Malcolm Beckendorff, P.E. and Joe Wozny, P.E. of ARCADIS, on-call engineers for the Authority; Messrs. Gene Shepherd and Duncan Lamme of RBC Dain Rauscher Inc. ("RBC Dain Rauscher"), co-financial advisors for the Authority; Mr. John Howell of The GMS Group, L.L.C., co-financial advisors for the Authority; Ms. Kim Canon, staff writer for The Houston Chronicle; Mr. Jason King, staff writer for The 1960 Sun; Mr. Craig Brast of UBS Financial Services Inc., underwriters for the Authority; Mr. J. Mark Breeding of Andrews & Kurth L.L.P., right-of-way acquisition attorneys 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, general counsel and co-bond counsel 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.

PRESENTATION REGARDING PUMPAGE FEE INCREASE

Director Graham first explained that, prior to the Board's regular meeting, a special meeting had been held on the proposed pumpage fee increase for the fourth quarter of 2003 and for the 2004

fiscal year. Director Graham then asked Mr. Howell to briefly recap the presentation made at the special meeting regarding the proposed pumpage fee increase. Mr. Howell explained that his recommendation to the Board was that the pumpage fee be increased from \$0.25 per 1,000 gallons of water pumped to \$0.34 per 1,000 gallons of water pumped, effective October 1, 2003 and for 2004. Mr. Howell stated that the increase was consistent with prior discussions and presentations of the Authority, including the numerous Town Hall meetings held in 2002 regarding the short-term and long-term pricing policies approved by the Board on September 5, 2002 and the Groundwater Transfer Program of the Authority. Mr. Howell added that the proposed \$0.34 pumpage fee had been presented at discussions with the rating agencies and bond insurance companies in connection with the Authority's upcoming bond issuance. Mr. Howell noted that the West Harris County Regional Water Authority currently has a pumpage fee rate of \$0.50 per 1,000 gallons. Mr. Howell confirmed that the pumpage fee will be paid by all utility districts, regardless of whether a district makes a capital contribution to the Authority in connection with the bond issue. Mr. Howell added that the new rate should be adequate through the end of the 2004 fiscal year, but may need to be increased thereafter. Mr. Howell reminded the Board and those in attendance at the meeting that previous presentations and analyses projected a pumpage fee or cost of water of \$1.80 per 1,000 gallons by 2010.

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 63,907 hits and that the most popular pages on the Web site were the June, 2003 issue of Waterlines and the Northeast Water Treatment Plant article. Ms. Payne thanked Mr. Murr of Harris County Municipal Utility District No. 18 for preparing the irrigation display and acknowledged Lowe's for donating a power saw as tonight's water conservation door prize.

Mr. David Schnitzer reported that the Water Users Advisory Group met on July 24, 2003, to discuss the proposed pumpage fee increase. Mr. Schnitzer encouraged the audience to notify other utility districts and citizens about the pumpage fee increase.

Director Pulliam reported that he and Mr. Rolan have organized a meeting with the utility district board representatives of single-member voting district no. 3 on September 17, 2003, at 7:00 p.m., at the offices of Northwest Harris County Municipal Utility District No. 22 located at 14003 Walters Road. Director Pulliam encouraged the other Board members to consider organizing similar meetings with their constituents.

Directors Fessler and Rendl then suggested that the opt-in fees received from the entities that recently requested inclusion in the Authority's Groundwater Reduction Plan be used to fund special water conservation projects. Mr. Taylor Broun of Northwest Harris County Municipal Utility District No. 10 inquired as to the amount of funds proposed to be used for such purpose. Director Fessler stated that the most recent three (3) petitioners are anticipated to pay approximately \$40,000 in fees to be included in the Authority. Mr. Broun noted that such amount would be a small amount

for water conservation projects. Director Rendl stated that he hoped that the Association of Water Board Directors - Texas (the "AWBD") would get involved at the State level regarding the requirements for water reuse/reclamation projects. Mr. Broun noted that some of the Authority's funds could be used to assist the AWBD in such efforts. Ms. Payne reported that Ms. Carol Baker of the Harris-Galveston Coastal Subsidence District had indicated that there is a great deal of activity regarding water reuse/reclamation issues in Austin currently. Ms. Payne also noted that the Authority's funds could assist with community educational projects. Director Pulliam asked if Mr. Bresnen could find out what is being discussed in Austin with regard to water reuse/reclamation issues. Mr. Schindewolf stated that he would talk with Mr. Bresnen concerning such matter. Ms. Bobbitt stated that more pressure is being put on the Texas Commission on Environmental Quality regarding the rules and regulations for water reuse/reclamation projects.

