

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

November 15, 2006

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 Wednesday, the 15th day of November, 2006, 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:

Alan J. Rendl	-	President
Kelly Fessler	-	Vice President
Lenox A. Sigler	-	Secretary
Jim Pulliam	-	Treasurer
Ron Graham	-	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; Mr. Anthony Crisci, P.E., Construction Coordinator for the Authority; Mr. Showri Nandagiri, P.E., Engineering Coordinator for the Authority; Mr. Paul Nelson, Planning and GIS 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; Mr. Tom Rolen, P.E. of Turner Collie & Braden Inc., Program Manager for the Authority; Mr. John Howell of The GMS Group, L.L.C., financial advisor for the Authority; Mr. Larry Barfield, P.E. of Binkley & Barfield, Inc., on-call engineers for the Authority; Mr. Charles Shumate, P.E. of Brown & Gay Engineers, Inc., on-call engineers for the Authority; and Ms. Robin S. Bobbitt, attorney, and Ms. Brooke T. Dold, paralegal, of Johnson Radcliffe Petrov & Bobbitt PLLC, general counsel and co-bond counsel 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.

REVIEW OF PROPOSED BUDGET FOR THE FISCAL YEAR ENDING DECEMBER 31, 2007

Mr. Schindewolf reported that the draft budget was developed by the Authority staff members working with various representatives of the Authority's consultant team. Mr. Schindewolf stated that the goal was to develop a fiscally sound budget that was at the same time comprehensive enough to continue to properly implement and accomplish the Authority's aggressive Capital Improvement Plan.

Mr. Schindewolf then called on Ms. Plunkett to present an overview of the proposed operating budget for the fiscal year ending December 31, 2007 (the "2007 Budget"), including the Operating Budget Planning Report and the various expense items included in the 2007

Budget. A complete copy of the budget workshop packet, previously distributed to the Board, is attached hereto.

Ms. Plunkett then asked Ms. Payne to review the Communication Services expense portion of the 2007 Budget. Ms. Payne noted that thanks to the generosity of numerous sponsors, the Authority has been able to reduce the Water Conservation/Education budget. Ms. Payne also noted that "NE Water Plant Exhibit" is a new item under the Water Conservation/Education expense line item and explained that the Authority will have the opportunity to create an exhibit at the City of Houston's Northeast Water Purification Plant.

Ms. Plunkett next reviewed the Management Services expense portion of the 2007 Budget. Mr. Schindewolf noted that the proposed 2007 Budget carries over the expense for adding two (2) Authority staff positions, including an Accounting Clerk and an Operations and Maintenance Coordinator, that were approved in the budget for the fiscal year ending December 31, 2006. Mr. Schindewolf added that a 4.7% cost of living increase for Authority employees is also included in the 2007 Budget.

Mr. Howell next explained that the Authority's favorable bond ratings from the various rating agencies have been due to the cash reserves that have been maintained by the Authority and that, if the cash reserves were not in place, a significantly higher pumpage fee would be needed. Mr. Howell added that the large cash reserves enable the Authority to keep the current pumpage fees as low as possible, which has been the desire of the Authority's constituents. Mr. Howell explained that the Authority will need to continue to build the cash reserves, due to the fact that additional debt will be required to be issued to fund the costs for the remaining portions of the 2010 surface water distribution system. Mr. Howell stated that the Authority will likely be doing the next round of bond financing for the 2010 system in late 2007 or early 2008.

PUBLIC COMMENT

Mr. Schindewolf then invited comments from the public concerning the proposed 2007 Budget. Mr. Nicholas Fava of Bammel Utility District inquired as to whether a copy of the draft budget will be available to the public. Ms. Plunkett responded that the draft 2007 Budget is not available to the public, but that the approved 2007 Budget will be posted on the Authority's website.

Director Graham then asked for an explanation of the revenues from the sale of water to districts and the Authority's expense for buying water from districts as it appeared that the Authority was losing money on the Groundwater Transfer Program ("GTP"). Mr. Rolan explained that it looked that way because the pumpage fees paid by the GTP Sellers (collectively the "Fees") on the water they sell the Authority is not broken out separately, but rather is included in the Pumping Fee Revenue. Mr. Rolan stated that if the Fees were broken out separately, it would demonstrate that revenue from the GTP slightly exceeds the GTP expenses. Director Rendl stated that if the Authority had not developed the Buy/Sell program, the Authority would likely not have as much of the 2010 surface water distribution system already in place. Director Rendl noted that the Buy/Sell program will prove to be very favorable to the Authority. Mr. Rolan added that the Authority is not losing money with the Buy/Sell program.

REVIEW OF THE PROPOSED 2007-2008 CAPITAL IMPROVEMENT PLAN ("2007-2008 CIP")

Mr. Schindewolf then called on Mr. Rolen to review the draft 2007-2008 CIP. A copy of Mr. Rolen's PowerPoint presentation and a copy of the draft 2007-2008 CIP are attached hereto. Mr. Rolen noted that the draft 2007-2008 CIP is the fourth (4th) capital improvement plan to be adopted by the Board since 2003, and continues the systematic planning and development process for implementing the Authority's Groundwater Reduction Plan (the "GRP"), which was initiated in 2003. Mr. Rolen went on to explain that the 2007-2008 CIP outlines and initiates a broad-based program to provide the remainder of the infrastructure necessary to allow the conversion to surface water in 2010, as set forth in the Authority's GRP, and provides for the procurement of sites/easements for several of the key infrastructure components needed to implement the GRP in 2020.

