

CENTRAL HARRIS COUNTY REGIONAL WATER AUTHORITY

Minutes of Meeting of Board of Directors November 2, 2016

The Board of Directors (the "Board") of the Central Harris County Regional Water Authority (the "Authority") met in regular session, open to the public on November 2, 2016, in accordance with the duly posted notice of meeting, and the roll was called of the duly constituted members of said Board, as follows:

Margaret L. Cox, President
Julian F. Boddy, Vice President
David Granadino, Secretary
Tom Gower, Assistant Secretary
Richard C. Meek, Assistant Secretary

and all of said persons were present, thus constituting a quorum.

Also present were Marcel Khouw, P.E. of IDS Engineering Group, Inc. ("IDS"), engineer for the Authority; Fran Matuska of F. Matuska, Inc. ("Matuska"), bookkeeper for the Authority; Lonnie Wright of Municipal Operations and Consulting, Inc. ("MOC"), operator for the Authority; John Howell of The GMS Group, L.L.C. ("GMS"), financial advisor for the Authority; Auburn Higgins of AOS Treatment Solutions, LLC ("AOS"); Arthur Freeman and Linda Watkins of Fallbrook Utility District ("Fallbrook"); Marian Henderson, Debby Johnson and Cordelia Brown of Harris County Municipal Utility District No. 217 ("No. 217"); Lathan Johnson of Rankin Road West Municipal Utility District ("Rankin"); and Abraham Rubinsky of Schwartz, Page & Harding, L.L.P. ("SPH"), attorneys for the Authority.

The President called the meeting to order and declared it open for such business as might properly come before it.

APPROVAL OF MINUTES

As the first order of business, the Board considered approval of the minutes of its meeting held October 5, 2016. Mr. Rubinsky noted one minor comment to page 6 of the draft minutes to correct a typographical error. After discussion, Director Gower moved that the minutes of the meeting held October 5, 2016, be approved as revised. Director Meek seconded said motion, which unanimously carried.

PUBLIC COMMENTS

The Board opened the meeting for public comments. There were no comments received from the public in attendance at the meeting.

STATUS OF THE AUTHORITY'S PROPOSED SALE OF \$9,270,000 CENTRAL HARRIS COUNTY REGIONAL WATER AUTHORITY REVENUE BONDS, SERIES 2016 (THE "BONDS")

As the first order of business, Mr. Rubinsky advised the Board that SPH submitted the transcript of proceedings for the Bonds to the Attorney General of Texas on October 19, 2016, and received a preliminary approval from the Attorney General on October 31, 2016. Mr. Rubinsky further advised that the closing of the Bonds is scheduled for Monday, November 14, 2016.

DISBURSEMENT OF BOND PROCEEDS

Mr. Rubinsky requested that the Board consider authorizing disbursement of the bond proceeds from the Series 2016 Bonds. Ms. Matuska presented and reviewed with the Board check nos. 3160 through 3162, inclusive, as identified in the Bookkeeper's Report referenced below. After discussion on the matter, Director Gower moved that the Board authorize the disbursement of the bond proceeds relative to the Series 2016 Bonds and that the above-referenced checks be approved and authorized for payment, subject to the closing scheduled for November 14th. Director Meek seconded said motion, which carried unanimously.

DISCUSSION REGARDING EXPENDITURE AND INVESTMENT OF BOND PROCEEDS AND INTERNAL REVENUE SERVICE RESTRICTIONS ON SAME

Mr. Rubinsky next presented and reviewed correspondence from SPH, as Bond Counsel for the issuance of the Bonds, a copy of which is attached hereto as Exhibit A, addressed to the Board regarding certain provisions of the federal tax law and regulations of the Internal Revenue Service pertaining to the expenditure and investment of proceeds of the Bonds. Mr. Rubinsky advised the Board that certain periodic reviews and reports would be required to monitor compliance with the requirements set forth therein and that arbitrage rebate or yield reduction payments could be required to be made based on said review and reports. Mr. Rubinsky also advised the Board that the Authority's Bookkeeper will monitor investment rates and debt service and reserve fund balances. Mr. Rubinsky advised the Board, however, that compliance with the requirements is the responsibility ultimately of the Board. In connection with same, Mr. Rubinsky reminded the Board that the Authority previously engaged Municipal Risk Management Group, L.L.C., to evaluate such compliance and to assist the Authority and its Bookkeeper with any calculations and reporting requirements.

