

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

February 12, 2015

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 Thursday, the 12th day of February, 2015, 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
Jim 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. Mark Evans, Director of Planning and Governmental Affairs for the Authority; Ms. Barbara Payne of Payne Communications, Communications Coordinator for the Authority; Ms. Lisa Randecker, Executive Assistant for the Authority; Ms. Krystal Boggs, Administrative Assistant for the Authority; Messrs. Tom Rolen, P.E., and Steve Berckenhoff, P.E., of AECOM Technical Services, Inc., Program Manager for the Authority; Mr. Charles Shumate, P.E., of Brown & Gay Engineers, Inc., on-call engineers for the Authority; Mr. Vernon Webb, P.E., of Jacobs Engineering Group Inc., on-call engineers for the Authority; Mr. Tom Matkin, P.E., of AEI Engineering, Inc., on-call engineers for the Authority; Mr. Larry Barfield, P.E., of Binkley & Barfield, Inc., on-call engineers for the Authority; Ms. Giti Zarinkelk, P.E., of Zarinkelk Engineering Services, Inc., on-call engineers for the Authority; Mr. Arthur West of Cobb Fendley & Associates, Inc., right-of-way acquisition team for the Authority; Mr. Ravi Yanamandala, P.E., of Geotest Engineering, Inc., materials engineering laboratory services for the Authority; Ms. Linn Smyth, member of the Board of the Harris-Galveston Subsidence District; Mr. Carlton McDevitt of Severn Trent Environmental Services, Inc., operator for the Authority; Ms. Robin S. Bobbitt and Mr. Jonathan D. Polley 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.

REVIEW, APPROVE, AND AUTHORIZE EXECUTION OF SECOND SUPPLEMENT TO THE WATER SUPPLY CONTRACT BETWEEN THE CITY OF HOUSTON AND THE AUTHORITY ("SECOND SUPPLEMENT")

Mr. Schindewolf first made some brief remarks regarding the Second Supplement negotiations with the City of Houston (the "City"), which started approximately one (1) year ago when the Board authorized Mr. Schindewolf and Ms. Bobbitt to initiate negotiations on the Second Supplement. Mr. Schindewolf further explained that the City, the Authority, the West Harris County Regional Water Authority (the "WHCRWA"), the North Fort Bend Water Authority (the "NFBWA") and the Central Harris County Regional Water Authority (the "CHCRWA") are all participants in the Northeast Water Purification Plant (the "NEWPP") expansion project.

Mr. Polley then reviewed the history of the Water Supply Agreement and the First Supplement. Mr. Polley noted that the Second Supplement provides for expansion of the NEWPP to add 320 million gallons per day ("MGD") of capacity at such facility. Mr. Polley went on to explain that such project will be completed in two (2) phases, with the first phase adding 80 MGD of capacity to the NEWPP and to be completed by no later than August 31, 2021, and the second phase adding 240 MGD of capacity and to be completed by no later than June 30, 2024. In addition to the NEWPP expansion project, Mr. Polley went on to explain that the Second Supplement also addresses other components related to the project, including Cash Flow/Funding, Design-Build Procurement and Contractor Selection, the Consensus Process, and Financial Accountability/Reporting. Mr. Polley added that the NEWPP will utilize water from the Luce Bayou Interbasin Transfer project, which is currently under construction. Mr. Polley further informed the Board that the Authority will acquire 51.05 MGD of capacity in Phase I of the NEWPP expansion and 61.95 MGD of capacity in Phase II, for a total capacity of 113.0 MGD in the expansion project. Mr. Polley added that after completion of the project, the Authority will have the right to receive 144 MGD of treated water capacity from the City. Mr. Polley further explained that the Authority's share of the cost of the NEWPP expansion project is estimated to be \$469 million, with a majority of such cost to be paid in 2018 and 2019.

Mr. Polley next reviewed the Cash Flow/Funding process and procedures included in the Second Supplement. Mr. Polley stated that the City will give the Authority six (6) months' notice of upcoming cash calls and a two (2) month notice of the exact amount and date of each cash call. Mr. Polley went on to explain that the cash will be placed in the equivalent of an escrow account that the City can draw on for the Authority's share of project costs. Mr. Polley noted that the escrow account will be a segregated account and the City can only use the funds in the Authority's account for the NEWPP expansion project.

