

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 special session, open to the public, at 6:00 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., 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.

PUBLIC HEARING

Director Graham announced that the purpose of the special meeting was to conduct a public hearing on the proposed pumpage fee increase, in accordance with the provisions of Section 4.03 of H.B. 2965, for the fourth quarter of 2003 and for the 2004 fiscal year. Director Graham then recognized Mr. Howell, who recommended 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 reported that the increased pumpage fee will generate approximately \$8 million of revenue. 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. Schindewolf noted that at the Water Users Advisory Group (the "WUAG") meeting, the question was asked why the Authority needed to increase the pumpage fee with \$9 million in the bank. Mr. Howell explained that the Authority must have an adequate reserve fund in place for the upcoming bond issue, and noted that the pumpage fee increase had been planned to provide for the payment of the debt service on the bonds to be issued by the Authority.

Director Fessler then asked for clarification about how the Authority's bond issue is different from traditional utility district bond issues. Mr. Howell explained that the Authority's water revenue bonds will be backed by the Authority's pumpage fees and water sale revenues, and not by ad valorem taxes as is the case with most utility district bonds. The Board then questioned how long the \$0.34 pumpage fee would be sufficient to service the Authority's debt. Mr. Howell responded 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. Director Pulliam interjected that there was discussion at the WUAG meeting that utility districts should amend their Rate Orders to include language that tracks whatever the Authority's pumpage fee is at a given time to avoid having to amend the Rate Orders each time there is an increase in the Authority's pumpage fee. The Board then reiterated their commitment to keep the pumpage fee as low as possible to cover the Authority's costs. Mr. Howell concluded his remarks by stating that he was very comfortable with the recommended pumpage fee increase and how it works in the overall financial plan for the Authority.

PUBLIC COMMENTS

Mr. Roy Lackey of Harris County Municipal Utility District No. 368 stated that Mr. Howell's presentation seems to make the pumpage fee increase appear to be necessary. Mr. Lackey requested that in the future, the Board give the utility district community more advance notice of increases in the pumpage fee.

Mr. Colin Kinder of Harris County Municipal Utility District No. 202 commented that the proposed increase of \$0.09 in the pumpage fee represents an increase of 36% in the pumpage fee and urged Representative Riddle to work on tax relief for her constituents.

Mr. Ray Zobel of Malcomson Road Utility District stated that he did not anticipate any comments from the residents of his district concerning the pumpage fee increase.

There being no further business to come before the Board, the meeting was adjourned at 6:35 p.m.

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

/s/Kelly Fessler

Secretary, Board of Directors

(SEAL)

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