

MINUTES OF MEETING OF THE  
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

November 23, 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 Monday, the 23<sup>rd</sup> day of November, 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
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, thus constituting a quorum. Also attending the meeting were: Mr. Jimmie Schindewolf, P.E., General Manager for the Authority; Ms. Cynthia Plunkett, Financial Assistant for the Authority; Ms. Barbara Payne of Payne Communications, Communications Coordinator for the Authority; Messrs. Tom Rolen, P.E., and Stephen Berkenhoff, 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; Mr. Eugene Shepherd of RBC Capital Markets, co-financial advisor for the Authority; Mr. Jeff Taylor, P.E., of Freese and Nichols, Inc., on-call engineers for the Authority; Ms. Janice Keeven, P.E., of AEI Engineering, Inc., on-call engineers for the Authority; Mr. Carlton McDevitt of Severn Trent Environmental Services, Inc., operator for the Authority; and Ms. Robin S. Bobbitt and Mr. Jonathan D. Polley of Radcliffe Bobbitt Adams Polley PLLC, general counsel and co-bond counsel for the Authority. 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.

Director Rendl encouraged the people in the audience to attend one (1) of the two (2) remaining Special Briefing meetings being held by the Authority, including a briefing scheduled for Tuesday, November 24, 2015, and a briefing scheduled for Thursday, December 3, 2015, both such briefings to be held at the Authority office.

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

UPDATE ON THE CITY OF HOUSTON'S (THE "COH") NEGOTIATION OF A DESIGN-BUILD AGREEMENT FOR THE NORTHEAST WATER PURIFICATION PLANT (THE "NEWPP ") EXPANSION

Mr. Polley first summarized the COH's process for utilizing the design-build project delivery method for the NEWPP Expansion Project. Mr. Polley then further outlined the steps required for use of the design-build procurement process under Texas law and as outlined in the Second Supplement to the Water Supply Agreement with the COH (the "Second Supplement"). Mr. Polley explained that responses to the Requests for Qualifications ("RFQ") were received by the COH subsequent to which the COH selected three (3) firms to receive Requests for Proposals ("RFP"). Mr. Polley then outlined the RFP requirements in detail with the Board. Mr. Polley further explained that the Second Supplement required each participant to designate a Selection Reviewer to represent them throughout the procurement process. Mr. Polley further explained that the Selection Reviewers representing each of the four (4) participating water authorities provided written statements identifying the firms they believe to be qualified based on the RFQ responses. Mr. Polley went on to explain that only design-build firms that appeared on at least two (2) Authorities' list of qualified firms were allowed to receive an RFP from the COH.

Mr. Polley went on to explain that three (3) RFPs were submitted to the COH on October 27, 2015 subsequent to which the COH established a committee comprised of COH personnel to first open, evaluate and score the technical proposal component of each RFP prior to the opening of the price proposal component of each RFP. Mr. Polley noted that the COH interviewed each of the firms responding to the RFP prior to opening the price proposal components and that representatives from each of the authority participants were allowed to sit in on such interviews. Mr. Polley further explained that once the technical proposals and pricing proposals were ranked by the COH, the COH initiated negotiation of an agreement with the highest-ranked design-build firm.

Mr. Polley went on to report that the COH has successfully negotiated a design-build agreement with the top-ranked design-build firm and is now ready for a consensus vote to be cast by each of the Authorities regarding such agreement. Mr. Polley explained that the Authority received a revised request for consensus vote from the COH calling for a vote to be due on Tuesday, December 1<sup>st</sup>. Mr. Polley added that a special meeting of the Authority will be scheduled for Monday, November 30<sup>th</sup> to authorize Mr. Schindewolf to cast the Authority's consensus vote on the design-build agreement in order for the COH Council to approve such agreement at its meeting scheduled for Wednesday, December 2<sup>nd</sup>.

Director Rendl inquired if the consensus vote would be discussed more at the special meeting scheduled for November 30<sup>th</sup>. Mr. Polley responded that such matter would likely be discussed further, but that the name of the top ranked design-build team would remain confidential until the COH approves the design-build agreement.

