



# San Jacinto River Authority

ADMINISTRATIVE OFFICE  
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December 21, 2009

Re: San Jacinto River Authority Groundwater Reduction Plan Contract

Dear Potential GRP Participants and Stakeholders:

The Board of Directors of the San Jacinto River Authority (Authority) is pleased to offer you the enclosed Groundwater Reduction Plan (GRP) Contract for your review and approval. An Executive Summary of the GRP Contract and an instruction sheet relative to the completion of the GRP Contract are also enclosed.

As you know, all large volume groundwater users (LVGUs) in Montgomery County have been mandated by the Lone Star Groundwater Conservation District (LSGCD) to reduce their groundwater consumption by thirty percent (30%) by 2016. The final LSGCD regulations require that all declarations of intent to submit a GRP must be filed by June 1, 2010. Because of the time required to prepare a declaration of intent on behalf of all LVGUs that plan to participate in our GRP, we need to receive signed GRP Contracts as soon as possible, but no later than May 1, 2010.

The Authority has voluntarily committed itself to organize this countywide GRP. We have done so because both common sense and feasibility studies show that by working together, Montgomery County can meet the regulatory requirements of the LSGCD more efficiently and less expensively than by having individual users develop, construct, and implement their own plans. The Authority has invested countless man-hours and millions of dollars over the last three years to conduct feasibility studies, preliminary engineering studies, and planning and organizational efforts in order to offer you this GRP Contract.

Our agency was created by the State of Texas to develop, conserve, and protect water resources in the San Jacinto River Basin. We are a government agency. We are not created or designed to make a profit. The Authority by law must consider and act in the best interests of all within our territory. We believe this GRP Contract is the best possible solution to the LSGCD mandates and provides the quickest and least expensive route for compliance for each and every LVGU in the county.

In addition to the Authority's 40-year investment in Lake Conroe and all of the preliminary work and studies that have been done to date, and consistent with our agency mission, the Authority has also invested several years and millions of dollars in securing from the City of Houston an 80-year contract to purchase water from their two-thirds interest in Lake Conroe. Consistent with the Authority's historical operations of Lake Conroe, it is our belief that this Montgomery County-based resource should be fully available for the use and benefit of local Montgomery County users.

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Participation in the countywide GRP will:

- Provide the lowest cost of water throughout the county
- Achieve full and timely countywide compliance with the LSGCD rules
- Maximize the use of local water resources for local users
- Ensure that both rural and urban areas of Montgomery County are treated fairly
- Minimize infrastructure costs by over-converting highly populated areas
- Minimize operation and maintenance costs for all
- Minimize financing and interest costs by establishing a broad ratepayer base
- Eliminate the need for additional layers of government and bureaucracy
- Promote organizational efficiency and uniform costs that benefit ratepayers countywide

This GRP Contract will provide a GRP for the county as a whole and will include participants of various sizes and interests. As such, it must contain strict provisions to ensure full and timely compliance with the LSGCD rules, to coordinate the activities of all LVGUs in the GRP, and to provide for the protection of and benefit to all participants. Some of the driving considerations in the GRP Contract are:

- Ensuring full, timely, and continuous compliance with the LSGCD rules
- Distributing costs and benefits equitably among participants
- Meeting rigid timeline requirements consistently
- Coordinating central planning and implementation
- Adequate funding to finance, operate, and maintain the system
- Administrative authority similar to other regional water authorities implementing similar programs
- Mandatory connections to surface water supplies as required by the final GRP
- Penalties for non-compliance
- Enforceability against governmental claims of immunity
- Administrative flexibility to resolve special circumstances when they arise
- Transparency through audits, open meetings, open records, and independent rate reviews

The Authority, in developing this plan and contract, also wants to ensure that the concerns of many individual GRP participants have been heard and that contract provisions have been included as a result. In this contract, our Board has committed to:

- Establish a stand-alone division to administer the GRP program on a cost-neutral basis
- Create a user review committee to provide for user participation
- Establish rates, charges, fees, and policies on a uniform and equitable countywide basis
- Adjust rates to the lowest possible levels consistent with sound management practices
- Treat each participant equally and equitably, regardless of size or location

- Continue to pursue additional water supply sources for the future
- Pursue additional or alternative funding sources
- Assist individual entities in funding of local surface water conversion facilities, if requested and necessary
- Serve as a financing vehicle for lake level stabilization measures, if requested and beneficial to all participants
- Enact strong drought contingency measures
- Encourage and support water conservation programs throughout the county

Since the Authority will serve as both a water supplier and a participant in this GRP, the GRP Contract includes specific covenants by the Authority to:

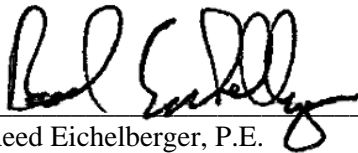
- Require the Authority to pay rates, charges, and fees like all other participants
- Provide for the reimbursement of costs to participants from any sales of “excess” water
- Refrain from selling water to users outside Montgomery County

Our Board, as administrator of this water utility, believes this GRP Contract offers each and every LVGU within Montgomery County the best, lowest cost, and most timely method of compliance with LSGCD mandates, and provides a realistic plan for groundwater reduction and an alternative water supply for the county as a whole for decades to come. Working together, we can meet LSGCD’s requirements more efficiently and less expensively.

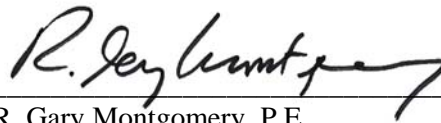
Our staff is available to you over the next few months as you consider and review this GRP contract. We want to ensure that you have every concern addressed and question answered to the best of our ability. Please contact our staff if you have either after reviewing the enclosed GRP Contract. We look forward to working with each of you.

Thank you for your consideration.

Sincerely,



Reed Eichelberger, P.E.  
General Manager



R. Gary Montgomery, P.E.  
President