Mr. Broun then asked if a utility district located within the Authority would be charged an import fee if it imported gray water into the authority. Mr. Johnson responded that such issue was not considered at the time the import fee rules and regulations were being developed. Director Rendl commented that an import fee on reclaimed water would not be appropriate if the Authority wants to encourage water reuse. Director Fessler reported that he and Director Rendl had a discussion topic on the Online Forum page of the Authority's Web site and encouraged comments from the utility district community. Director Sigler added that the current water reuse/reclamation regulations were very complex and need to be revised. Ms. Payne noted that the greatest area of water misuse and waste is in irrigation and urged utility districts to educate their residents.

Mr. Colin Kinder of Harris County Municipal Utility District No. 202 commented that the Board just decided to increase the pumpage fee by 36% and that he was not in favor of the proposed use of the opt-in fees for water conservation projects.

GENERAL MANAGER'S REPORT

Mr. Schindewolf then reviewed the General Manager's Report with the Board, a copy of which is attached hereto. Mr. Schindewolf noted that the Engineer Manager's Report would include a comprehensive report regarding the status of consultant activities.

Mr. Schindewolf reported that he had received a draft of an Agreement for Joint Financing, Construction, and Maintenance of Surface Water Transmission Facilities by and between the Authority and the Central Harris County Users Consortium (the "CHCWUC") (the "Agreement") from Mr. Abraham Rubinsky of Schwartz, Page & Harding, L.L.P., attorneys for the CHCWUC. Mr. Schindewolf stated that he, Ms. Bobbitt, Mr. Johnson and Mr. Rolan are in the process of reviewing the proposed Agreement and will be meeting with representatives of the CHCWUC to discuss the proposed Agreement.

Mr. Schindewolf then noted that the Board meeting packet had included a schedule for the upcoming budget process for the fiscal year ending December 31, 2004, a copy of which is attached hereto.

Concerning financial matters, Mr. Schindewolf reported that the 2003 Senior Lien Revenue Bonds Working Group met on July 23, 2003 to discuss the upcoming bond sale and develop a Tentative Schedule of Events (the "Schedule"), a copy of which is attached hereto. Mr. Lamme then

reviewed the proposed Schedule with the Board. Mr. Lamme noted that the draft Preliminary Official Statement for the bond issue would be distributed to the Board prior to the September meeting.

Mr. Schindewolf then called on Mr. Breeding to report on the status of the right-of-way ("ROW")/easement acquisitions. Mr. Breeding reported that the ROW acquisition team had been following an ambitious schedule and were making progress on the easement acquisitions. Mr. Breeding stated that the ROW/easement acquisitions for Project 1C have had several title problems that are in the process of being resolved. Mr. Breeding added that the ROW acquisition team is currently on schedule with the ROW/easement acquisition process. Mr. Breeding reported that many of the landowners of the ROW/easement tracts were concerned about existing signage that is located on the proposed easements. Mr. Breeding explained that after review of the issue, the ROW acquisition team had made a determination to revise the easement documents to allow existing signage to stay in place, and the Authority will utilize a boring procedure under the existing signs to lay the waterlines.

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, ROW/easement acquisition consultants and other Authority consultants during the prior month.

Mr. Rolen next reported on the status of the 2010 Water Distribution and Transmission System, Phase 1 Groundwater Transfer Project. Mr. Rolen stated that the design engineering firms were working hard to complete the design work for the five (5) Groundwater Transfer Projects. Mr. Rolen reported that approximately 70% of the design plans have been completed for Project 1C, and noted that Project 1C is the priority project since it will be a major supply of water to districts that have water quantity and/or water quality problems.

Mr. Rolen next reported on recent meetings with material and pipe suppliers and noted that the City of Houston must approve the plans and specifications for all of the Authority's projects. Mr. Rolen also recommended that the Board authorize the General Manager to negotiate and enter into an Agreement for Professional Engineering Services for on-call engineering services with ARCADIS to design one or more of the Groundwater Transfer Projects.