BUDGET WORKSHOP, INCLUDING REVIEW AND DISCUSSION OF THE PROPOSED BUDGET FOR THE FISCAL YEAR ENDING DECEMBER 31, 2016 (THE "2016 BUDGET"), AND REVIEW AND DISCUSSION OF PROPOSED 2016-2017 CAPITAL IMPROVEMENT PLAN (THE "2016-2017 CIP")

Mr. Schindewolf next explained that the Authority will schedule a public hearing/special meeting at 6:00 p.m. on Monday, December 7<sup>th</sup> to discuss the proposed pumpage fee and surface water rate increases and that the regular meeting will begin at 6:30 p.m. on Monday, December 7, 2015, 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 2016 Budget and the 2016-2017 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 \$0.40 per 1,000 gallons, resulting in a surface rate fee of \$2.85 per 1,000 gallons, and a pumpage rate increase of \$0.40 per 1,000 gallons, resulting in a pumpage fee of \$2.40 per 1,000 gallons, which increases will become effective on April 1, 2016.

Mr. Schindewolf further explained that the Harris-Galveston Subsidence District (the "HGSD") updated their Regulatory Plan in 2013 and noted that a major requirement of the 2013 Regulatory Plan is that the Authority achieve a 60% use of surface water by 2025, as compared to the current conversion requirement of 30%. Mr. Schindewolf further explained that the Authority will need to deliver surface water to significantly more utility districts, which will necessitate construction of a greatly expanded surface water transmission and distribution system. Mr. Schindewolf reminded the Board and the audience that the Authority will be required to participate in the cost of the COH's NEWPP expansion, as well as the construction of a second transmission line from the NEWPP to a point just west west of Interstate 45. Mr. Schindewolf added that the Authority is also paying a pro-rata share of the cost of constructing the Luce Bayou Interbasin Transfer Project. Mr. Schindewolf further explained that the initial operation and maintenance rate paid to the COH was \$0.9905 per 1,000 gallons and that such rate for 2016 is \$1.8013 per 1,000 gallons, which represents an increase of 82%.

Mr. Howell next reviewed the financial information supporting the proposed rate increases and explained that such increases will generate an estimated \$9.7 million in additional revenue. Director Pulliam then asked why the Authority does not use the \$240 million it currently has in the Authority's depository accounts. Mr. Howell explained that of the \$240 million, \$60 million of such amount is held in the Authority's construction fund which will be used for the projects, \$50 million is in the debt service fund and is used for debt service payments and that the Authority is required to maintain \$30 million in its debt service reserve fund, leaving approximately \$10 million in the Authority's General Operating Fund. Mr. Howell noted that if the Authority did not have the significant fund balance, the surface water and pumpage fee rates would be approximately \$1.25 to \$1.30 per 1,000 gallons higher than the current rates.

## 2016 BUDGET WORKSHOP

Mr. Schindewolf next explained that the proposed 2016 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 2016 Budget, including the Operating Budget Planning Report and the various revenue and expense items included in the proposed 2016 Budget. A complete copy of the 2016 Budget workshop packet, previously distributed to the Board, is attached hereto.

Mr. Rolen next reviewed the 2016 Operation and Maintenance ("O&M") expense items as outlined in the attached PowerPoint presentation. Mr. Rolen informed the Board that the Authority's total O&M costs are projected to be \$22,491,800 for 2016. Mr. Rolen stated that 70% of the proposed 2016 Budget will be used for funding the Authority's O&M costs to the COH. Mr. Rolen further explained that the Authority entered into an updated electric service contract early in 2015, which has enabled the Authority to receive electric service at a much lower rate. Mr. Rolen went on to explain that several of the key considerations in developing the proposed 2016 Budget were providing for an anticipated increase in the COH's O&M rate, making an allowance for increased physical monitoring of the Authority's distribution system and increase in maintenance costs. Mr. Rolen also noted that repairs have to be made to a portion of the COH's water transmission line from the NEWPP, which was an unexpected expense for which the Authority must pay its pro rata share.

## QUESTIONS FROM THE AUDIENCE

Mr. Larry LaHaie of Northwest Harris County Municipal Utility District No. 15 then asked who damaged the COH water transmission line, to which Mr. Rolen responded that the Texas Department of Transportation ("TxDOT") contractor had damaged the line. Another gentleman asked if the Authority had a one (1) year contract or multi-year contract for electrical service. Mr. Rolen responded that the Authority entered into a five (5) year electric service contract.

Director Sigler then expressed concern regarding the line damage caused by TxDOT. Director Graham agreed and stated that if the COH was at fault in not including the water line on its construction plans, the Authority should not be required to pay for a pro rata share of the repair costs. Director Fessler commented that he would like to know more details about the damage to the water line, but stated tonight was not the time to have such discussion. Mr. LaHaie then added that it appears that the Authority is already paying for a pro rata share of the repair costs.

Ms. Plunkett then went on to review the Administrative Expenses in the proposed 2016 Budget.