BOOKKEEPER'S REPORT

Ms. Matuska presented to and reviewed in detail with the Board the Bookkeeper's Report, a copy of which is attached hereto as Exhibit B, including the Summary of Cash Transactions for the Authority's various accounts for the period October 1, 2016 through November 2, 2016, and the checks presented for payment from the General Fund, a Summary of Investments, a Statement of Revenues and Expenditures for the month of September 2016, and a Summary of Pumpage Fees Paid by Member Districts through September 2016. Ms. Matuska advised that a

portion of the expenses reflected as expenditures from the General Operating Fund will be reimbursed from proceeds of the Series 2016 Bonds following closing.

Ms. Matuska next presented to and reviewed with the Board a (i) Resolution Authorizing Consultant Representative, and (ii) a Resolution amending Authorized Representatives, which Resolutions authorize certain employees of Matuska to act upon financial and investment matters on behalf of the Authority with Compass Bank and Texpool, respectively.

After discussion, Director Boddy moved that (i) the Bookkeeper's Report be approved and that the disbursements listed therein be approved for payment, and (ii) that the Resolutions discussed above be approved and that the President be authorized to execute same on behalf of the Authority. Director Meek seconded said motion, which unanimously carried.

FINANCIAL ADVISOR'S REPORT

Mr. Howell next presented to and reviewed with the Board a handout detailing the Authority's multi-year funding commitments from the Texas Water Development Board ("TWDB"), a copy of which is attached hereto as Exhibit C. He reminded the Board that the Authority intends to sell approximately \$21,650,000 in Revenue Bonds in 2017 and approximately \$5,000,000-\$7,000,000 in additional bonds in 2018. Mr. Howell advised that due to requirements in the Authority's Bond Resolutions and the Attorney General's requirements in connection with the Additional Bonds Test, funds may need to be transferred from the Authority's Surplus Revenue Fund to the General Operating Fund prior to the end of 2016. He advised that he is consulting with SPH to determine whether said transfer will be necessary before the Authority's next meeting.

Mr. Howell then advised the Board that GMS is also in the process of updating the Authority's Long Term Financial Model. He noted several key issues that will impact the Authority's financial condition and, therefore, its future rates and fees including (i) water usage within the Authority's Member Districts being lower than originally projected by the Member Districts, (ii) the increased costs of the Northeast Water Purification Plant ("NEWPP") Expansion Project, and (iii) the increased costs of the Luce Bayou Interbasin Transfer Project. Mr. Howell stated that he believes the Authority will need to increase its GRP Fee, Surface Water Fee and Importation Fee by approximately \$0.20 to \$0.30 per thousand gallons within the next few months. He then discussed with the Board the Authority's projected 2017 rates and compared same to the current projected 2017 rates for the North Harris County Regional Water Authority, the North Fort Bend Water Authority, and the West Harris County Regional Water Authority, and noted that the Authority's projected rates are in line with the rates of the other regional water authorities. Mr. Howell advised that he would present a firm recommendation for the Authority's 2017 rates at the December Board meeting. Mr. Rubinsky reminded the Board that the Authority will need to provide notice to its Member Districts once said rates have been determined in order to give them the opportunity to adjust their rates accordingly.

ENGINEER'S REPORT

Mr. Khouw next presented and reviewed with the Board a written Engineer's Report attached hereto as Exhibit D, and updated the Board on the status of various matters of interest to the Authority.

