

CENTRAL HARRIS COUNTY REGIONAL WATER AUTHORITY

Minutes of Meeting of Board of Directors
December 7, 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 December 7, 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; Jared Martin 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; Greg Sissel of BKD, LLP ("BKD"), auditor for the Authority; Linda Watkins and Arthur Freeman of Fallbrook Utility District ("Fallbrook"); Laura Davis of Harris County Municipal Utility District No. 33 ("No. 33"); Debra 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 November 2, 2016. After discussion, Director Meek moved that the minutes of the meeting held November 2, 2016, be approved as written. Director Gower 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 ISSUANCE OF THE AUTHORITY'S \$9,270,000 REVENUE BONDS, SERIES 2016 (THE "BONDS")

Mr. Rubinsky advised the Board that the Bonds successfully closed, as scheduled, on November 14, 2016.

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 A, including the Summary of Cash Transactions for the Authority's various funds for the period November 1, 2016 through December 7, 2016, and the checks presented for payment from the General Fund, HC304 Agreement Fund and Series 2008 Capital Projects Fund, a Summary of Investments, a Statement of Revenues and Expenditures for the month of October 2016, and a Summary of Pumpage Fees Paid by Member Districts through October 2016.

Ms. Matuska noted voided check nos. 3169 through 3175 from the Authority's General Fund. She also noted a wire transfer to the City of Houston ("City") in the amount of \$1,414.38, from the Series 2008 Capital Projects Fund in connection with the Luce Bayou Project.

Ms. Matuska also reported that the Authority received a payment in the amount of \$137,532.78 from No. 33, for Water Importation Fees for water received via interconnect with Harris County Utility District No. 14 and No. 15 ("No. 14" and "No. 15") during the period of May 2016 through August 2016.

After discussion, Director Boddy moved that the Bookkeeper's Report be approved and that the disbursements listed therein be approved for payment. Director Gower seconded said motion, which unanimously carried.

The Board next considered ratification of its prior action approving a (i) Resolution Authorizing Consultant Representative, and (ii) 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 Meek moved to ratify the Board's prior action approving the Resolutions as discussed, and authorizing the President to execute same on behalf of the Authority. Director Gower seconded said motion, which unanimously carried.

OPERATING BUDGET FOR FISCAL YEAR ENDING DECEMBER 31, 2017

Ms. Matuska next presented and reviewed in detail with the Board a draft Operating Budget for the Authority's fiscal year ending December 31, 2017, a copy of which is included in the Bookkeeper's Report attached hereto as Exhibit A. Ms. Matuska discussed various revisions made to the initial draft Operating Budget presented and reviewed with the Board at its last meeting. After discussion on the matter, upon motion made by Director Gower, seconded by Director Meek and unanimously carried, the Board approved the proposed Operating Budget for the Authority's fiscal year ending December 31, 2017, as presented.

ENGAGEMENT OF AUDITOR TO PERFORM ANNUAL AUDIT

The Board next considered the engagement of an independent firm of auditors to perform an audit of the Authority's financial statements for the fiscal year ending December 31, 2016. The Board recognized Mr. Sissel, who addressed the Board regarding BKD's professional qualifications, and estimated BKD's fees to perform such audit to be approximately \$18,000, plus expenses. After discussion, Director Gower moved that the firm of BKD be engaged to prepare the Authority's audit for the fiscal year ending December 31, 2016, that the President be authorized to execute an engagement letter with BKD on behalf of the Board and the Authority and that SPH be authorized to acknowledge TEC Form 1295 in connection with same. Director Boddy seconded said motion, which carried unanimously.

HOUSE BILL 1378

Mr. Rubinsky advised the Board that House Bill 1378, as passed by the 84th Texas Legislature and promulgating Texas Local Government Code, Section 140.008, requires the Authority and other political subdivisions to file certain financial information with the Texas Comptroller of Public Accounts (the "Comptroller") following each fiscal year expiring on or after January 1, 2016. This financial information may be submitted as a separate report, or alternatively, a political subdivision subject to Chapter 49 of the Texas Water Code (including the Authority) may submit its annual audit reports to the Comptroller. Mr. Rubinsky further explained that political subdivisions with a website should also make the financial information available on such website or provide a link to the information on the Comptroller's website. Lastly, Mr. Rubinsky explained that the Comptroller has advised that the initial report is due within 210 days of the Authority's fiscal year end, which is July 31, 2017, and the second and subsequent reports will be due within 180 days of the Authority's fiscal year end (June 30th). Upon motion made by Director Gower, seconded by Director Meek and carried unanimously, the Board authorized SPH to file the Authority's annual audit report for the fiscal year ended December 31, 2016, with the Comptroller by the appropriate deadline.

