

CENTRAL HARRIS COUNTY REGIONAL WATER AUTHORITY

Minutes of Meeting of Board of Directors
August 1, 2018

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 August 1, 2018, 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; Lathan Johnson of Rankin Road West Municipal Utility District ("Rankin Road"); and Abraham I. Rubinsky of Schwartz, Page & Harding, L.L.P. ("SPH"), attorney 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 special meeting held July 11, 2018. After discussion, Director Gower moved that the minutes of the special meeting held July 11, 2018, be approved as written. Director Boddy seconded said motion, which unanimously carried.

PUBLIC COMMENTS

The Board opened the meeting for public comments. The Board recognized Lathan Johnson of Rankin Road, who advised that Rankin Road experienced discolored water over the weekend of July 20 through July 22, 2018, and early during the week of July 23, 2018. Mr. Johnson expressed his displeasure that there was no communication from the City of Houston ("City"), the Authority, or the North Harris County Regional Water Authority ("NHCRWA") regarding this issue. Mr. Johnson stated that he had received complaints from numerous customers of Rankin Road regarding the discolored water. Messrs. Rubinsky and Khouw then discussed communications with representatives of the City and the NHCRWA regarding the water quality issue. Mr. Rubinsky reported that he had been advised of the situation by Rankin Road's operator on July 24, 2018, and that he had immediately advised Mr. Khouw of the situation, who then followed up with the City and the NHCRWA. Mr. Khouw reported that he had been advised by the City that there was no discolored water at the Northeast Water

Purification Plant ("NEWPP") during the time in question, but that the City had noted that two line breaks had occurred in lines tied to the main surface water transmission line, which they suspect caused the discolored water in the system. Mr. Khouw further reported that the NHCRWA was not aware of the situation until operators for several utility districts that receive surface water from the NHCRWA began calling the NHCRWA on Monday, July 23, 2018. Mr. Khouw advised that the NHCRWA conducted water quality tests which indicated that the water coming from the City was clear, but that there was discolored water in the Spears Road Pumping Station ground water storage tanks. Mr. Khouw further advised the Board that the NHCRWA has indicated that, in the future, it will conduct three water quality tests per day, as follows: (i) on the water coming in to the Spears Road Pumping Station from the City, (ii) on the water located in the Spears Road ground storage tanks, and (iii) on the water leaving the Spears Road Pumping Station. Mr. Johnson requested that the Authority implement a better communications policy so that the Member Districts are notified as soon as possible in the event of future water quality issues. The Board concurred that the Authority needs to be able to advise its customers immediately of any future water quality issues. The Board then requested that Messrs. Khouw and Martin prepare a statement regarding the recent discolored water situation to post on the Authority's website as soon as possible.

BOOKKEEPER'S REPORT

Ms. Matuska next 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 July 1, 2018 through August 1, 2018, and the checks presented for payment from the General Fund and the Series 2008 Capital Projects Fund, a Summary of Investments, a Statement of Revenues and Expenditures for the month of June 2018 and the first six (6) months of the Authority's fiscal year ended December 31, 2018, and a Summary of Pumpage Fees Paid by Member Districts through June 2018. Ms. Matuska reviewed the status of and activity in each of the Authority's accounts and discussed certain transactions with the Board. Ms. Matuska noted that the Texas Water Development Board ("TWDB") approved the Authority's request yesterday for the release of escrowed proceeds from the Authority's Series 2015 Bonds and Series 2017 Bonds for various expenses related to the NEWPP Expansion Project. After discussion, Director Gower moved that the Bookkeeper's Report be approved and that the disbursements listed therein be approved for payment. Director Granadino seconded said motion, which unanimously carried.

Ms. Matuska next presented to and reviewed with the Board the Authority's Quarterly Investment Report for the period ended June 30, 2018, a copy of which is attached to the Bookkeeper's Report. After discussion, it was moved by Director Gower, seconded by Director Granadino and unanimously carried, that said Quarterly Investment Report be approved and that the Authority's Investment Officer be authorized to execute same on behalf of the Board and the Authority.

FINANCIAL ADVISOR'S REPORT

The Board next discussed financial matters of the Authority, including the status of communications with the City regarding the City's FY 2011, FY 2012, FY 2013, FY 2014, FY 2015, FY 2016 and FY 2017 True Up Reports related to Operations and Maintenance of the

City's NEWPP. Mr. Rubinsky advised the Board that he had no new activity upon which to report regarding same.

