

MINUTES OF MEETING OF THE
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

November 19, 2018

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 19th day of November, 2018, 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. 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. 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 for the Authority; Mr. David Warner, P.E., of Jones Carter, Inc., on-call engineers for the Authority; Mr. Bill Kotlan, P.E., of Brown & Gay Engineers, Inc., on-call engineers for the Authority; Mr. Charles Shumate, P.E., of Lockwood Andrews and Newnam, Inc.; Mr. Carlton McDevitt of Inframark, LLC (formerly, Severn Trent Environmental Services) ("Inframark"), operator for 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. 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, 2019 (THE "2019 BUDGET"), AND REVIEW AND DISCUSSION OF THE PROPOSED 2019-2020 CAPITAL IMPROVEMENT PLAN (THE "2019-2020 CIP")

Mr. Schindewolf first explained that the Authority will hold a public hearing/special meeting at 6:00 p.m. on Monday, December 3, 2018 to discuss the proposed pumpage fee and surface water rate increases and that the regular meeting will follow at 6:15 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 2019 Budget and the 2019-2020 CIP, Mr. Howell, working with Mr. Chang, Ms. Plunkett, Mr. Berckenhoff 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 \$0.45 per 1,000 gallons, resulting in a proposed surface water fee of \$4.30 per 1,000 gallons, and a pumpage fee rate increase of \$0.45 per 1,000 gallons, resulting in a proposed pumpage fee of \$3.85 per 1,000 gallons, which increases will become effective on April 1, 2019.

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 necessary in order to continue to fund the capital improvements necessary 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"), 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, costs associated with the Authority's facilities getting older and the Luce Bayou Project costs.

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 2019 since the proposed increase is \$0.45 rather than the \$0.50 increase that has been implemented in the past. Mr. Howell responded that the surface water rate and pumpage fee will need to be increased again in 2020, but that the rates will not need to be increased beyond \$0.45 for 2019. Mr. Howell further stated that the Authority can expect to increase the surface water rate and pumpage fee by \$0.40 to \$0.50 for the next several years. A member of the audience then asked how many years the "next several years" will consist of. Director Rendl stated that the rates will continue to increase until the rates reach somewhere in the \$5.00 range, and then it is projected that the rates will level out. Mr. Howell further noted that as far as he knows, there has never been any analysis that shows surface water or pumpage rates approaching \$8.00 per 1,000 gallons, as has been rumored. Director Rendl went on to explain that the Authority does not know what the NEWPP will ultimately cost. Director Rendl further stated that steel costs and construction costs continue to rise, which will affect the total cost of the NEWPP project.

A member of the audience next asked for the Authority's continued support of utility districts and their constituents with regard to the Authority's rate increases. Director Rendl stated that he will come and speak to any utility district regarding surface water and pumpage fee rates and that the Authority desires to keep its constituents well informed. Mr. Jerry Homan, General Manager of Harris County Fresh Water Supply District No. 61 then stated that the April 1st increase date has helped utility districts to know when to expect rate increases, and has helped with district budgeting processes. A member of the audience next asked if utility districts can tell their constituents that the surface water rate and pumpage fee will definitely stay below \$6.00 per 1,000 gallons. Director Rendl stated that the Authority is planning to keep rates below \$6.00 per 1,000 gallons.

2019 BUDGET WORKSHOP

Mr. Schindewolf next explained that the proposed 2019 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, 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 2019 Budget, including the Operating Budget Planning Report and the various revenue and expense items included in the proposed 2019 Budget. A complete copy of the 2019 Budget workshop packet, previously distributed to the Board, is attached hereto.

Mr. Berckenhoff next reviewed the 2019 Operation and Maintenance ("O&M") expense items reflected in the proposed 2019 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 \$23,070,000 for 2019 compared to a budgeted 2018 O&M expense amount of \$22,577,900. Mr. Berckenhoff further stated that 72% of the proposed 2019 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 2019 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 maintenance costs.

Director Fessler then stated that, based on his review and analysis, the COH's operations and maintenance expenses have risen 52% since February 2010. Director Fessler inquired as to what factors are contributing to that increase. Mr. Chang explained that the increases are related to a number of factors, including COH pension costs, insurance costs, a rise in chemical costs and a rise in electricity costs.

Ms. Plunkett then went on to review the Administrative Expenses reflected in the proposed 2019 Budget. Ms. Plunkett explained that the Authority's total Administrative Expenses are projected to be \$4,050,979 for 2018. Ms. Plunkett noted that the Communications

Services budget line item is increasing by \$10,000 for 2019, to \$387,468. Ms. Payne explained that the Communications Services budget increase is attributable to the addition of a new newsletter next year, updates to the Authority's website, updates to the mobile teaching labs and updates to Director Rendl's 11-minute video. Ms. Plunket next reviewed the Management Services budget line item and stated that there would be an increase of 2.06% in such line item for 2019. Director Rendl asked if a financial assistant would be hired in 2019. Mr. Schindewolf stated that hiring an assistant for Ms. Plunkett is a goal for 2019. Mr. Schindewolf further stated that the Authority plans to fill several positions in 2019 that have been unfilled over the last several years, including a chief engineer, construction coordinator, chief inspector and a financial assistant to assist Ms. Plunket. Ms. Plunkett concluded her remarks by reporting that the proposed 2019 Budget reflects total revenues of \$97,587,500 and total expenses of \$88,876,722.

REVIEW OF PROPOSED 2019-2020 CIP

Mr. Schindewolf then stated that this is the 16th CIP to be developed by the Authority and then called on Mr. Berckenhoff to review the proposed 2019-2020 CIP, as outlined in the attached PowerPoint presentation.

Mr. Berckenhoff explained that the proposed 2019-2020 CIP focuses on the development of the infrastructure needed to enable the Authority to meet the HGSD 2025 surface water conversion mandate. Mr. Berckenhoff further explained that the 2019-2020 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) initiate design of the initial phase of the State Highway 249 Regional Pump Station; 5) initiate 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 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) continue the planning, design and construction of the 2025 distribution system; 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 2019-2020 CIP.

Mr. Berckenhoff next explained that it will cost approximately \$829 million to implement the Authority's 2019-2020 CIP, \$55 million of which will be funded from proceeds of the Authority's prior bond issues, capital contributions and interest earnings and \$747 million of which will be provided by Texas Water Development Board's SWIFT funds.

Mr. Berckenhoff then reviewed the status of several projects that are part of the 2019-2020 CIP. Director Graham asked if all water transmission and distribution lines will be in service by 2020. Mr. Berckenhoff responded that all of the projects that are contained in the 2019-2020 CIP will be in design, under right-of-way acquisition or under construction by the end

of 2020. Director Graham next asked when the NETL should be completed. Mr. Berckenhoff stated that completion of the NETL should coincide with completion of the NEWPP in October 2022.

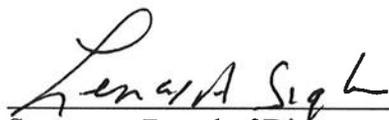
CONFIRM UPCOMING MEETING DATES

Mr. Schindewolf then reiterated that a public hearing regarding the Authority's proposed rate increases will be held on Monday, December 3, 2018, 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 2019 Budget and the proposed 2019-2020 CIP will be presented at the December 3rd Board meeting.

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

PASSED, APPROVED AND ADOPTED this 3rd day of December, 2018.




Secretary, Board of Directors