FINANCIAL ADVISOR'S REPORT

The Board next recognized Mr. Howell, who presented to and reviewed with the Board certain spreadsheets detailing the Authority's proposed bond issues to be issued in 2015 through 2020, through the Texas Water Development Board's ("TWDB") State Water Infrastructure Fund of Texas ("SWIFT") program in order to finance the design and construction of the expansion of the City's Northeast Water Purification Plant ("NEWPP"), Phases 1 and 2 of the Northeast Transmission Line ("NETL"), and Phase 2 of the Authority's Internal Distribution System, and a detailed schedule and analysis of the Authority's 2017 Operating Revenue Projections related to the financing thereof. Copies of said spreadsheets are attached hereto as Exhibit B. Mr. Howell reminded the Board that several key issues 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 NEWPP Expansion Project, and (iii) the increased costs of the Luce Bayou Interbasin Transfer Project. He further discussed with the Board various requirements of the SWIFT

program and the Texas Attorney General's requirements regarding the Authority's issuance of revenue bonds.

Mr. Howell then reviewed in detail with the Board a handout reflecting the Authority's 2017 Operating Revenue projections based on revised water usage projections, and revised 2017 projected annual cash flow analysis, a copy of which is attached hereto as Exhibit B.

Mr. Howell then recommended that the Authority's GRP Fee, Importation Fee and Surface Water Fee each be increased by \$0.20 per thousand gallons to be effective February 1, 2017. He advised that said increases are necessary to generate the additional revenue that will be required to pay for the Authority's share of the above-referenced projects and are generally consistent with the fees imposed by the other regional water authorities in the Houston metropolitan area.

After lengthy discussion, Director Meek moved that (i) the Board indicate its intent to increase the Surface Water Fee from \$2.65 to \$2.85 per 1,000 gallons and the GRP Fee and Water Importation Fee from \$2.31 to \$2.51 per 1,000 gallons, effective February 1, 2017, and that (ii) SPH be authorized to direct correspondence to all Member Districts advising of the proposed rate increase to be considered at the January 4, 2017 Board meeting, to be effective February 1, 2017. Director Granadino seconded said motion, which unanimously carried.

ENGINEER'S REPORT

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

Mr. Khouw reported that the Authority's surface water usage for the June 1, 2016 through May 31, 2017 permit year, to date, is 41.27% of total water use, which is above the mandated 30% conversion percentage, and that the Authority has accumulated over-conversion credits from the Harris-Galveston Subsidence District in connection with same.

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. Rubinsky reported that No. 304 has informed SPH that it has completed acquisition of the property needed for the WP expansion. Mr. Khouw further reported that Berg Oliver Associates is working on the environmental study and data form required to be submitted to the TWDB, as previously authorized by the Board. He reminded the Board that the environmental study and data form are necessary to qualify the project to utilize the TWDB Bond funds for the final design and construction of the project.

Mr. Rubinsky next advised that SPH received correspondence from No. 304 dated December 5, 2016, advising of No. 304's intent to annex approximately 27.377 acres into No. 304. He advised that a feasibility study by IDS may be necessary in connection with the proposed annexation, but noted that there are some inconsistencies with the acreage of land provided in the above referenced correspondence that need to be clarified before a feasibility

study can be completed. After discussion, the Board requested that Mr. Rubinsky correspond with the attorney for No. 304 to clarify said inconsistencies.

Mr. Khouw next reported that IDS received correspondence from the TWDB advising the Authority that TWDB is preparing its annual Historically Underutilized Businesses ("HUB") report, and requesting the Authority to submit its HUB participation worksheet for the NEWPP expansion project, NETL Phase I project, and the NETL Phase 2 project, funded by Authority's Series 2015 Bonds. After discussion, the Board requested that IDS submit the requested worksheets to the TWDB by the December 14, 2016 deadline.

