

MINUTES OF MEETING OF THE  
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY  
July 7, 2008

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 7<sup>th</sup> day of July, 2008, 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:

Kelly P. Fessler	President
James D. Pulliam	Vice President/Investment Officer
Ron Graham	Secretary
Lenox A. Sigler	Treasurer
Alan J. Rendl	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. Paul Nelson, Planning and GIS Coordinator for the Authority; Mr. Anthony Crisci, P.E., Construction Coordinator for the Authority; Mr. Showri Nandagiri, P.E., Engineering 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. Gene Shepherd and Duncan Lamme of RBC Capital Markets Corporation, financial advisors for the Authority; Mr. John Howell of The GMS Group, L.L.C., financial advisors for the Authority; Messrs. Tom Rolen, P.E., Steve Berckenhoff, P.E. and Doug Schmidt, P.E. of TCB INC. ("TCB"), Program Manager for the Authority; Mr. Wayne Ahrens, P.E. of Dannenbaum Engineering Corporation, on-call engineers for the Authority; Mr. Kyle Bertrand of CLR, Inc., on-call engineers for the Authority; Mr. John Nelson, P.E. of LBG-Guyton Associates, on-call engineers for the Authority; Mr. Dave Scholler of Brown & Gay Engineers, Inc., on-call engineers for the Authority; Mr. Larry Barfield, P.E. of Binkley & Barfield, Inc., on-call engineers for the Authority; Mr. Tom Matkin, P.E. of AEI Engineering, Inc., on-call engineers for the Authority; Mr. Brian Cunningham of Project Surveillance, Inc., a subcontractor to TCB and project representative on several Authority projects; Mr. Buddy Barnes, P.E. of Jacobs Carter Burgess, on-call engineers for the Authority; Mr. R. Gary Montgomery of Montgomery & Associates, LLC, on-call engineers for the Authority; Mr. Michael G. Bartolotta of First Southwest Company, co-senior managing underwriter for the Authority in connection with the Authority's Senior Lien Revenue Bonds, Series 2008 (the "Series 2008 Bonds"); Mr. Jerry Kyle and Ms. Kelly Kenyon of Andrews Kurth LLP ("Andrews Kurth"), co-bond counsel for the Authority; Mr. Ralph Cox, P.E. of Klotz Associates, Inc., on-call engineers for the Authority; Messrs. Rick Liesse, P.E. and Mark Wells, P.E. of Raba-Kistner Consultants, Inc. ("Raba-Kistner"); Mr. Gary Cannon of Severn Trent Environmental Services, Inc. ("STES"), operators for the Authority; Ms. Jana Cogburn of Fulbright & Jaworski LLP, underwriter's counsel for the Authority's Series 2008 Bonds; Ms. Valerie Jones, reporter for the 1960 Sun; 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. Numerous members of the

public and other consultants to the Authority were also present at the meeting. Copies of the sign-in sheets for those in attendance at the meeting are 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.

### MESSAGE FROM THE PRESIDENT

Director Fessler presented a gift of appreciation to Director Pulliam for his service as President during the past year.

### PUBLIC COMMENTS

Mr. Schindewolf next noted that a blue public comment card had been submitted by Mr. Jim Hetzel, P.E. of Koehn & Associates Engineers, Inc., a copy of which is attached hereto. Mr. Schindewolf then read Mr. Hetzel's question, as follows: "Does the Water Authority have a budget to complete the 2010, 2020 and 2030 groundwater transmission facilities?" Mr. Schindewolf responded that the Authority filed its Groundwater Reduction Plan with the Harris-Galveston Subsidence District in 2003 and amendment no. 1 in 2004, and is moving forward with constructing the necessary facilities to meet the 2010 conversion requirements. Mr. Schindewolf added that the Authority has budgeted for the 2010 facility costs and is preparing preliminary budget numbers for the 2020 and 2030 facilities.

### REPORTS

#### STATUS OF ACTIVITIES BY COMMUNICATIONS/PUBLIC INFORMATION COORDINATOR

A copy of Ms. Payne's PowerPoint presentation for the meeting is attached hereto.

