

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

November 28, 2016

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 28th day of November, 2016, 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
James D. Pulliam	Vice President/ Investment Officer
Lenox A. Sigler	Secretary
Kelly P. Fessler	Assistant Secretary
Ron Graham	Treasurer

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. 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; Mr. Tom Rolen, P.E., of AECOM Technical Services, Inc., 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; Mr. Kenyon Hunt, P.E., of RPS Klotz Associates, Inc., on-call engineers for the Authority; Mr. Lance McLeod, 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; and Ms. Robin S. Bobbitt, attorney, and Ms. Brooke T. Dold and Ms. Alison Miller, paralegals, 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, 2017 (THE "2017 BUDGET"), AND REVIEW AND DISCUSSION OF THE PROPOSED 2017-2018 CAPITAL IMPROVEMENT PLAN (THE "2017-2018 CIP")

Mr. Schindewolf first explained that the Authority will hold a public hearing/special meeting at 6:00 p.m. on Monday, December 5, 2016 to discuss the proposed pumpage fee and surface water rate increases and that the regular meeting will begin at 6:30 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 2017 Budget and the 2017-2018 CIP, Mr. Howell, working with Ms. Plunkett, Mr. Rolan 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 rate fee of \$3.35 per 1,000 gallons, and a pumpage fee rate increase of \$0.50 per 1,000 gallons, resulting in a proposed pumpage fee of \$2.90 per 1,000 gallons, which increases will become effective on April 1, 2017.

Mr. Howell next reviewed the financial information supporting the proposed rate increases and explained that a rate adjustment is necessary due to an increase in debt service payments. Mr. Howell further explained that Phase II of the Authority's 2025 Surface Water Conversion Program is being initiated and additional bonds will need to be sold in 2017 and 2018 to fund the costs of such project, along with payment of the Authority's share of costs for the construction of the Northeast Water Purification Plant (the "NEWPP") expansion and the costs for construction of the Northeast Transmission Line (the "NETL").

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 2017-2018 CIP. Mr. Howell responded that he believes the current proposed rate increases to be adequate for 2017. Mr. Howell noted that annual rate increases will be needed to fund the 2025 conversion system. Mr. Howell further noted that there has never been any analysis that shows surface water or pumpage rates approaching \$8.00 per 1,000 gallons, as has been rumored.

2017 BUDGET WORKSHOP

Mr. Schindewolf next explained that the proposed 2017 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 2017 Budget, including the Operating Budget Planning Report and the various revenue and expense items included in the proposed 2017 Budget. A complete copy of the 2017 Budget workshop packet, previously distributed to the Board, is attached hereto.

Mr. Rolan next reviewed the 2017 Operation and Maintenance ("O&M") expense items reflected in the proposed 2017 Budget, as outlined in the attached PowerPoint presentation. Mr. Rolan informed the Board that the Authority's total O&M costs are projected to be \$22,524,900 for 2017. Mr. Rolan further stated that 78% of the proposed 2017 Budget will be used for funding the Authority's O&M costs to the City of Houston (the "COH"). Mr. Rolan went on to explain that several of the key considerations in developing the proposed 2017 Budget were providing for 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.

Director Rendl then asked if Messrs. Schindewolf and Rolan are working with COH to maintain and monitor the existing NEWPP while the NEWPP expansion is being constructed. Mr. Rolan stated that Severn Trent and AECOM continue to maintain a good relationship and communications with the City personnel operating the existing NEWPP.

Ms. Plunkett then went on to review the Administrative Expenses reflected in the proposed 2017 Budget.

Mr. Schindewolf next reviewed the Management Services expense category of the proposed 2017 Budget and noted that there are several staff positions that he intends to fill in 2017, including a Chief Engineer, a Construction Coordinator, a Chief Inspector, and an O&M Coordinator. These positions are required for the 2025 conversion engineering design and construction program. Also included in staff positions is an Accountant to assist Ms. Plunkett. Ms. Plunkett went on to review the Miscellaneous Services and Capital Outlays expense categories of the proposed 2017 Budget. Ms. Plunkett concluded her remarks by reporting that the proposed 2017 Budget reflects total revenues of \$72,255,715 and total expenses of \$63,969,482.

REVIEW OF PROPOSED 2017-2018 CIP

Mr. Schindewolf then stated that this is the 14th CIP to be developed by the Authority and then called on Mr. Rolan to review the proposed 2017-2018 CIP as outlined in the attached PowerPoint presentation.

Mr. Rolan first explained that the proposed 2017-2018 CIP focuses on the development of the infrastructure needed to enable the Authority to meet the Harris-Galveston Subsidence District's (the "HGSD") 2025 surface water conversion mandate. Mr. Rolan further explained that the 2017-2018 CIP includes, but is not limited to the following items: 1) 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; 2) provide infrastructure to areas adjacent to the 2010 service area to enable continued compliance with the HGSD's mandates; 3) continue the planning and design and initiate construction of the 2025 distribution system; 4) initiate design of the initial phase of the State Highway 249 Regional Pump Station;

5) identify and purchase the sites for the 2025 Regional Pump Station and 2035 Regional Water Plant; 6) provide initial 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) provide funding for chloramination credits; 11) provide funding to help encourage and facilitate implementation of reuse systems; and 12) provide professional services to perform the wide variety of activities required to implement the 2017-2018 CIP.

Mr. Rolen next explained that it will cost approximately \$973 million to implement the Authority's 2017-2018 CIP, \$98 million of which will be funded from proceeds of the Authority's prior bond issues, capital contributions and interest earnings and \$875 million of which will be provided by committed Texas Water Development Board's State Water Implementation Fund for Texas ("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 5, 2016, at 6:00 p.m., and that the Board's regular meeting will be held immediately following the public hearing at 6:30 p.m., with both of such meetings to be held at the Authority's office.

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

PASSED, APPROVED AND ADOPTED this 9th day of January 2017.




Secretary, Board of Directors