

MINUTES OF MEETING OF THE  
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

November 14, 2007

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 14<sup>th</sup> day of November, 2007, 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:

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

All members of the Board were present, except Director Fessler, thus constituting a quorum. Also attending the meeting were: Mr. Jimmie Schindewolf, P.E., General Manager 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 TCB INC., Program Manager for the Authority; Mr. John Howell of The GMS Group, L.L.C., financial advisor for the Authority; Mr. Gene Shepherd of RBC Dain Rauscher Inc., financial advisor for the Authority; Mr. Larry Barfield, P.E. of Binkley & Barfield, Inc., on-call engineers for the Authority; Ms. Melinda Silva 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, 2008 (THE "2008 BUDGET")

Mr. Schindewolf first explained 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 2008 Budget, including the Operating Budget Planning Report and the various expense items

included in the 2008 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 2008 Budget. Ms. Payne noted that thanks to the generosity of numerous sponsors, the Authority has been able to reduce the Communication Services budget by four percent (4%). Ms. Payne noted that the Authority and the West Harris County Regional Authority (the "WHCRWA") are combining resources to split the cost for an educational consultant for the development of water conservation/education curriculum.

Mr. Nicholas Fava of Bammel Utility District ("Bammel") asked that the total budget amounts be announced aloud during the presentation for the benefit of the audience due to the small print on the display screen.

Ms. Payne next explained that the Authority is considering co-sponsorship of a water fair in May, 2008 with the Alliance for Water Efficiency and the Texas Water Foundation.

Director Graham then asked when the next issue of the Waterlines would be ready for distribution. Ms. Payne responded that all but one (1) page of the Fall issue has been completed. Ms. Payne noted that between 135,000 and 145,000 copies of Waterlines will be mailed to residents within the Authority at the end of November.

Concerning Legal Services, Mr. Schindewolf noted that a \$100,000 line item for potential litigation expenses had been added to the 2008 Budget. Mr. Schindewolf explained that the line item was added due to the Project 10B construction accident matter.

Ms. Plunkett next reviewed the Management Services expense portion of the 2008 Budget. Mr. Schindewolf noted that the proposed 2008 Budget includes adding two (2) Authority staff positions, an Accounting Clerk and an Operations and Maintenance Coordinator, which are also included in the budget for the fiscal year ending December 31, 2007. Mr. Schindewolf added that a three percent (3%) cost of living increase for Authority employees is also included in the 2008 Budget.

Concerning the review of the Miscellaneous Services included in the 2008 Budget, Mr. Schindewolf reported that he and Ms. Bobbitt had met with Ms. Robyn German, an election consultant, earlier this afternoon to discuss the upcoming May 10, 2008 Director Election. Mr. Schindewolf explained that based on such meeting, he recommends increasing the election expense line item from \$100,000 to \$150,000.

Ms. Plunkett next reviewed the Summary Report for the 2008 Budget. Ms. Plunkett explained that the total projected revenues for the 2008 Budget are \$26,549,200, that the total projected expenses for 2008 Budget are \$17,808,724, and that the projected ending funding balance for the 2008 Budget is \$52,452,508. Ms. Plunkett explained that a high cash reserve is maintained in order for the Authority to obtain favorable bond ratings from the various rating agencies and to keep the Authority's pumpage fees as low as possible, which has always been the desire of the Authority's constituents.

Director Graham then inquired what the utilities line item under Management Services includes. Ms. Plunkett responded that such line item is for cable service for the Authority's office.

#### REVIEW OF PROPOSED 2008-2009 CAPITAL IMPROVEMENT PLAN ("2008-2009 CIP")

Mr. Schindewolf noted that the proposed 2008-2009 CIP is the fifth (5<sup>th</sup>) 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. Schindewolf then called on Mr. Rolan to review the proposed 2008-2009 CIP. A copy of Mr. Rolan's PowerPoint presentation and a copy of the proposed 2008-2009 CIP are attached hereto. Mr. Rolan explained that the 2008-2009 CIP's primary focus is to: 1) timely provide the remainder of the infrastructure necessary to deliver surface water in 2010; and 2) procure sites/easements for several of the key infrastructure components needed to implement the next phase of the GRP in 2020.