Ms. Payne first provided a report of the activity on the Authority's website during the month of June. Ms. Payne further reported that during the past month, there had been 72,689 hits on the Authority's website.

Concerning community outreach, Ms. Payne reported that Director Rendl will speak at the Houston Northwest Chamber of Commerce general membership luncheon on July 10<sup>th</sup>.

Ms. Payne went on to report that the Mobile Teaching Lab is in the process of being refurbished for the 2008/2009 school year. Ms. Payne further reported that she is preparing for the Cy-Fair Independent School District ("ISD") and Klein ISD summer teaching workshops.

Ms. Payne then announced that the sequel book to Journey to Pansophigus is in final draft and will be ready for use in sixth (6<sup>th</sup>) grade classes this fall. Ms. Payne noted that the sequel book's focus is on stormwater pollution/source water protection.

Director Rendl then thanked Ms. Payne for her much appreciated writings for his outreach presentations.

#### 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 reported that he did not have any new information to report regarding the Luce Bayou Interbasin Transfer Project this month.

#### STATUS OF RIGHT-OF-WAY ("ROW")/EASEMENT ACQUISITIONS

Mr. Schindewolf then reported that he would give the status report on the various ROW/easement acquisitions by the Authority in the absence of Mr. Mark Breeding.

Mr. Schindewolf first reported that there is one (1) pending litigation case in connection with the meter station site for Project 17, Segment 1, and that all of the necessary parcels have now been acquired for Project 17, Segment 2. Mr. Schindewolf went on to report that there is one (1) litigation case pending appeal for Project 17, Segment 3, and that the Authority has been granted the right to construct the transmission line across a mobile home park and a vacant tract of land in connection with Project 17, Segment 4. Concerning Project 15B that connects Projects 1A and 16, Mr. Schindewolf reported that there are two (2) parcels remaining to be acquired.

Mr. Schindewolf next reported that the ROW/Easement Acquisition Team has recently begun work on easement acquisitions for Project 11 which will cross from T. C. Jester Boulevard to Ella Boulevard north of FM 1960, Project 14A which is a short segment along Cypresswood Drive, and Project 14B which is another short segment that will connect with Project 7A east of Ella Boulevard.

#### UPDATE ON 2010 WATER DISTRIBUTION AND TRANSMISSION SYSTEM (THE "SYSTEM")

Mr. Schindewolf then called on Mr. Rolen to review the status of the various projects and efforts underway to complete development of the System.

#### PROGRAM MANAGER'S REPORT

Mr. Rolen then presented the Program Manager's Report, a copy of which is attached hereto.

Mr. Rolen first reported that the contractor for Project 2, Construction Package No. 1 (the Spears Road Regional Pump Station) is working on submittals, and that a pre-construction meeting has been scheduled.

Concerning Project 4C, Mr. Rolen reported that the contractor received the Notice to Proceed on June 23, 2008, has mobilized equipment, is preparing to begin laying pipe and is working on submittals.

Mr. Rolen then reported that the contractor for Project 6A-1 has installed an additional 2,686 feet of 30-inch line and an additional 299 feet of 16-inch line.

Mr. Rolen next reported that the contractor for Project 7C-3 has installed 980 feet of 30-inch line and is working on submittals.

Mr. Rolen went on to report that the contractor for Project 10B has completed site restoration, is working on the final punch list items, and is establishing the ground cover.

Mr. Rolen next reported on Project 15A, stating that the contractor is working on establishing the ground cover.

Concerning Project 16, Mr. Rolen reported that the contractor has mobilized, is preparing to begin the tunnels, and is working on submittals.

Mr. Rolen further reported that the contractor for Project 17, Segment 1 has installed an additional 5,205 feet of 54-inch line, completed installation of the water line north of Greens Bayou, is digging the tunnel shafts for crossing under Interstate 45, and has completed the tunnels under Greens Bayou and Rush Creek Drive.

Concerning Project 17, Segment 2, Mr. Rolen stated that the contractor is clearing the easement along West Rankin Road and working on submittals.

Mr. Rolen then stated that the pre-construction meeting was held today for Project 17, Segment 3, and that the contractor is working on submittals.

