

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
December 6, 2004

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 6:45 p.m. (meeting was started late due to a power outage in the meeting building) on the 6th day of December, 2004, at the Authority's office located 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:

James D. Pulliam	President
Ron Graham	Vice President
Kelly P. Fessler	Secretary
Alan J. Rendl	Treasurer
Lenox A. Sigler	Assistant Secretary

All members of the Board were present, thus constituting a quorum. Also attending the meeting were: Mrs. Kelly Fessler; Mr. Jimmie Schindewolf, P.E., General Manager for the Authority; Mr. Anthony Crisci, P.E., Construction Coordinator 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; Messrs. Tom Rolen, P.E. and Curtis Villarreal, P.E. of Turner Collie & Braden Inc. ("TC&B"), Engineer Manager for the Authority; Ms. Nancy Blackwell, P.E. of AEI Engineering, Inc., on-call engineers for the Authority; Mr. Larry Barfield, P.E. of Binkley & Barfield, Inc., on-call engineers 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. W. John Seifert, Jr., P.E. of LBG-Guyton Associates, on-call engineers for the Authority; Mr. Timothy Talaga, P.E. of Jones & Carter, Inc., on-call engineers for the Authority; Mr. Steve Ratcliffe, P.E. of Klotz Associates, Inc., on-call engineers for the Authority; Mr. Brian Cunningham of Project Surveillance, a subcontractor to TC&B and project representative for Projects 1A and 1C; Mr. Mark Breeding of Andrews & Kurth L.L.P., right-of-way ("ROW")/easement acquisition attorneys for the Authority; Mr. Bill Fendley of Cobb Fendley & Associates, Inc., ROW/easement acquisition consultants to the Authority; Mr. John Howell of The GMS Group, L.L.C., financial advisors to the Authority; Mr. Gene Shepherd of RBC Dain Rauscher Inc., financial advisors to the Authority; Mr. Jason King, staff writer for The Houston Chronicle; Ms. Kentesheia L. Dockery, staff writer for The 1960 Sun; and Ms. Robin S. Bobbitt and Mr. Andrew P. Johnson, attorneys, and Ms. Brooke T. Dold, paralegal, of Johnson Radcliffe Petrov & Bobbitt PLLC, general counsel for the Authority. Numerous members of the public and other consultants to the Authority 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

Mr. Schindewolf announced that the purpose of the special meeting was to conduct a public hearing on the proposed pumpage fee for the 2005 fiscal year and the first and second quarters of the 2006 fiscal year and to receive public comments on the proposed increase.

Mr. Johnson then entered the meeting at 6:48 p.m.

Mr. Rolen, aided by a PowerPoint presentation, outlined the reasons for the proposed increase from \$0.34 per 1,000 gallons of water pumped to \$0.59 per 1,000 gallons of water pumped, effective April 1, 2005 through June 30, 2006. A copy of the presentation is attached hereto. Mr. Rolen stated that the reasons for the increase are threefold: 1) allow implementation of the Authority's 2005-2006 Capital Improvement Plan (the "CIP"); 2) enable the Authority to issue the Series 2005 Bonds; and 3) satisfy requirements of the Authority's existing bond covenants. Mr. Rolen went on to explain that the Authority has an unanticipated opportunity to build a major portion of its 2010 transmission line ahead of schedule by participating in the City of Houston's (the "City") Greens Road Water Line Project, which will result in a significant cost savings to the Authority. In addition, Mr. Rolen noted that the CIP provided for the acquisition of the necessary easements for the 2010 transmission system, as well as the purchase of five (5) sites for regional water plants and pump stations. Mr. Rolen stated that the engineers were also working to identify the corridor for the primary 2020 transmission system.

Mr. Schindewolf then reported that he had been working with Mr. Howell, Mr. Shepherd, Ms. Plunkett, and Mr. Rolen to determine the size of the Authority's next bond issue. Mr. Howell next reviewed a preliminary summary of project costs to be included in the proposed \$105,200,000 Series 2005 Bonds, a copy of which is attached hereto. Mr. Howell noted that the proposed interest rate on the Series 2005 Bonds would be in the range of 4.85 % to 5.00%, and that he did not think it would be necessary to issue bond anticipation notes prior to the sale of the Series 2005 Bonds. Mr. Howell then reviewed a Tentative Schedule of Events, a copy of which is attached hereto, concerning the Authority's second bond issue and noted that funding was projected to occur on May 18, 2005.