In connection with the expansion of the City's NEWPP, Mr. Khouw reported that the City and the Houston Waterworks Team ("HWT") are currently in negotiations for the final engineering design of the NEWPP, and that once negotiations are completed, the City will present the information to all regional water authorities. Mr. Khouw reported that the City has decided that the project will proceed as originally planned as a 320 million gallon per day expansion.

In connection with the Authority's 2025 Internal Distribution System, Mr. Khouw reported that AOS Treatment Solutions is working on data collection for the water quality study previously authorized by the Board. He advised that IDS is continuing to work on the water model and planning for the system.

In connection with Phase I of the NETL, Mr. Khouw reported that the City is working on design and property acquisition for the transmission line and advised that the City anticipates bidding three (3) segments of the line in January or February of 2017. He reported that the City held a contractor/vendor workshop in order to increase contractor participation in these projects.

Mr. Khouw then updated the Board on the status of the Luce Bayou Interbasin Transfer Project and reported that Coastal Water Authority has started construction of the Capers Ridge Pump Station and anticipates bidding the canal construction projects this month. He also reported that the dual 96-inch pipelines are currently under design.

OPERATOR'S REPORT

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

Mr. Martin advised the Board that the percentage of surface water usage within the Authority during October 2016 was 41% and is now 41% for the current permit year to date. Mr. Martin advised that the accountability of surface water for the permit year to date is 99%.

Mr. Martin reported that Fallbrook has advised MOC that one of its water wells went down in October, but that it has been able to serve its customers with water from its second well while the first well is undergoing repairs.

Mr. Martin next reported that, as discussed under the Bookkeeper's Report, No. 33 has submitted payment to the Authority of the water importation fees for water imported into the Authority during No. 33's use of its emergency water interconnect with No. 14 and No. 15 between May and August 2016. A discussion ensued regarding said matter, after which the Board concurred to accept No. 33's payment as payment in full and to waive any late fees or penalties potentially due from No. 33 pursuant to the Authority's Rate Order.

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 December 6, 2016, a copy of which is attached hereto as Exhibit E.

Mr. Rubinsky then presented to and reviewed with the Board a Governmental Affairs Representation Agreement ("Agreement") between Ms. Tredway and the Authority in connection with the coming 85th Legislative Session, a copy of which is attached hereto as Exhibit F, and advised that a Texas Ethics Commission Form 1295 has been received for said Agreement. He advised the Board that said Agreement proposes a fee of \$63,000 for two (2) years of services, which is an increase of five (5) percent over the fee charged for said services in connection with the 84th Legislative Session. After discussion, the Board elected to defer further consideration of the matter until the January 4, 2017 meeting, and requested that Ms. Tredway attend said meeting to discuss the proposed Agreement further with the Board.

ATTORNEY'S REPORT

The Board next considered the attorney's report. In connection therewith, Mr. Rubinsky reported that he and Director Gower attended a Region H Town Hall Meeting held by H2O4 Texas Coalition at the offices of the San Jacinto River Authority on November 16, 2016.

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.

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.

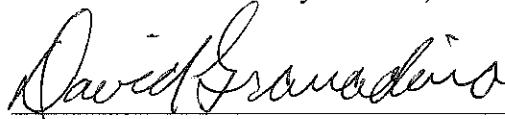
ITEMS TO BE PLACED ON NEXT AGENDA PERTINENT TO THE AUTHORITY

The Board considered items for placement on future agendas. The Board requested that an item be placed on the January meeting agenda to consider amendment of the Authority's Rate Order.

Mr. Rubinsky noted that the next meeting of the Board is scheduled for Wednesday, January 4, 2017, 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.



David Granadino, Secretary
Board of Directors



LIST OF ATTACHMENTS TO MINUTES

EXHIBIT A	Bookkeeper's Report
EXHIBIT B	Spreadsheet Detailing the Proposed Bond Issues to be Issued in 2015 through 2020 and 2017 Operating Revenue Projections
EXHIBIT C	Engineer's Report
EXHIBIT D	Operator's Report
EXHIBIT E	Government Affairs Update
EXHIBIT F	Government Affairs Representation Agreement