

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

November 23, 2020

The Board of Directors (the "Board") of the North Harris County Regional Water Authority (the "Authority") met in special session, open to the public, via Zoom at [https://zoom.us/meeting/register/tJYocOCqrDsjG9HupIK6EaiuR1z40e7xoh8J](https://zoom.us/join/zoom/register/tJYocOCqrDsjG9HupIK6EaiuR1z40e7xoh8J) and/or telephone conference call at 346-248-7799, passcode 4403924, pursuant to the Texas Governor's suspension of certain Texas Open Meetings Act provisions due to COVID-19, at 6:00 p.m. on Monday, the 23rd day of November, 2020; 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, Acting 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; 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; 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. The conference call meeting was recorded and made available to the public in accordance with the provisions of Texas Government Code Sections 551.125 and 551.127.

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, 2021 (THE "2021 BUDGET"), AND REVIEW AND DISCUSSION OF THE PROPOSED 2021-2022 CAPITAL IMPROVEMENT PLAN (THE "2021-2022 CIP")

Mr. Chang first called upon Mr. Howell to give an overview of the Authority's rates over the last several years. Mr. Howell reported that the Authority is proposing a surface water rate increase of \$0.35 per 1,000 gallons, resulting in a proposed surface water fee of \$5.05 per 1,000 gallons, and a pumpage fee rate increase of \$0.35 per 1,000 gallons, resulting in a proposed pumpage fee of \$4.70 per 1,000 gallons, which increases will become effective on April 1, 2021.

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. Mr. Howell added that the \$0.35 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 \$0.35 to \$0.45 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 added that approximately 13% of the Authority's annual cash flow is utilized to pay for cost of water increases from the COH 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 (the "TWDB") 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 increases will generate an additional \$8.5 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.

2021 BUDGET WORKSHOP

Mr. Chang next explained that the proposed 2021 Budget was developed by the Authority's 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 2021 Budget, including the Operating Budget Planning Report and the various revenue and expense items included in the proposed 2021 Budget. Ms. Plunkett noted that the Authority's earned interest amount is

projected to be lower than usual due to a decline in interest rates. A complete copy of the 2021 Budget Workshop packet, previously distributed to the Board, is attached hereto.

Mr. Berckenhoff next reviewed the 2021 Operation and Maintenance ("O&M") budget and expense items reflected in the proposed 2021 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 \$23,366,000 for 2021 compared to a budgeted 2020 O&M expense amount of \$23,581,000. Mr. Berckenhoff further stated that 71.90% of the proposed 2021 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 2021 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 asked why the O&M expenses are expected to be less in 2021 than in 2020. Mr. Berckenhoff responded that the Authority renegotiated its contract with Inframark that included rolling some reimbursable expenses into a lump sum payment agreement.

Ms. Plunkett then went on to review the Administrative Expenses reflected in the proposed 2021 Budget. Ms. Plunkett explained that the Authority's total Administrative Expenses are projected to be \$4,369,229 for 2021. Ms. Plunkett noted that the Legal Services budget has been reduced from \$288,500 to \$256,500.

Ms. Plunkett next noted that the Communications Services budget line item has been reduced from \$390,393 for 2020 to \$376,093 for 2021. Ms. Payne then briefly reviewed the various items included in the Communication Services budget. Director Fessler stated that he would prefer the Authority begin to move away from printing and direct mail as much as possible and move towards a paperless effort. Ms. Payne noted that the Authority's Waterlines newsletter has been reduced from 12 pages to 8 pages. Ms. Payne also noted that the Authority has a large audience made up of constituents who are 65 years and older to accommodate and therefore, printed materials are still needed. Director Rendl then stated that he would like to do a better job of getting articles published on behalf of the Authority in the Community Impact Newspaper. Director Pulliam stated that Ms. Payne has done a great job on the Authority's website.

Ms. Plunkett next reviewed the Management Services budget line item and stated that it is projected to be \$2,864,952 for 2021, decreased from \$3,114,836 for 2020. Ms. Plunkett concluded her remarks by reporting that the proposed 2021 Budget reflects total projected revenues of \$115,370,833 and total projected expenses of \$114,854,978.

REVIEW OF PROPOSED 2021-2022 CIP

Mr. Chang then stated that this is the 19th CIP to be developed by the Authority and then called on Mr. Berckenhoff to review the proposed 2021-2022 CIP, as outlined in the attached PowerPoint presentation.

Mr. Berckenhoff explained that the proposed 2021-2022 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 2021-2022 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 2021-2022 CIP.

Mr. Berckenhoff next explained that it will cost approximately \$694 million to implement the Authority's 2021-2022 CIP, \$55 million of which will be funded from proceeds of the Authority's prior bond issues, capital contributions and interest earnings and \$593 million of which will be provided by TWDB's SWIFT funds. Mr. Berckenhoff added that approximately \$45 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 2021-2022 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 Rate Order workshop will be held on Monday, November 30, 2020 at 6:00 p.m., a public hearing regarding the Authority's proposed rate increases will be held on Monday, December 7, 2020, 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. Director Rendl noted that only a brief review of the proposed 2021 Budget and the proposed 2021-2022 CIP will be presented at the December 7th Board meeting.

EXECUTIVE SESSION

Director Rendl then adjourned the regular meeting at 7:04 p.m. and announced that the Board would convene in executive session pursuant to Section 551.074(a)(1), Texas Government Code, as amended, to discuss personnel matters. The Board and Ms. Bobbitt remained in the executive session.

RECONVENE IN OPEN SESSION

Director Rendl then reconvened the meeting in open session at 7:40 p.m., at which time no additional action was taken by the Board.

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

PASSED, APPROVED AND ADOPTED this 4th day of January, 2021.



/s/ Lenox A. Sigler

Secretary, Board of Directors