Director Sigler then entered the meeting at 6:54 p.m.

Mr. Howell explained that the \$0.25 increase in the pumpage fee is projected to generate an additional \$5.75 million a year in revenue, which will be used to pay the debt service on the first and second bond issue and allow the Authority to build cash reserves. Mr. Howell noted that the proposed rate increase is consistent with the Authority's effort to keep the pumpage fees as low as possible for as long as possible. Mr. Howell stated that by building the Authority's cash reserves, the pumpage fee can be approximately \$0.72 lower than a traditional rate order would require while the water transmission system is being developed. Mr. Howell reminded the Board that the Authority's Pricing Policy calls for a pumpage fee of \$1.80 per 1,000 gallons in 2010, which is still what is planned. Concerning the impact on homeowners, Mr. Howell stated that a household using 10,000 gallons of water per month would pay approximately \$2.50 per month more or 8 $\frac{1}{3}$ cents per day.

Mr. Schindewolf added that moving forward with the CIP allows the Authority to build the major infrastructure that is needed to supply surface water and avoids paying the Harris-Galveston Coastal Subsidence District's disincentive penalties that have been increased to \$3.50 per 1,000 gallons, effective January 1, 2005.

Mr. Breeding then entered the meeting at 7:00 p.m.

Director Rendl then pointed out that a continued increase in the pumpage fee has been anticipated from the outset. Director Rendl added that the Authority has tried to maintain the lowest possible pumpage fee for as long as possible. Director Rendl stated that the Authority's participation with the City in the construction of the Greens Road Water Line Project would save the Authority \$10 to \$12 million and benefit both the Authority and the City.

Mr. Schindewolf then concluded the presentation on the proposed pumpage fee increase. Director Pulliam commended Mr. Schindewolf and his staff on a job well done.

PUBLIC COMMENTS

Mr. Garey Nelson of Bammel Utility District stated that he would like to know how many pumpage fee increases are expected between now and 2010. Mr. Schindewolf explained that the financial advisors and Ms. Plunkett are still working on projections for the third bond issue and noted that there are a number of factors that can come into play and affect any projections that are made. Mr. Nelson stated that the utility districts need to have as much advance warning as possible of increases in the pumpage fees. Director Rendl suggested that the Authority prepare a pamphlet of frequently asked questions concerning the Authority and the pumpage fees to make available to the utility districts and their customers.

Mr. Bob Bell of Fountainhead Municipal Utility District asked why the bond issues are structured with two (2) years capitalized interest. Mr. Howell explained that the capitalized interest would defer additional increases in the pumpage fee and defers interest payments on the bond until the Authority begins taking surface water in 2010.

Mr. Lance Stahl with HMW Special Utility District asked how much advance notice Director Rendl needed to attend a utility district meeting. Director Rendl responded that a week's notice would be adequate.

Mr. Garry Matocha of Louetta Road Utility District asked why the utility districts have not been given more notice of the pumpage fee increase. Director Rendl noted that the CIP was approved at the November 1, 2004 meeting with the clear understanding that an increase in the pumpage fee would be required. Director Fessler added that the concept of participating in the Greens Road Water Line Project came up late in the year, and the Board had to postpone the approval of the 2005 Budget and CIP until the feasibility of the project was determined due to the potential financial impact on the budget and CIP.

Mr. Nelson then stated that the utility districts run on small budgets and need to be given as much advanced notice as possible of the pumpage fee increases. Director Rendl then reiterated that the increase in the pumpage fee is effective April 1, 2005 and not immediately. Mr. Nelson stated

that he thought the pumpage fee increase was effective January 1st due to the way the item is reflected on the agenda.

There being no further business to come before the Board, the hearing was adjourned at 7:23 p.m.

PASSED, APPROVED AND ADOPTED this 10th day of January, 2005.

/s/Kelly P. Fessler

Secretary, Board of Directors

(SEAL)

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