

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

November 18, 2019

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 18th day of November, 2019, 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. 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; Mr. Travis Jones, accountant 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 to the Authority; Ms. Shelley Serres, account manager of Lockwood Andrews and Newnam, Inc.; Ms. Melinda Silva, P.E., of Dannenbaum Engineering Corporation; Mr. Lance McLeod, P.E., PMP, of Kimley-Horn and Associates, Inc., on-call engineers for the Authority; and Ms. Robin S. Bobbitt, attorney, 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, 2020 (THE "2020 BUDGET"), AND REVIEW AND DISCUSSION OF THE PROPOSED 2020-2021 CAPITAL IMPROVEMENT PLAN (THE "2020-2021 CIP")

Mr. Chang first noted that Mr. Schindewolf was not able to attend this evening meeting due to illness. Mr. Chang added that Mr. Schindewolf reviewed and approved the presentations

for this meeting.

Mr. Chang 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 2020 Budget and the 2020-2021 CIP, Mr. Howell, working with Mr. Schindewolf, Ms. Plunkett, Mr. Berckenhoff and himself, conducted a review of the Authority's finances as it relates to the current cost of water. Mr. Chang noted that the Authority is proposing a surface water rate increase of \$0.40 per 1,000 gallons, resulting in a proposed surface water fee of \$4.70 per 1,000 gallons, and a pumpage fee rate increase of \$0.40 per 1,000 gallons, resulting in a proposed pumpage fee of \$4.25 per 1,000 gallons, which increases will become effective on April 1, 2020.

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 also necessary in order to continue to fund the capital improvements required 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"), the Luce Bayou Interbasin Transfer Project, 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, costs associated with the Authority having more facilities as the Authority's transmission/distribution system grows, and costs associated with the Authority's facilities getting older.

Director Rendl then asked if there would be any reason to have to implement another increase to the surface water rate and pumpage fee in 2020 since the proposed increase is \$0.40 rather than the \$0.45-\$0.50 increase that has been implemented in the past. Mr. Howell responded that the surface water rate and pumpage fee will not need to be increased again in 2020, but will need to be increased in 2021. Mr. Howell added that the \$0.40 increase is consistent with last year's rate guidance. Mr. Howell further stated that the Authority can expect to steadily increase the surface water rate and pumpage fee by \$0.40 to \$0.50 for the next few years.

Mr. Howell went on to review what all the Authority's rate revenue pays for, noting that the Capital Costs make up approximately 78% of the Authority's annual cash out flow. Mr. Howell further explained that approximately \$0.32 of the \$0.40 increase is attributable to capital related costs. Mr. Howell added that approximately 13% of the Authority's annual cash flow is utilized to pay for cost of water increases from the City of Houston and that approximately 9% of the cash flow is utilized to pay the Authority's operating and maintenance costs and administrative costs.

Mr. Howell next briefly reviewed the history of the Authority's bond issuances utilized to fund capital projects, noting that the Authority has taken steps to minimize its annual debt service requirements by utilizing the Texas Water Development Board's SWIRFT bond program and refunding portions of the Authority's debt from time to time.

Mr. Howell concluded his remarks by noting that the proposed rate increase will generate an additional \$9.8 million of revenue to fund the Authority's expenses. Director Rendl added that it is still the Authority's intent to keep rates as low as possible for as long as possible.

2020 BUDGET WORKSHOP

Mr. Chang next explained that the proposed 2020 Budget was developed by the Authority staff members, working with various representatives of the Authority's consultant team. Mr. Chang 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, to remain 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 2020 Budget, including the Operating Budget Planning Report and the various revenue and expense items included in the proposed 2020 Budget. A complete copy of the 2020 Budget workshop packet, previously distributed to the Board, is attached hereto.

Mr. Berckenhoff next reviewed the 2020 Operation and Maintenance ("O&M") budget and expense items reflected in the proposed 2020 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 \$23,581,000 for 2020 compared to a budgeted 2019 O&M expense amount of \$23,070,000. Mr. Berckenhoff further stated that 71.24% of the proposed 2020 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 2020 Budget included 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 utilities, chemicals, operator, regulatory fees, water sampling/monitoring and maintenance/repair costs.