Next, Mr. Polley reviewed the Design-Build procurement method to be used for the construction of the NEWPP expansion project. Mr. Polley explained that the expansion project will be subject to a strict statutory procurement process (Chapter 2269 of the Texas Government Code) and that the water authorities will have owner input into the procurement process. Mr. Polley further noted that the City wants a contractor engaged for the expansion project by September 2015. Mr. Polley added that the Authorities will each designate a Selection Reviewer, who will be involved in the contractor selection process.

Mr. Polley then reviewed the Consensus Process included in the Second Supplement and the items that require a consensus vote of the participating authorities. Mr. Polley further explained that each water authority will designate a project representative and that any two (2) of the participating authorities can raise representative issues. Mr. Polley added that there are also built-in safeguards in the consensus process to protect against schedule risks. Mr. Polley explained that approval of a proposed representative issue requires a 63% vote and items that fail to obtain such vote may be appealed to the Director of Public Works.

Mr. Polley went on to summarize the Financial Accountability and Reporting process and procedures included in the Second Supplement. Mr. Polley explained that there will be a semi-annual cost recovery amounts report, an annual financial report, a financial report for each phase of the expansion project and Agreed-Upon Procedures report, and a final accounting and true-up of costs at the end of the project.

Director Rendl next explained that several revisions need to be made to the Executive Summary of the Second Supplement, after which the Executive Summary will be posted on the Authority's website once the City approves the Second Supplement. Director Rendl added that approval of the Second Supplement is scheduled to be on the City Council agenda on February 18, 2015. Director Rendl further reiterated that the Authority's share of the cost of the NEWPP expansion project is \$469 million, which will require increases in the Authority's pumpage fees and likely be more frequent than in the past. Director Rendl noted that the amount of the next pumpage fee increase is not yet known, but that the Authority intends to let districts know about each pumpage fee increase as early as possible. Director Rendl added that the NEWPP expansion project is a historical project similar to the City building Lake Houston, Lake Conroe and Luce Bayou and added that the Second Supplement provides the Authority with unprecedented input into the entire process of constructing the NEWPP expansion project.

Director Sigler then asked what role Carollo Engineers ("Carollo") will play in the NEWPP expansion project and whether the City will hire an outside person to serve as the Project Director for the project. Mr. Polley responded that the City is hiring someone to be their employee to serve as the Project Director and that Carollo will serve as the Assistant Project Director. Mr. Polley added that the Project Director will report directly to Mr. Daniel Menendez, Deputy Public Works Director of Engineering and Construction.

Director Graham then asked why approval of the Second Supplement was deferred at the Board's February 2nd meeting. Mr. Polley responded that additional issues and revisions to the Second Supplement were raised late in the afternoon on February 2nd concerning the oversizing of certain components of the expansion and peaking capacity and that the Authority's negotiation team did not have adequate opportunity to review such revisions prior to the start of the Board meeting. Mr. Polley went on to explain that the City can decide to oversize certain components of the NEWPP expansion project, but that the other participants will not pay additional costs for such oversizing until such time as an authority wants additional capacity in the future. In exchange for allowing the City to oversize as such, Mr. Polley stated that the Authority received the option to purchase an additional 15 MGD of capacity in both the oversized NEWPP facilities and in the City's raw water facilities.

Director Sigler then inquired where the Authority's Project Representative will office. Mr. Schindewolf responded that the Authority's Project Representative will office with the design team, wherever that is, and then at the NEWPP site during the construction process.

PUBLIC COMMENTS

Mr. Jeff Conti, a resident of Northgate Crossing Municipal Utility District ("MUD") No. 2, inquired about a communication plan for the utility districts concerning the NEWPP expansion project. Mr. Conti asked if the Authority's Project Representative will have the authority to work independently of the Board. Mr. Polley responded that it would depend on the issue. Mr. Polley explained that the Authority's representative will act as a consultant and will not have authority to spend additional Authority money. Director Rendl then stated that the Authority is already working on how the Authority will communicate about the expansion project, proposed pumpage fee increases, etc. Director Rendl added that the Authority will use the *Waterlines* newsletter, town hall meetings, and focus groups to communicate with the utility districts.