Mr. Rolen then noted that to date, the Authority has installed a total of approximately 37.2 miles of water line ranging in size from 12-inch to 60-inch.

Mr. Rolen went on to report that 10 bids were received and opened on June 24, 2008 for the construction of Project 17, Segment 4, ranging in cost from \$5,445,014.40 to \$7,212,941.50. Mr. Rolen stated that the project consists of the installation of a 60-inch water line adjacent to the alignment of the future T. C. Jester Boulevard. Mr. Rolen further noted that substantial completion of the project is specified within 270 calendar days. Mr. Rolen further explained that E. P. Brady, Ltd. ("E. P. Brady") had submitted the lowest qualified bid on the project in the amount of \$5,445,014.40. Mr. Rolen noted that TCB had tabulated the bids and reviewed the qualification statements and experience information submitted and, based on such review, recommends that the construction contract be awarded to E. P. Brady. Mr. Rolen then noted that award of the construction contract for Project 17, Segment 4 is on the agenda for action by the Board later in tonight's meeting.

Mr. Schindewolf noted that this evening, the Board will be approving the largest single monthly payment to a contractor. The Board will be signing a check in the amount of \$2,840,855.84 to BRH-Garver Construction LP for their work on Project 17, Segment 1.

Mr. Rolan then reported that the Groundwater Transfer Program (the "GTP") systems continue to operate effectively, and that approximately 3.57 million gallons of water per day had been sold to Buyer districts. Mr. Rolan added that Bilma Public Utility District ("Bilma PUD") is now online and participating in the GTP.

Concerning other activities, Mr. Rolan reported that during the prior month, TCB had assisted the Authority with preparations for the upcoming bond sale; continued oversight of engineering efforts on 12 projects; received bids on Project 2, Construction Package No. 1 and Project 17, Segments 3 and 4; advertised for bids on Project 2, Construction Package No. 2; provided construction administration services and project representatives on Projects 4C, 6A-1, 7C-3, 10B, 15A, 16, and 17, Segments 1 and 2 and construction administration on Project 2 (both construction packages) and Project 17, Segments 3 and 4; supported the acquisition of easements for Authority projects; provided oversight of STES operation of the Authority's GTP systems; initiated delivery of water to Bilma PUD as a Buyer in the GTP; and responded to inquiries from districts concerning the conversion to surface water and the conversion to chloramine disinfection systems.

#### ATTORNEY'S REPORT

Ms. Bobbitt stated that she had nothing to report at this time.

#### REGULAR AGENDA

##### APPROVAL OF THE MINUTES

Director Fessler then asked for approval of the regular meeting minutes of June 2, 2008, previously distributed to the Board. 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 approve the minutes of the regular meeting of June 2, 2008, as written.

#### FINANCIAL ASSISTANT'S REPORT

Director Fessler next recognized Ms. Plunkett, who reviewed the Authority's Financial Report with the Board, including the monthly investment report, the checks being presented for payment and the budget comparison for the four (4) months ending May 31, 2008, a copy of which is attached hereto. Ms. Plunkett noted that the Authority had continued to operate under budget for the month ended May 31, 2008. 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 approve the Financial Report, the monthly investment report and the checks being presented for payment.

ADOPT THIRD SUPPLEMENTAL RESOLUTION AUTHORIZING ISSUANCE OF THE AUTHORITY'S SENIOR LIEN REVENUE BONDS, SERIES 2008: PRESCRIBING THE TERMS AND CONDITIONS THEREOF, PROVIDING FOR PAYMENT THEREOF AND THE SECURITY THEREFOR, AUTHORIZING AN AUTHORIZED REPRESENTATIVE TO APPROVE THE TERMS AND CONDITIONS THEREOF; PROVIDING FOR REPRESENTATIVE TO APPROVE THE TERMS OF SALE THEREFOR AND OTHER PROVISIONS RELATED THERETO; AUTHORIZING THE PREPARATION AND DISTRIBUTION OF AN OFFICIAL STATEMENT; AND MAKING OTHER PROVISIONS REGARDING SUCH BONDS AND MATTERS INCIDENT THERETO (THE "THIRD SUPPLEMENTAL RESOLUTION")

Mr. Schindewolf then introduced Messrs. Lamme, Shepherd, Howell, Bartolotta and Kyle, Ms. Cogburn and Ms. Kenyon, members of the Authority's financing team (the "Financing Team").