Mr. Rolen next explained that it will cost approximately \$222.7 million to implement the 2007-2008 CIP, approximately \$64.5 million of which will be funded with the proceeds of the Authority's Series 2003 and Series 2005 Senior Lien Revenue Bonds, from capital contributions received from the utility districts, and with accrued interest on such funds. Mr. Rolen went on to explain that the remaining \$158.2 million is proposed to be funded with the issuance of future bond anticipation notes and/or future bond sales.

Mr. Rolen then gave an overview of the highlights of the 2007-2008 CIP, Mr. Rolen concluded his presentation, noting three (3) considerations which need to be kept in mind with regard to the 2007-2008 CIP, including: 1) not all projects have been totally defined at this point and as a result, cost estimates are based on the best information that is currently available; 2) real estate and construction costs are influenced by variables over which the Authority has no control; and 3) the Authority may encounter unexpected costs in the implementation of the 2007-2008 CIP, and a contingency item is the most practical way to attempt to address the issue which is included in the 2007-2008 CIP.

Director Pulliam then noted that he did not see any funds associated with the 2020 distribution system. Mr. Rolen responded that there is funding for the acquisition of the sites for the 2020 regional water plants and pump stations and an initial downpayment toward the purchase of the easements for the major 2020 transmission line. Mr. Rolen added that it is premature at this time to secure easements for the 2020 distribution lines.

Director Fessler then asked to what extent it is anticipated that the Authority will participate in water reuse projects. Mr. Rolen explained that it is not contemplated that the Authority will be taking the lead in water reuse initiatives, but will assist districts with water reuse issues and possibly participate in a pilot water reuse project. Mr. Rolen noted that the \$284,000 reflected in the 2007-2008 CIP was a loosely estimated amount.

Mr. Rolen then noted that Appendix B of the 2007-2008 CIP includes all of the project detail information for the 2007-2008 CIP. Mr. Rolen then responded to further questions from the Board concerning the 2007-2008 CIP.

Mr. Schindewolf again invited public comments on the 2007-2008 CIP and the 2007 Budget. Mr. Colin Kinder of Harris County Municipal Utility District No. 202 asked why utility districts had to shut down water wells, but the Authority plans to construct new wells. Mr. Rolan stated that it was not the intent for districts to totally shut down their wells. Mr. Rolan explained that the Authority will be purchasing a finite amount of water from the City of Houston (the "City"), because it is not economically practicable nor necessary at this time to buy enough water to satisfy 100% of the water needs for all districts to be provided surface water in 2010. However, the Authority will purchase or construct several regional water wells to make up the difference between the amount of water purchased from the City and what is needed to provide additional water, i.e., peak day flow, for those districts which will rely on the Authority to provide that capacity starting in 2010. Additionally, Mr. Rolan noted that they would be interviewing the district engineers for the districts which are scheduled to receive surface water in 2010 to determine how many regional wells would be required. Mr. Schindewolf noted that the Authority must strategically locate its regional wells to insure the most efficient operation of the 2010 system. Mr. Rolan further explained that if the Authority purchased water from the City to meet the peak day flows for all the districts to be served in 2010, the Authority would need to spend a great deal of money building larger Authority transmission lines and buying additional capacity from the City. Mr. Rolan also noted that some districts have indicated that they plan to shut down their arsenic producing wells and will require 100% surface water from the Authority to satisfy the water supply needs starting in 2010.

DISCUSSION OF PROPOSED PUMPAGE FEE INCREASE

Mr. Schindewolf then reported that he, Mr. Howell, Ms. Plunkett and Mr. Rolan have been working to determine the proposed pumpage fee beginning with the fourth (4th) quarter of 2007. Mr. Schindewolf stated that it is the consensus of the group that the current pumpage fee of \$0.84 per 1,000 gallons should be increased to \$0.99 per 1,000 gallons effective October 1, 2007. Mr. Schindewolf stated that it is hoped that such rate can remain in effect until the Authority begins delivery of surface water some time in the latter part of 2009, at which time the cost of surface water will be \$1.80 per 1,000 gallons. Mr. Schindewolf further noted that there are circumstances and/or opportunities that could arise between now and then that would cause the Authority to revisit the pumpage fee issue. Mr. Howell noted that the \$0.99 per 1,000 gallons pumpage fee will result in an increase of \$1.50 per month to a household using 10,000 gallons of water per month. Mr. Howell added that the \$0.15 increase in the pumpage fee will generate an additional \$3.45 million a year in revenue, which will pay debt service on the Authority's outstanding bonds and allow the Authority to continue to build its cash reserves. Mr. Schindewolf noted that the proposed pumpage rate is consistent with the Authority's effort to keep the pumpage fees as low as possible for as long as possible.

Mr. Schindewolf explained that the 2007 Budget and the 2007-2008 CIP would be presented for approval at the Board's December 4, 2006 meeting following a public hearing on the 2007 Budget and pumpage fees at 6:00 p.m.

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

PASSED, APPROVED AND ADOPTED this 4th day of December, 2006.

Larry A Sigler

Secretary, Board of Directors



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