With respect to the Authority's formal applications to the TWDB for financial assistance from the State Water Implementation Fund for Texas ("SWIFT") for (i) the additional funds required for the City's NEWPP Expansion Project in the amount of \$7,585,000, and (ii) the Luce Bayou Interbasin Transfer Project in the amount of \$1,500,000, Mr. Rubinsky reported that the TWDB approved both applications on July 26, 2018.

Mr. Rubinsky next presented to and reviewed with the Board a Financing Agreement between the Authority and the TWDB, a copy of which is attached hereto as **Exhibit B**, in connection with the Authority's proposed sale of its Series 2018 Bonds to the TWDB. After discussion, it was moved by Director Meek, seconded by Director Boddy and unanimously carried, that said Financing Agreement be approved and that the President be authorized to execute same on behalf of the Board and the Authority.

DISCUSSION REGARDING COMMUNICATIONS WITH TWDB REGARDING REQUIREMENT THAT CORRECTIVE ACTION BE TAKEN IN CONNECTION WITH AUDITOR'S FINDING OF MATERIAL WEAKNESS IN THE AUTHORITY'S INTERNAL CONTROL OVER FINANCIAL REPORTING

Mr. Rubinsky next presented to and reviewed with the Board correspondence received from the TWDB dated July 27, 2018, a copy of which is attached hereto as **Exhibit C**, regarding apparent non-compliance with the requirements of the Authority's Bond Resolutions due to BKD, LLP's ("BKD") findings of material weaknesses in internal controls over financial reporting in 2017 and prior year audits. Mr. Rubinsky advised the Board that it has been determined that the findings of material weaknesses in internal controls in the Authority's current and future fiscal year end audits can be eliminated by engaging another auditing firm to perform certain accounting procedures based upon a scope of work prepared by BKD on the Authority's behalf. In that regard, Mr. Rubinsky presented an engagement letter from McCall Gibson Swedlund Barfoot PLLC ("McCall Gibson") dated August 1, 2018, a copy of which is attached hereto as **Exhibit D**, for the performance of certain accounting procedures based upon the scope of work prepared by BKD for the District's fiscal year ending December 31, 2018, at a cost not to exceed \$10,000. After discussion on the matter, it was moved by Director Gower, seconded by Director Meek and unanimously carried, that McCall Gibson be engaged to perform such accounting procedures and that the President be authorized to execute McCall Gibson's engagement letter on behalf of the Board and the Authority, subject to the receipt of a TEC 1295. Mr. Rubinsky stated that he will contact the TWDB as requested by the TWDB in its correspondence of July 27, 2018, to advise of the corrective actions being taken by the Authority to eliminate the findings of material weaknesses in internal controls going forward.

DISCUSSION REGARDING COMMUNICATIONS WITH TWDB REGARDING FINAL ACCOUNTING IN CONNECTION WITH THE AUTHORITY'S \$22,050,000 REVENUE BONDS, SERIES 2008

Mr. Rubinsky next advised the Board that correspondence had also been received from the TWDB dated July 17, 2018, a copy of which is attached hereto as **Exhibit E**, regarding a final accounting of the costs related to the Authority's \$22,050,000 Revenue Bonds, Series 2008.

After discussion on the matter, it was moved by Director Meek, seconded by Director Boddy and unanimously carried, that SPH and IDS be authorized to work with the TWDB on the resolution of same.

ENGINEER'S REPORT

Mr. Khouw next presented to and reviewed with the Board a written Engineer's Report dated August 1, 2018, a copy of which is attached hereto as **Exhibit F**, and updated the Board on the status of various matters of interest to the Authority.

Mr. Khouw noted that the ground water usage, surface water usage, and total water usage within the Authority reflected in the Engineer's Report is for the month of May, and that he does not have the usage amounts for the months of June or July. He advised the Board that Mr. Martin will provide this information under the Operator's Report.

Mr. Khouw addressed the Board regarding the status of the proposed construction of an extension of an Authority surface water supply line and meter station to serve Harris County Municipal Utility District No. 304's ("No. 304") Water Plant, as detailed in the Engineer's Report. After discussion, it was moved by Director Granadino, seconded by Director Boddy and unanimously carried, that Change Order No. 1 to the contract for the construction of an extension of an Authority surface water supply line and meter station to serve No. 304's Water Plant be approved. Mr. Khouw noted that the net impact on the contract is \$-0- since funds allotted to extra work items in the contractor's bid may be used for such purpose.

Mr. Khouw advised the Board that he had no new activity upon which to report regarding Harris County Municipal Utility District No. 217's ("No. 217") possible abandonment of its water well due to continuing arsenic and volatile organic compound issues with the well.