Mr. Kyle then briefly reviewed the Third Supplemental Resolution included as Tab 6 of the meeting packet. Mr. Lamme then addressed the Board and explained that at tonight's meeting, the Board is being asked to authorize the Authority's Financing Team to proceed with the sizing of the proposed Series 2008 Bonds. Mr. Lamme stated that the proposed gross amount of the Series 2008 Bonds is \$261,665,000, and noted that the gross amount will be reduced by the amount of capital contributions the Authority receives from participating districts. Mr. Lamme also noted that the Financing Team will work aggressively with the rating agencies and insurance companies on the Series 2008 Bonds. Director Rendl inquired if the Financing Team anticipates any problems with the Authority receiving a good rating on the Series 2008 Bonds. Mr. Lamme stated that they do not see a problem, and that they will push to obtain a rating upgrade for the Series 2008 Bonds. Mr. Lamme and Mr. Bartolotta responded to a question from Director Graham regarding the anticipated interest rate for the Series 2008 Bonds. Mr. Howell then responded to a question from Director Pulliam regarding the percentage of the bond issue that would be available for construction costs. Director Graham then asked how many bond insurers there are that have suitable ratings and from which bond insurance could be obtained for the Series 2008 Bonds. Mr. Lamme responded that Financial Security Assurance Inc., Assured Guaranty Corporation and Berkshire Hathaway Assurance Corporation are the three (3) bond insurers with suitable ratings.

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 adopt the Third Supplemental Resolution, a copy of which is attached hereto.

AWARD CONTRACT FOR CONSTRUCTION OF PROJECT 17, SEGMENT 4

Mr. Schindewolf then explained that, as reported by Mr. Rolen earlier in tonight's meeting, 10 bids were received on June 24, 2008 for Project 17, Segment 4 for the construction of a 60-inch line along the future T. C. Jester Boulevard. Mr. Schindewolf recommended award of the construction contract to the lowest qualified bidder, E. P. Brady, in the amount of \$5,445,014.40. 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 award the construction

contract for Project 17, Segment 4 to E. P. Brady. Copies of Mr. Schindewolf's and Mr. Rolen's correspondence regarding the contract award are attached hereto.

Mr. Schindewolf then recognized Mr. Dan Brady, P.E. of E. P. Brady as being in attendance at tonight's meeting, and noted that E. P. Brady is currently the contractor on Project 17, Segment 2 and has previously completed Projects 10B and 6B-1 for the Authority.

APPROVE AND AUTHORIZE EXECUTION OF AGREEMENT FOR PROFESSIONAL MATERIALS ENGINEERING LABORATORY SERVICES (THE "AGREEMENT") WITH RABA-KISTNER AND AUTHORIZE GENERAL MANAGER TO NEGOTIATE AND FINALIZE SAME

Mr. Schindewolf then noted that Tab 8 of the meeting packet contains the proposed Agreement by and between the Authority and Raba-Kistner, a copy of which is attached hereto. Upon motion by Director Pulliam, seconded by Director Sigler, after full discussion and the question being put to the Board, the Board voted unanimously to approve and authorize execution of the Agreement and to authorize the General Manager to negotiate and finalize the Agreement with Raba-Kistner.

Mr. Schindewolf then introduced Messrs. Liesse and Wells of Raba-Kistner to the Board.