Director Fessler then questioned the higher than projected interest earnings during 2019. Ms. Plunkett responded that the higher interest earnings were due to the Authority not expending funds on capital projects as quickly as projected because of the delays in the regional capital projects carried out by the City.

Ms. Plunkett then went on to review the Administrative Expenses reflected in the proposed 2020 Budget. Ms. Plunkett explained that the Authority's total Administrative Expenses are projected to be \$4,635,229 for 2020. Ms. Plunkett noted that the Legal Services budget has been reduced from \$298,000 to \$288,500, but noted that 2020 is an election year and that election expenses are unpredictable and could impact the Legal Services expenses.

Ms. Plunkett next noted that the Communications Services budget line item reflects a minimal increase of \$2,925 for 2020, for a total expense of \$390,393. Ms. Payne then briefly reviewed the various items included in the Communication Services budget.

Ms. Plunket next reviewed the Management Services budget line item and stated that there is an increase of 11.68% in such line item for 2020. Ms. Plunkett explained that the Miscellaneous Services budget line item is increasing for 2020 primarily due to 2020 election matters. Ms. Plunkett concluded her remarks by reporting that the proposed 2020 Budget reflects total projected revenues of \$111,091,667 and total projected expenses of \$100,801,814.

REVIEW OF PROPOSED 2020-2021 CIP

Mr. Chang then stated that this is the 18th CIP to be developed by the Authority and then called on Mr. Berckenhoff to review the proposed 2020-2021 CIP, as outlined in the attached PowerPoint presentation.

Mr. Berckenhoff explained that the proposed 2020-2021 CIP focuses on the development and expansion of the infrastructure needed to enable the Authority to meet the HGSD 2025 surface water conversion mandate. Mr. Berckenhoff further explained that the 2020-2021 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 such system; 3) identify and purchase the sites for the third Regional Pump Station and second Regional Water Plant; 4) finalize design and construction of the initial phase of the State Highway 249 Regional Pump Station; 5) finalize 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 for acquisition of real estate, design and construction of the proposed joint transmission line from the NEWPP site to the Authority's take-point and proposed 2025 transmission line; 8) pay the Authority's portion of the project costs for the Luce Bayou Interbasin Transfer Project; 9) continue the planning, design and construction of the 2025 distribution system; 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 2020-2021 CIP.

Mr. Berckenhoff next explained that it will cost approximately \$652 million to implement the Authority's 2020-2021 CIP, \$49 million of which will be funded from proceeds of the Authority's prior bond issues, capital contributions and interest earnings and \$572 million of which will be provided by Texas Water Development Board's SWIFT funds. Mr. Berckenhoff added that approximately \$32 million of "To Be Determined" funding is related to partially SWIFT funded projects.

Mr. Berckenhoff then reviewed the conversion mandates established by the HGSD, including the requirement to be converted to 60% alternative water by 2025. Mr. Berckenhoff went on to review a graph of the Authority's projected alternative water usage, actual alternative water usage and the HGSD required alternative water usage, a copy of which is included in the PowerPoint presentation.

Mr. Berckenhoff then reviewed the major projects that are part of the 2020-2021 CIP, including the Luce Bayou Interbasin Transfer project, the NEWPP Expansion project, the NETL project, the Authority's 84-inch transmission line project, the SH 249 Regional Pump Station

project, Project 28-"The Loop" project, Project 31-"The 2nd Loop" project, Project 25E-"36-inch Interconnect" project and Projects 6C-1, 6C-2 and 7D-1.

CONFIRM UPCOMING MEETING DATES

Mr. Chang then noted that a public hearing regarding the Authority's proposed rate increases will be held on Monday, December 2, 2019, 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 2020 Budget and the proposed 2020-2021 CIP will be presented at the December 2nd Board meeting.

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

PASSED, APPROVED AND ADOPTED this 2nd day of December, 2019.



Lenny A. Sigler
Secretary, Board of Directors