

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

November 20, 2017

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 6:00 p.m. on Monday, the 20th day of November, 2017, at the Authority's office located at 3648 Cypress Creek Parkway, Suite 110, 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 P. Fessler	Vice President
Lenox A. Sigler	Secretary
Ron Graham	Assistant Secretary
Jim Pulliam	Treasurer/Investment Officer

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. Jun Chang, P. E., D.WRE, Deputy General Manager for the Authority; Mr. Mark Evans, Director of Planning and Governmental Affairs for the Authority; Ms. Cynthia Plunkett, Financial Assistant for the Authority; Ms. Krystal Boggs, Administrative Assistant for the Authority; Ms. Barbara Payne of Payne Communications, Communications Coordinator for the Authority; Messrs. Stephen Berckenhoff, P.E., Michael Baugher, P.E.; and Doug Haude, P.E., of AECOM Technical Services, Inc. ("AECOM"), Program Manager for the Authority; Mr. John Howell of The GMS Group, L.L.C., co-financial advisor for the Authority; Messrs. Tobin Synatschk, P.E., and David Warner, P.E., of Jones Carter, Inc., on-call engineers for the Authority; Messrs. Bill Kotlan, P.E., and Fred Bauhof, P.E., of Brown & Gay Engineers, Inc., on-call engineers for the Authority; Mr. Wendell L. "Buddy" Barnes, P.E., of ARCADIS US, Inc., on-call engineers for the Authority; Ms. Giti Zarinkelk, P.E., and Mr. Michael Bagstad, P.E., of Zarinkelk Engineering Services, Inc., on-call engineers for the Authority; Ms. Shelley Serres, P.E., of Lockwood Andrews and Newnam, Inc.; Mr. Carlton McDevitt of Severn Trent Environmental Services, Inc. ("STES"), operator for the Authority; and Ms. Robin S. Bobbitt, attorney, and Ms. Alison Miller, paralegal, of Radcliffe Bobbitt Adams Polley 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.

A copy of the PowerPoint presentation for the meeting is attached as an exhibit to these minutes.

BUDGET WORKSHOP, INCLUDING REVIEW AND DISCUSSION OF THE PROPOSED BUDGET FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018 (THE "2018 BUDGET"), AND REVIEW AND DISCUSSION OF THE PROPOSED 2018-2019 CAPITAL IMPROVEMENT PLAN (THE "2018-2019 CIP")

Mr. Schindewolf first explained that the Authority will hold a public hearing/special meeting at 6:00 p.m. on Monday, December 4, 2017 to discuss the proposed pumpage fee and surface water rate increases and that the regular meeting will follow at 6:15 p.m. on such date, at the offices of the Authority.

Mr. Schindewolf then gave an overview of the Authority's rates over the last several years and explained that during the development and preparation process for the 2018 Budget and the 2018-2019 CIP, Mr. Howell, working with Ms. Plunkett, Mr. Berckenhoff and himself, conducted a review of the Authority's finances as it relates to the current cost of water. Mr. Schindewolf noted that the Authority is proposing a surface water rate increase of \$0.50 per 1,000 gallons, resulting in a proposed surface water fee of \$3.85 per 1,000 gallons, and a pumpage fee rate increase of \$0.50 per 1,000 gallons, resulting in a proposed pumpage fee of \$3.40 per 1,000 gallons, which increases will become effective on April 1, 2018.

Mr. Howell next gave an overview of certain financial information supporting the proposed rate increases and explained that a rate adjustment is primarily necessary due to an increase in debt service payments and for increases in operation and maintenance costs. Mr. Howell went on to further explain that the rate increases are necessary in order to continue to fund the capital improvements necessary to meet the 2025 conversion requirement of the Harris Galveston Subsidence District (the "HGSD"), including but not limited to the Northeast Water Purification Plant project (the "NEWPP") the Northeast Transmission Line project (the "NETL") and the Authority's transmission and distribution system expansion projects. Mr. Howell added that the proposed rate increases are also necessary and needed to fund increases in the Authority's operation and maintenance costs, including, but not limited to the City of Houston (the "COH") water purchase costs, cost associated with the Authority having more facilities as the transmission/distribution system grows, costs associated with the Authority's facilities getting older and Luce Bayou Project costs.

Director Pulliam then asked Mr. Howell if a rate increase of \$0.50 in both the surface water rate and the pumpage fee is adequate to provide the funding needed for the projects included in the proposed 2018-2019 CIP. Mr. Howell responded that he believes the proposed rate increases will be adequate to cover the Authority's CIP costs for 2018. Mr. Howell noted that annual rate increases will continue to be needed to fund the 2025 conversion. Mr. Howell further noted that as far as he knows, there has never been any analysis that shows surface water or pumpage rates approaching \$8.00 per 1,000 gallons, as has been rumored.

Director Pulliam then asked how the State Water Implementation Fund for Texas ("SWIFT") funding has helped keep the Authority's surface water rate and pumpage fee down. Mr. Howell explained that the SWIFT funding, as well as the refinancing of some of the Authority's debt has helped the Authority keep the surface water rate and pumpage fee as low as possible, and that the rates would need to be about \$0.30 per 1,000 gallons higher.

Director Rendl then asked if anyone in the audience had any questions. Mr. Jerry Homan, General Manager of Harris County Fresh Water Supply District No. 61 ("HCFWSD No. 61"), stated that he appreciated receiving the rate information ahead of time, as it helps utility district's budget for the upcoming year.