In connection with the extension of an Authority surface water supply line to Harris County Municipal Utility District No. 304's ("No. 304") Water Plant ("WP"), Mr. Khouw reported that the project is on hold until No. 304 completes the acquisition of additional land for the expansion of its WP site. He then reviewed with the Board a proposal from Berg Oliver Associates, Inc. ("BOA"), in the amount of \$5,434.50, to complete the Environmental Data Form required by TWDB, and advised that said proposal would be paid utilizing proceeds from the Authority's Series 2008 Revenue Bonds. A copy of BOA's proposal is attached hereto as Exhibit E. Mr. Rubinsky advised that BOA has provided SPH with a Texas Ethics Commission ("TEC") Form 1295. After discussion, Director Gower moved to approve the proposal from BOA and authorize BOA to complete the Environmental Data Form required by TWDB. Director Boddy seconded said motion, which unanimously carried.

In connection with the expansion of the City of Houston's ("City") NEWPP, Mr. Khouw reported that the City and the Houston Waterworks Team ("HWT") have completed the Draft Basis of Design Report ("BODR"), including the budget and schedule, and that IDS is in the process of reviewing same. He reported that he attended a project scope and budget meeting on October 21, 2016, and that the total project budget is now approximately \$1,467,000,000, an increase of approximately 15% over the original project budget. Mr. Khouw advised that the intent of this budget is primarily for planning purposes and that the goal of the City, HWT and the other regional water authorities is to complete the project in line with the original budget amount. He emphasized that the current budget still includes a significant amount for contingencies as the NEWPP Expansion project is still in very early phases of design. Mr. Khouw also reported that HWT and the City are underway with negotiations of the Contract for Phase II of the project, and that the Bridge Contract between the City and HWT, funding of which was previously approved by the Authority, is scheduled to be considered by City Council next week.

Mr. Khouw then reviewed with the Board a proposal from AOS for the proposed water quality analysis and blending study of the Authority's surface water system, a copy of which is attached hereto as Exhibit F. He explained the scope of the work and the purpose of the first two (2) Phases of the study. Mr. Khouw further reported that the City's Technical Consultant, Carollo Engineers, has reviewed and provided comments on the proposal, and that the proposal has been modified accordingly. Mr. Khouw then recommended that the Authority authorize AOS to proceed with Phases I and II for the approximate cost of \$60,000, plus lab analysis at cost plus ten percent (10%). He estimated that Phase I and II will take approximately five (5) to six (6) months to complete. Mr. Rubinsky advised that SPH has received a TEC 1295 from AOS. After discussion, Director Meek moved to approve the proposal from AOS for the proposed water quality analysis and blending study of the Authority's system, and authorize SPH to acknowledge receipt of the TEC Form 1295. Director Gower seconded said motion, which unanimously carried.

In connection with Phase I of the Northeast Transmission Line ("NETL"), Mr. Khouw reported that the City is in the design phase of said project and anticipates bidding three segments of the NETL in January or February of 2017.

In connection with the Authority's 2025 Internal Distribution Line project, Mr. Khouw reported that IDS is continuing to work on the water model for this line at this time.

Mr. Khouw then updated the Board on the status of the Luce Bayou Interbasin Transfer Project and reported that Coastal Water Authority anticipates construction of the pump station to commence this November or December 2016.

In connection with the proposed tour of the NEWPP with the City, Mr. Khouw advised that the available dates in October did not work for all parties. After discussion, the Board requested that the proposed tour of the NEWPP be postponed until January or February of 2017.

OPERATOR'S REPORT

Mr. Wright presented and reviewed with the Board a written Operator's Report for October 2016, a copy of which is attached hereto as Exhibit G.

Mr. Wright advised the Board that the percentage of surface water usage within the Authority during October 2016 was 39% and is now 41% for the current permit year to date.