Mr. Khouw next addressed the Board concerning the status of the NEWPP Expansion Project, as further detailed in the Engineer's Report. Mr. Khouw advised the Board that construction is ongoing for Early Work Package ("EWP") Nos. 1, 2 and 4, including the construction of under West Lake Houston Parkway. Mr. Khouw also discussed Cash Call 7B for proposed EWP No. 6 (Intake Pump Station), which will be due by approximately September 7, 2018, and which will be funded from the escrow release recently approved by the TWDB.

Mr. Khouw next reported to the Board concerning the status of Phase I of the Northeast Transmission Line, as further detailed in the Engineer's Report, including the contracts for the construction of (i) the 54-inch water line along Vickery Drive, and (ii) the 108-inch water line from Lee Road to Vickery Drive.

Mr. Khouw advised the Board that he had no new activity upon which to report with respect to Phase II of the Northeast Transmission Line.

Mr. Khouw next reported to the Board regarding the proposed alignment of the Authority's 2025 Internal Distribution System lines, as further detailed in the Engineer's Report. He advised the Board that the interconnect between the Authority's 2010 and 2025 Internal Distribution Systems has been modeled and it appears that it will be necessary to add an in-line

pump station in order to force water through the interconnected system. Mr. Khouw advised that IDS is continuing to study said matter.

Mr. Khouw advised the Board that he had no new activity upon which to report concerning the Luce Bayou Interbasin Transfer Project. He noted that the project is on schedule, with all of the components expected to come on line in 2019.

ISSUANCE OF SURFACE WATER COMMITMENTS TO MEMBER DISTRICTS

The Board next deferred action regarding the issuance of surface water commitments to those Member Districts that have been converted to surface water in accordance with the terms of the Authority's Rate Order, including Rankin Road, No. 217, Harris County Municipal Utility District No. 150 ("No. 150") and Harris County Municipal Utility District No. 200, pending the receipt of updated water usage demand requirements from the Member Districts.

OPERATOR'S REPORT

Mr. Martin presented to and reviewed with the Board a written Operator's Report for July 2018, a copy of which is attached hereto as **Exhibit G**. Mr. Martin reported to the Board regarding ground water usage, surface water usage, and total water usage within the Authority for the current month, as well as surface water accountability for the permit year to date, as reflected in the Operator's Report. He noted that the ground water usage and total water usage figures for the month of July are low because of missing groundwater usage figures from Harris County Municipal Utility District Nos. 33 and 304 for July 2018.

Director Granadino next advised the Board that he had attended No. 150's last Board of Directors meeting and that No. 150 is working on a study to determine whether to rehabilitate and/or install a water treatment system for its water wells or construct new wells.

Mr. Martin additionally reported that MOC does not have full access to the Member Districts water plant sites as set forth in Section 8.02 of the Authority's Rate Order and, as a result, frequently spends an exorbitant amount of time waiting to gain access to said sites in order to perform necessary activities on behalf of the Authority. After discussion on the matter, it was moved by Director Boddy, seconded by Director Gower and unanimously carried, that SPH be authorized to direct correspondence to the Member Districts advising that the Authority must have full access to any public property or private property within the Authority's boundaries, including the Member Districts' water plant sites, in order to operate efficiently.

GOVERNMENT AFFAIRS UPDATE

Mr. Rubinsky advised the Board that a Government Affairs Update was not received from C.J. Tredway this month.

ATTORNEY'S REPORT

The Board next considered the attorney's report. Mr. Rubinsky advised the Board that he had nothing further to discuss with the Board of a legal nature which was not covered under specific agenda items.

DISCUSSION REGARDING STATUS OF AUTHORITY WEBSITE AND OTHER COMMUNICATIONS WITH MEMBER DISTRICTS

Mr. Rubinsky next advised the Board that he had no new activity to report regarding 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. Except as may be reflected above, there were no additional agenda items requested other than routine, ongoing matters.

ADJOURN MEETING

There being no further business to come before the meeting, it was unanimously carried that the meeting be adjourned.



David Granadino, Secretary
Board of Directors

LIST OF ATTACHMENTS TO MINUTES

- Exhibit A Bookkeeper's Report
- Exhibit B Financing Agreement with the Texas Water Development Board
- Exhibit C Correspondence from Texas Water Development Board dated July 27, 2018
- Exhibit D Correspondence from Texas Water Development Board dated July 17, 2018
- Exhibit E Engagement Letter from McCall Gibson Swedlund Barfoot PLLC
- Exhibit F Engineer's Report
- Exhibit G Operator's Report