Mr. Rolan then gave an overview of the highlights of the 2008-2009 CIP. Mr. Rolan noted that this year, the CIP includes a payment of the final component of the capital cost for the 31 million gallons per day ("MGD") allocation of water from the City of Houston (the "City") and funds to increase the Authority's water allocation up to 36 MGD. Mr. Rolan reported that the 2008-2009 CIP also includes costs for additional infrastructure in order to expand the 2010 conversion area. Mr. Rolan next noted the following considerations which need to be kept in mind with regard to the 2008-2009 CIP: 1) several of the projects are still under design, thus the possibility that unexpected conditions could impact cost; 2) cost estimates are based on the best information that is currently available; 3) real estate and construction costs are influenced by variables over which the Authority has no control; and 4) the Authority may encounter unexpected costs in the implementation of the 2008-2009 CIP and provision of contingency funds is the most practical way to attempt to address the issue and noted that a contingency amount has been included in the 2008-2009 CIP.

Mr. Rolan next explained that it will cost approximately \$233.6 million to implement the 2008-2009 CIP, approximately \$29.6 million of which will be funded with the proceeds of the Authority's Series 2003 and Series 2005 Senior Lien Revenue Bonds, capital contributions received from utility districts, and with accrued interest on such funds. Mr. Rolan went on to explain that the remaining \$204.0 million is proposed to be funded with the issuance of future bond anticipation notes and/or future bond sales.

Director Rendl then asked if there is any possibility that the Authority will be called upon to make payments on the proposed Luce Bayou project. Mr. Rolan responded that the City has had numerous meetings with the Authority, WHCRWA and North Fort Bend Regional Water Authority, but that at this time, he was not aware of any additional funds due from the Authority.

Mr. Schindewolf then invited questions from the public on the 2008-2009 CIP and the 2008 Budget.

Someone in the audience asked why the SCADA system remains on the 2008 Budget. Mr. Rolan explained that the budget item is for an expansion of the SCADA system.

Ms. Linn Smyth of Cypress Forest Public Utility District then asked what amount of surface water the Authority has purchased from the City. Mr. Rolen responded that the Authority has purchased 31 MGD of surface water from the City and is looking at possibly purchasing an additional 5 MGD.

### PUMPAGE FEES

Mr. Schindewolf then reviewed his memorandum regarding the Authority's pumpage fees, a copy of which is attached hereto. Mr. Schindewolf explained that the pumpage fee was increased from \$0.84/1,000 gallons to \$0.99/1,000 gallons effective for the period beginning October 1, 2007 through September 30, 2008. Mr. Schindewolf added that he has been working with Mr. Howell, Mr. Rolen and Ms. Plunkett to determine what the pumpage fee should be beginning October 1, 2008. Mr. Schindewolf stated that it is the consensus of the group that the Authority should wait until the summer of 2008 to further review and address the pumpage fee amount.

### PUBLIC COMMENTS

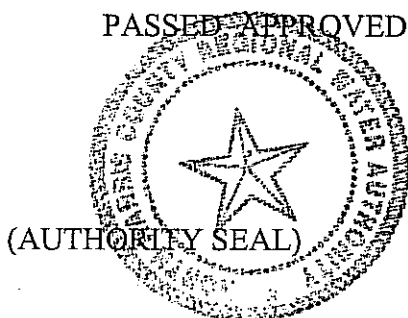
Mr. Alan Kaniss of Bammel then commented that it seems like the budget is presented in a format that makes the Authority look good. Mr. Kaniss noted that Ms. Plunkett reports each month that the Authority is operating under budget and, therefore, it appears the Authority could reduce the overall budget amount. Mr. Kaniss also asked why there is \$43 million in the Authority's bank accounts. Director Rendl stated that each year, the consultants and staff are honing down and refining the Authority's expenses and getting closer to budgeting what is actually needed. Mr. Schindewolf pointed out that the Authority does not spend money in the budget if they do not need to and added that the consultants and staff try to estimate the revenues and expenses as close as possible.

An audience member then asked if the drafts of the 2008 Budget and the 2008-2009 CIP will be posted on the Authority's website. Mr. Schindewolf responded that the drafts would not be posted, but that the final 2008 Budget and 2008-2009 CIP would be posted on the website.

Mr. Schindewolf then explained that the 2008 Budget and the 2008-2009 CIP would be presented for approval at the Board's December 3, 2007 meeting following a public hearing on the 2008 Budget and the 2008-2009 CIP at 6:00 p.m.

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

PASSED ~~AND~~ APPROVED AND ADOPTED this 3<sup>rd</sup> day of December, 2007.



  
Secretary, Board of Directors