2018 BUDGET WORKSHOP

Mr. Schindewolf next explained that the proposed 2018 Budget was developed by the Authority staff members, working with various representatives of the Authority's consultant team. Mr. Schindewolf went on to explain that the goal was to develop a fiscally sound budget that was at the same time comprehensive enough to efficiently and properly operate and maintain the Authority's 2010 Surface Water Transmission and Distribution System (the "2010 System") in conformance with all local, state and federal regulations, in compliance with the Authority's updated Groundwater Reduction Plan, and to continue the planning and development process for the Authority's 2025 Surface Water Conversion Program.

Ms. Plunkett then presented an overview of the proposed 2018 Budget, including the Operating Budget Planning Report and the various revenue and expense items included in the proposed 2018 Budget. A complete copy of the 2018 Budget workshop packet, previously distributed to the Board, is attached hereto.

Mr. Berckenhoff next reviewed the 2018 Operation and Maintenance ("O&M") expense items reflected in the proposed 2018 Budget, as outlined in the attached PowerPoint presentation. Mr. Berckenhoff informed the Board that the Authority's total O&M costs are projected to be \$22,577,900 for 2018 compared to budgeted 2017 O&M expenses of \$22,524,900. Mr. Berckenhoff further stated that 71% of the proposed 2018 O&M Budget will be used for funding the Authority's water purchase costs from the COH. Mr. Berckenhoff went on to explain that several of the key considerations in developing the proposed 2018 Budget were providing for an anticipated increase in the volume of water purchased from the COH, an anticipated increase in the COH's O&M rate, increased physical monitoring of the Authority's distribution system and projected increases in maintenance costs.

Ms. Plunkett then went on to review the Administrative Expenses reflected in the proposed 2018 Budget. Ms. Plunkett explained that the Authority's total Administrative Expenses are projected to be \$4,179,747 for 2018. Ms. Plunkett concluded her remarks by reporting that the proposed 2018 Budget reflects total revenues of \$84,355,465 and total expenses of \$78,548,138.

Mr. Homan then asked about the discrepancy between the projected total expense amount of \$251,493 and the budgeted amount of \$463,518 for Communication Services in the 2017 Budget. Director Rendl explained that the difference in the actual versus projected amounts for Communications Services for 2017 was due to having less postage costs and less printing costs associated with the Authority's Waterlines publication. Mr. Keith McKeand, of Harris County Municipal Utility District No. 26, then asked why the Authority is budgeting \$377,468 for Communications Services for 2018 if there was such a large discrepancy in the budget for 2017. Director Rendl then explained that the Waterlines publication was not mailed this year, but it will be mailed several times next year, and the Authority also plans to send out a notice explaining the proposed rate increases for 2018.

Mr. Homan next stated that there is an election line item in the HCFWSD No. 61 budget, and asked if the Authority also includes a separate line item in the budget for election expenses. Ms. Plunkett stated that there is an expense line item in the Legal Services budget for election costs and also an expense line item in the Miscellaneous Services budget for 2018 election expenses in the amount of \$200,000. Ms. Plunkett added that once the 2018 Budget is adopted, it will be posted on the Authority's website.

REVIEW OF PROPOSED 2018-2019 CIP

Mr. Schindewolf then stated that this is the 15th CIP to be developed by the Authority and then called on Mr. Berckenhoff to review the proposed 2018-2019 CIP as outlined in the attached PowerPoint presentation.

Mr. Berckenhoff explained that the proposed 2018-2019 CIP focuses on the development of the infrastructure needed to enable the Authority to meet the HGSD 2025 surface water conversion mandate. Mr. Berckenhoff further explained that the 2018-2019 CIP includes, but is not limited to the following items: 1) continue maintenance and enhancements of the Authority's existing Regional Pump Station and Water Plant; 2) continue evaluating the need for additional regional water wells and enhancements to the 2010 System and take any necessary steps to optimize use of the system; 3) identify and purchase the sites for the third Regional Pump Station and second Regional Water Plant; 4) initiate design of the initial phase of the State Highway 249 Regional Pump Station; 5) initiate design and construction of the 2025 transmission line; 6) provide funding for the Authority's share of the cost for the major expansion of the NEWPP; 7) provide funding for the Authority's share of the cost of major rehabilitation, reconstruction and upgrading of the existing NEWPP; 8) provide funding for the Authority's share of the cost for acquisition of real estate and design of the proposed joint transmission line from the NEWPP site to the Authority's proposed 2025 transmission line; 9) pay the Authority's portion of the initial loan costs for the Luce Bayou Interbasin Diversion Project; 10) continue the planning, design and construction of the 2025 distribution system; 11) provide funding for chloramination credits; 12) provide funding to help encourage and facilitate implementation of reuse systems; and 13) provide professional services to perform the wide variety of activities required to implement the 2018-2019 CIP.

Mr. Berckenhoff next explained that it will cost approximately \$819 million to implement the Authority's 2018-2019 CIP, \$82 million of which will be funded from proceeds of the Authority's prior bond issues, capital contributions and interest earnings and \$726 million of which will be provided by Texas Water Development Board's SWIFT funds.

CONFIRM UPCOMING MEETING DATES

Director Rendl then reiterated that a public hearing regarding the Authority's proposed rate increases will be held on Monday, December 4, 2017, at 6:00 p.m., and that the Board's regular meeting will be held immediately following the public hearing at 6:15 p.m., with both of such meetings to be held at the Authority's office. Director Rendl noted that only a brief review of the proposed 2018 Budget and the proposed 2018-2019 CIP will be presented at the December 4th Board meeting.

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

PASSED, APPROVED AND ADOPTED this 4th day of December, 2017.



Lena A. Seab
Secretary, Board of Directors