Mr. Bob Koperwhats, president of Harris County Water Control and Improvement District ("WCID") No. 91, asked when the Authority's \$469 million share of the NEWPP expansion cost will be paid. Director Rendl responded that the majority of such cost will be paid in 2017, 2018 and 2019, and that such number does not include costs for the second source line or other infrastructure construction costs. Mr. Polley then noted that the Authority has filed an application to obtain State Water Implementation Fund for Texas ("SWIFT") funding in order to obtain funds from the Texas Water Development Board (the "TWDB") to help finance the Authority's share of costs at favorable rates. In response to a question from Director Rendl, Mr. Evans noted that SWIFT funds are projected to be available in December 2015.

A question was then asked about how the expansion project ranks with the TWDB. Mr. Evans responded that the project is ranked in the top 10% of Region H projects.

Mr. Gordon Landwermeyer of Westador MUD then asked if the \$469 million was the cost of the NEWPP expansion project, as well as the Luce Bayou Interbasin Transfer project. Director Rendl responded that the \$469 million is only the Authority's share of the NEWPP expansion project. Mr. Landwermeyer then asked what the other participants' percentages are in the NEWPP expansion project. Mr. Polley responded that the participants' percentages are as follows: 1) the City (16%); 2) the Authority (35%); 3) the WHCRWA (25.7%); 4) the NFBWA (21.4%); and 5) the CHCRWA (1.5%). Mr. Polley explained that such percentages are not the same for both phases of the project.

A member of the audience then asked how much of the \$469 million does the Authority currently have on hand. Mr. Rolan responded that the Authority has funds on hand for the initial cash calls associated with the expansion project. Director Rendl further noted that the Authority will use other funds on hand and will also issue additional debt in the future to fund the Authority's share of costs.

Mr. Alan Cornish with Bammel Utility District then asked if there will be any utility districts added to the conversion system before 2021. Director Rendl responded that the

Authority will be working on construction of new transmission lines and obtaining additional water capacity from the City. Director Pulliam added that the Authority needs to know which utility districts might be interested in participating in a Groundwater Transfer Program prior to 2021 so that the Authority can plan accordingly.

Mr. Carl Linsiessen of Harris County WCID No. 113 then asked how much the water distribution system will cost, to which Mr. Rolan responded with a rough estimate of \$700 to \$800 million.

Director Rendl then stated that as promised in the past, the Authority intends to continue to keep pumpage rates as low as possible for as long as possible.

Mr. Jerry Homan, General Manager of Harris County Fresh Water Supply District No. 61 then congratulated Mr. Schindewolf and the consultants on the successful negotiations of the Second Supplement. Mr. Homan further stated that the utility districts will want to know the immediate costs, as well as the long-term costs of the various Authority projects over the next five (5) years and in the future. Director Rendl responded that the Authority is working to gather all of the necessary information to find out the availability of the TWDB SWIFT funding and will be taking a more long-range approach to determining what pumpage fees will need to be. Director Rendl added that Mr. Schindewolf and Ms. Plunkett will be working with the Authority's financial advisors concerning the Authority's long-range financial planning. Director Rendl also stated that water reuse and water conservation programs will also play an important role.

Mr. Rolan then reported that the Authority's updated Groundwater Reduction Plan reflects a cost of approximately \$840 million for the expansion of the Authority's water distribution system for the 2025 conversion to surface water.

Ms. Allison Capone with Dowdell MUD suggested that the *Impact* magazine would be a good vehicle to get information out to the utility districts.

Another member of the audience then asked if there are provisions in the Second Supplement to protect the Authority from liability issues associated with the NEWPP expansion project. Mr. Polley responded that liability is shared by all of the participants and is prorated based on the multi-phase percentage for each participant.

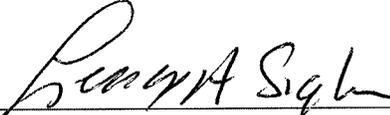
Director Rendl then ended the Public Comment period.

Mr. Schindewolf then read a letter from Director Fessler, who was unable to attend tonight's meeting, a copy of which is attached. In such letter, Director Fessler expressed his wholehearted support of the Second Supplement.

Upon motion by Director Graham, seconded by Director Sigler, after full discussion and the question being put to the Board, the Board voted unanimously to approve and authorize execution of the Second Supplement. Ms. Bobbitt noted that the signature pages of the Second Supplement will be delivered to the City tomorrow morning.

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

PASSED, APPROVED AND ADOPTED this 2nd day of March, 2015.


Secretary, Board of Directors