The Board next discussed the request previously received from Harris County Municipal Utility District No. 33 ("No. 33") for an exemption from the payment of the Authority's water importation fee for water imported into the Authority during the time period during which No. 33 was on an emergency water interconnect with Harris County Utility District Nos. 14 and 15 ("No. 14" and "No. 15"). Mr. Rubinsky presented to and reviewed in detail with the Board an appeal letter received October 5, 2016, from Ms. Regina Adams of Radcliffe Bobbitt Adams Polley PLLC, on behalf of No. 33, and reminded the Board that said appeal was previously denied by the Board at its meeting held October 5, 2016. Mr. Wright then advised that No. 33 has not remitted payment of the invoice previously sent to No. 33 for import fees related to the water it imported into the Authority during the months of May, June and July 2016, nor has it provided usage information for water it imported through its interconnect with No. 14 and/or No. 15 during the months of August, September or October 2016. A lengthy discussion ensued regarding same. After discussion, the Board requested that MOC send a final invoice to No. 33 for the water importation fees, including a ten percent (10%) penalty for the delinquent amount previously invoiced, plus the assessment of additional importation fees for the months of August, September and October based on the interconnect meter reading of No. 14 and/or No. 15. The Board further requested that SPH direct correspondence to No. 33, advising of the additional actions the Authority will consider taking pursuant to its Rate Order if said invoice is not fully paid in a timely manner.

GOVERNMENT AFFAIRS UPDATE

The Board next considered a Government Affairs Update. In connection therewith, Mr. Rubinsky reviewed with the Board a Government Affairs Update prepared by C.J. Tredway, dated November 2, 2016, a copy of which is attached hereto as Exhibit H. A brief discussion followed regarding a proposed Governmental Affairs Representation Agreement ("Agreement") between Ms. Tredway and the Authority in connection with the coming 85th Legislative Session. After discussion, the Board requested that an item be placed on the agenda for its next meeting to consider approval of said Agreement.

ATTORNEY'S REPORT

The Board considered the attorney's report. In connection therewith, Mr. Rubinsky advised the Board that Chapter 2206 of the Texas Government Code requires each public and private entity in the State of Texas authorized to exercise the power of eminent domain to file an annual report with the Texas Comptroller of Public Accounts ("Comptroller"), before February 1 of each year. Following discussion on the matter, Director Boddy moved that SPH be authorized to prepare and file the required eminent domain report with the Comptroller prior to February 1, 2017. Director Meek seconded the motion, which passed unanimously.

DISCUSSION REGARDING STATUS OF WEBSITE DESIGN FOR THE AUTHORITY BY THE TEXAS NETWORK, LLC ("TTN")

Mr. Rubinsky advised that SPH has begun the process of gathering data to be submitted to Ms. Barbara Payne and Mr. Russell Lambert of TTN in connection with its development of the Authority's website, and that a meeting would be scheduled in the future with Director Meek and Mr. Johnson of Rankin to discuss the information to be included on said website.

CLOSED SESSION PURSUANT TO TEXAS GOVERNMENT CODE SECTION 551.071 AND SECTION 551.072

The Board determined that it would not be necessary at this time to convene in Closed Session.

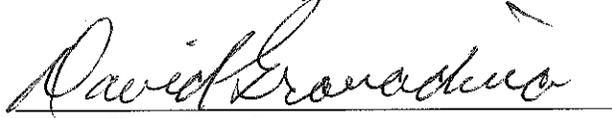
ITEMS TO BE PLACED ON NEXT AGENDA PERTINENT TO THE AUTHORITY

The Board considered items for placement on future agendas. No specific agenda items, other than routing and ongoing matters were requested.

Mr. Rubinsky noted that the next meeting of the Board is scheduled for Wednesday, December 7, 2016, at 6:00 p.m.

ADJOURN MEETING

There being no further business to come before the meeting, upon motion made by Director Gower, seconded by Director Meek and unanimously carried, the meeting was adjourned.

A handwritten signature in cursive script, reading "David Granadino", written over a horizontal line.

David Granadino, Secretary
Board of Directors

LIST OF ATTACHMENTS TO MINUTES

EXHIBIT A	SPH Arbitrage Compliance Correspondence
EXHIBIT B	Bookkeeper's Report
EXHIBIT C	Multi-Year Funding Request Table
EXHIBIT D	Engineer's Report
EXHIBIT E	BOA Proposal
EXHIBIT F	AOS Proposal
EXHIBIT G	Operator's Report
EXHIBIT H	Government Affairs Update