Mr. Rolen further reported that the Authority and the West Harris County Regional Water Authority (the "WHCRWA") continue to work with Harris County (the "County") officials regarding the use of the County's road and drainage ROWs for the Groundwater Transfer Projects and 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) Groundwater Transfer Projects. Mr. Rolen expressed his thanks to Mr. Ahrens, engineer for the WHCRWA, for his cooperation to resolve the ROW issues with the County.

ATTORNEY'S REPORT

Ms. Bobbitt reported that certain changes were made in the Election Code during the recent 78th Legislative Session, and explained that the Authority's February 7, 2004 Directors Election would now need to be called 62 days prior to the date of such election. A copy of the Directors Election Schedule is attached hereto. Ms. Bobbitt added that the Authority would need to enter into an Election Services Agreement with the County to conduct the Directors Election, and recommended that the General Manager be authorized to negotiate such agreement with the County.

Ms. Bobbitt then reported that she did not have any new information regarding the status of the pending litigation against Consumers Water Corporation and Suburban Utility Company.

Mr. Johnson reported that 30 days had now passed since the bond validation suit judgment was signed and that such judgment is now final.

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 there were three (3) items on the Consent Agenda, including: 1) approval of the minutes of the regular meeting of July 7, 2003; 2) adoption of an Amended Order Establishing Well Pumpage Fees and Water Importation Fees for Fiscal Year Ending December 31, 2003 and Adopting Rules and Regulations Concerning Measuring Well Pumpage and Water Importation and Collecting Fees; and 3) adoption of an Order Establishing Well Pumpage Fees and Water Importation Fees for Fiscal Year Ending December 31, 2004 and Adopting Rules and Regulations Concerning Measuring Well Pumpage and Water Importation and Collecting Fees. 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 Consent Agenda items, as outlined above. Copies of the Pumpage Fee Orders are attached hereto.

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 June 30, 2003, a copy of which is attached hereto. Ms. Plunkett stated that the budget comparison for six (6) months reflects that the Authority is approximately \$3.5 million under budget for the current fiscal year. Upon motion by Director Fessler, 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.

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 there are now a total of 25 districts that intend to make

capital contributions, and that 20 of the Capital Contribution Contracts have been finalized and executed.

Ms. Plunkett then reported that the Board meeting packet had included a memorandum from her and Mr. Schindewolf, a copy of which is attached hereto, requesting Board approval for the establishment of a Bond Anticipation Note, Series 2003 note payment account, note proceeds account and capital contributions account at Bank of America in connection with the Senior Lien Revenue Bonds, Series 2003. Ms. Plunkett also stated that in response to a comment made at last month's Board meeting, Mr. Howell had reviewed the Authority's investments and had recommended some diversification of the investments. Ms. Plunkett then requested Board authorization to open additional investment accounts to invest the Authority's funds in TexPool, Tex STAR and TexPool Prime. 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 authorize Ms. Plunkett to open the new accounts at Bank of America and authorize the opening of additional investment accounts in TexPool, TexSTAR and TexPool Prime.

ADOPT RESOLUTION ADOPTING AMENDED AND RESTATED PROCEDURAL RULES

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 Adopting Amended and Restated Procedural Rules for the Authority, a copy of which is attached hereto.

GENERAL MANAGER'S ACTION ITEMS

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 authorize the General Manager to negotiate and enter into an Election Services Agreement with the County regarding the February 7, 2004 Directors Election.

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 an Agreement for Professional Engineering Services for on-call engineering services with ARCADIS, a copy of which is attached hereto.

NEXT MEETING

Mr. Schindewolf then confirmed that the next regular meeting of the Authority would be held on Monday, September 8, 2003, at 7:00 p.m. at the Authority's offices.

PUBLIC COMMENTS

Mr. Murr asked if Ms. Payne could post educational materials concerning water conservation on the Authority's Web site that could be disseminated to the utility districts. Ms. Payne responded that she would place such information on the Web site.

Ms. Gloria Malek of Northwest Harris County No. 10 asked what the width of the Authority's waterline easements will be. Mr. Rolan responded that the easements are 20 feet wide.

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

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

/s/Kelly Fessler

Secretary, Board of Directors

(SEAL)

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