ADOPT RESOLUTION AUTHORIZING CERTAIN ACTIONS IN CONNECTION WITH THE RESERVE FUND OF THE AUTHORITY SENIOR LIEN REVENUE BONDS, SERIES 2005 (THE "SERIES 2005 BONDS") (THE "RESOLUTION")

Mr. Schindewolf then noted that Tab No. 9 of the meeting packet includes the proposed Resolution and related memorandums from Andrews Kurth regarding the effect of recent insurer ratings downgrades, copies of which are attached hereto. Mr. Schindewolf then asked Mr. Kyle to review and discuss with the Board what must be done in order to satisfy the requirements of the Master Resolution Authorizing the Issuance of Bonds (the "Master Resolution"). Mr. Kyle stated that the ratings downgrade of MBIA on June 5, 2008 by Standard & Poor's Rating Services from "AAA" to "AA" and on June 19, 2008 by Moody's Investors Service, Inc. from "Aaa" to "A2" affects the Authority's Series 2005 Bonds. Mr. Kyle noted that under the provisions of the Master Resolution, the Authority is required to cure the deficiency in the Debt Service Reserve Fund (the "Reserve Fund") by either: 1) depositing into the Reserve Fund an amount sufficient to cause the money or permitted investments on deposit in the Reserve Fund to be accumulated to the Reserve Fund Requirement applicable to the Series 2005 Bonds, with such amount to be paid over the ensuing five (5) years in equal installments at least semi-annually; or 2) replace the MBIA insurance policy with another surety bond, insurance policy or letter of credit meeting the minimum requirements of such instruments as described in the Master Resolution within six (6) months of the rating downgrades. Mr. Kyle noted that the Resolution provides for deposits to the Reserve Fund from lawfully available funds of the Authority sufficient to cause the money or permitted investments to accumulate in the Reserve Fund Requirement over the ensuing five (5) years in equal installments at least semi-annually.

Director Rendl then asked what caused the rating downgrades and whether the Authority could have avoided such downgrades. Mr. Kyle explained that the insurers were exploring other business areas that did not do well, which weakened the insurers' overall balance sheets. Mr. Howell stated that the rating downgrades have nothing to do with problems in the municipal bond market, and that nothing could have been done differently back in 2003 or 2005 to prevent the downgrades from occurring. Director Rendl next asked if the deposits into the Reserve Fund will impact the Authority in terms of its ability to deliver surface water. Mr. Howell responded that it was his opinion that the Authority's surface water program would not be negatively impacted. Mr. Howell added that the Authority will be required to contribute approximately \$15.6 million to the Reserve Fund because of the bond insurer rating downgrades for the 2003 and 2005 bonds. Mr. Howell further noted that a 10-cent per thousand gallon pumpage fee increase will generate approximately \$2.5 million per year and, over a six (6) year period, will total approximately \$15 million. Director Rendl stated that the Reserve Fund deposits are necessary in order for the Authority to be able to issue additional debt. Mr. Howell concurred and noted that without the deposits to the Reserve Fund, the Authority would technically be in default on the outstanding bonds. Mr. Howell added that the utility districts do not have the same problem, because they typically issue tax-supported bonds and not revenue bonds. Director Fessler then asked how the Authority can get the funds back from the Reserve Fund, to which Mr. Howell responded that, if the ratings were upgraded, the funds deposited in the Reserve Fund could be returned to the Operating Fund. Mr. Howell noted that the Authority can transfer the interest earnings on the Reserve Fund to the Authority's Debt Service Fund.

Upon motion by Director Rendl, seconded by Director Sigler, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Resolution.

#### UPDATE ON CAPITAL CONTRIBUTIONS

Ms. Plunkett noted that Tab No. 10 of the meeting packet contains a status sheet on the capital contributions from districts in connection with the Series 2008 Bonds, a copy of which is attached hereto. Ms. Plunkett reported that seven (7) contracts have been submitted, and that she expects 23 districts to make capital contributions. Upon motion by Director Rendl, seconded by Director Sigler, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Capital Contribution Contracts received from Bilma PUD, Cy-Champ Public Utility District, Harris County Municipal Utility District No. 25, Harris County Water Control and Improvement District No. 119, Northwest Harris County Municipal Utility District No. 24, Northwest Harris County Municipal Utility District No. 9 and West Harris County Municipal Utility District No. 10.

#### CONFIRM UPCOMING MEETING DATE

Director Fessler then stated that the next regular meeting of the Board will be held on Monday, August 4, 2008, at 7:00 p.m. at the Authority's office.

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

PASSED, APPROVED AND ADOPTED this 4<sup>th</sup> day of August 2008.

  
Secretary, Board of Directors

(AUTHORITY SEAL)