Ms. Payne next briefly reviewed the Communication Services portion of the proposed 2016 Budget, which includes two (2) publications of Waterlines, increased video and social media costs, and participation in the installation of some weather stations around the Authority. Director Rendl added that the Authority is also planning to email construction progress updates to constituents who have provided their email addresses to the Authority. Director Rendl added that an updated publication of the "Rising Cost of Water" brochure will be printed and made available at no charge to Authority customers. Director Pulliam then asked if the HGSD has given any recognition to the Authority for its water conservation programs. Ms. Payne responded that the HGSD has not provided any acknowledgement of the Authority's water conservation programs.

Mr. Schindewolf next reviewed the Management Services expense category of the proposed 2016 Budget and noted that there are several staff positions that he intends to fill in 2016, including a Chief Inspector, an O&M Coordinator, a Chief Engineer for the NEWPP Expansion project, a Chief Engineer for the Second Source Transmission Line project, a Deputy General Manager for Engineering, Construction, and Real Estate, and an Accountant to assist Ms. Plunkett. Ms. Plunkett went on to review the Miscellaneous Services and Capital Outlays expense categories of the 2016 Budget. Ms. Plunkett further reported that the 2016 Budget reflects total revenues of \$60,559,290 and total expenses of \$63,598,943.

A member of the audience then asked if a copy of the proposed 2016 Budget would be made available. Ms. Plunkett responded that a copy of the adopted 2016 Budget will be posted on the Authority's website.

#### REVIEW OF PROPOSED 2015-2016 CIP

Mr. Schindewolf then stated that this is the 13<sup>th</sup> CIP to be developed by the Authority and then called on Mr. Rolan to review the proposed 2016-2017 CIP as outlined in the attached PowerPoint presentation.

Mr. Rolan then explained that the proposed 2016-2017 CIP focuses on the development of the infrastructure needed to enable the Authority to meet the HGSD's 2025 surface water conversion requirement. Mr. Rolan explained that such infrastructure includes, but is not limited to the following: 1) continue evaluating the need for additional regional water wells and enhancements to the 2010 system and take necessary efforts 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 and the phased implementation of the 2025 distribution system; 3) continue the planning and design and initiate construction of the 2025 distribution system; 4) finalize the alignment of the portion of the 2025 transmission line, which lies generally north of Beltway 8 from just west of Interstate Highway 45 to just west of State Highway 249, and initiate securing the necessary easements and design for the 2025 transmission line; 5) initiate design of the initial phase of the State Highway 249 Regional Pump Station; 6) identify and purchase the sites for the 2025 Regional Pump Station and 2035 Regional Water Plant; 7) provide initial funding for the Authority's share of the major expansion of the NEWPP;

8) provide funding for the Authority's share of the cost of major rehabilitation, reconstruction and upgrading of the existing NEWPP; 9) 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; 10) pay the Authority's portion of the initial loan costs for the Luce Bayou Interbasin Diversion Project; 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 2016-2017 CIP.

Mr. Rolan next explained that it will cost approximately \$516 million to implement the Authority's 2016-2017 CIP, \$44 million of which will be funded from proceeds of the Authority's prior bond issues, capital contributions and interest earnings and \$369 million of which will be provided by the Texas Water Development Board's State Water Implementation Fund for Texas ("SWIFT") funds to be received by the Authority and an additional \$103 million from a source to be determined. Mr. Rolan noted that the Authority will begin work on the 2016 application for SWIFT funds in the near future.

Director Rendl interjected that the Authority's estimated total expenditure for its pro rata share of costs for the NEWPP Expansion project and the Second Source Transmission Line project is \$1.4 billion and further noted that the Authority expects to receive approximately \$943 million in SWIFT funds for such projects. Director Rendl added that there are currently six (6) utility district connection systems under design that will be added to the Authority's transmission system over the next several years. Director Rendl further noted that as the Authority's population increases, it will become more difficult to meet the surface water conversion requirement with the 31 million gallons per day of surface water currently being received from the COH, especially during the low usage winter months.

CONFIRM UPCOMING MEETING DATES

Director Rendl then confirmed that a special meeting of the Board will be held on Monday, November 30, 2015, at 6:00 p.m., a public hearing regarding the Authority's proposed rate increases will be held on Monday, December 7, 2015, at 6:00 p.m., and that the next regular meeting will be held on Monday, December 7, 2015, at 6:30 p.m., immediately after the 6:00 p.m. public hearing on the proposed rate increases, with all such meetings to be held at the Authority's office.

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

PASSED, APPROVED AND ADOPTED this 4<sup>th</sup> day of January 2016.



  
Secretary, Board of Directors