

CENTRAL HARRIS COUNTY REGIONAL WATER AUTHORITY

Minutes of Meeting of Board of Directors November 7, 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 November 7, 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; John Howell of The GMS Group, LLC ("GMS"), financial advisor for the Authority; Greg Sissel of BKD, LLP ("BKD"), auditor for the Authority; Pastor Mitchell B. Stewart and Lathan Johnson of Rankin Road West Municipal Utility District ("Rankin Road"); Marian Henderson and Tim Hardin of Harris County Municipal Utility District No. 217 ("No. 217"); Linda Watkins and Gilbert Miranda of Fallbrook Utility District ("Fallbrook"); 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 meeting held October 3, 2018. After discussion, Director Boddy moved that the minutes of the meeting held October 3, 2018, be approved as written. 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 ISSUANCE OF THE AUTHORITY'S \$7,735,000 CENTRAL HARRIS COUNTY REGIONAL WATER AUTHORITY REVENUE BONDS, SERIES 2018 (THE "SERIES 2018 BONDS")

Mr. Rubinsky next advised the Board that the transcript of proceedings for the Series 2018 Bonds was approved by the Attorney General of Texas earlier this week. Mr. Rubinsky further advised that the closing of the Bonds is scheduled for Thursday, November 15, 2018, at 10:00 a.m.

DISBURSEMENT OF BOND PROCEEDS

The Board considered authorizing the disbursement of proceeds from the Series 2018 Bonds. In that regard, Mr. Howell reviewed with the Board the Final Closing Memorandum prepared by GMS, a copy of which is attached hereto as **Exhibit A**, in connection with the disbursement of the bond proceeds to the Authority's Series 2018 Escrow Fund, Series 2018 Capital Projects Fund, Debt Service Fund and Debt Service Reserve Fund. After discussion, Director Gower moved that the proceeds of the Series 2018 Bonds be disbursed in accordance with such Closing Memorandum, subject to the closing scheduled for November 15, 2018. Director Meek seconded said motion, which unanimously carried.

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, 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. A copy of said correspondence is attached hereto as **Exhibit B**. 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.

ACT UPON ANY OTHER MATTERS IN CONNECTION WITH THE ISSUANCE OF THE DISTRICT'S SERIES 2018 BONDS

The Board considered authorizing the execution of various closing documents relative to the Authority's Series 2018 Bonds, including the Authority's Receipt, a No-Litigation Certificate, and a Federal Tax Certificate. After discussion on the matter, it was moved by Director Meek, seconded by Director Boddy and unanimously carried, that the President be authorized to execute such closing documentation and the Secretary to attest same on behalf of the Board and the District, and that SPH be authorized to approve closing on the sale of the Series 2018 Bonds.

ADOPTION OF RESOLUTION ADOPTING LIST OF QUALIFIED BROKERS AUTHORIZED TO ENGAGE IN INVESTMENT TRANSACTIONS WITH THE AUTHORITY

Mr. Rubinsky next advised the Board that ZB, National Association, dba Amegy Bank, which had been designated by the Authority to serve as Paying Agent/Registrar and Escrow Agent in connection with the Series 2018 Bonds, had recently changed its name to Zions Bancorporation, National Association. In that regard, Mr. Rubinsky reported that SPH had revised all of the documents pertaining to the Series 2018 Bonds, as appropriate, to reflect the name change. Mr. Rubinsky further advised the Board that SPH recommends that the Authority also adopt a new list of qualified brokers authorized to engage in investment transactions with the Authority reflecting the change in the name of the bank. After discussion on the matter, Director Gower moved that the Resolution Adopting List of Qualified Brokers Authorized to Engage in Investment Transactions with the Authority attached hereto as **Exhibit C** be approved, and that the President and Secretary be authorized to execute same on behalf of the Board and the District. Director Meek seconded said motion, which unanimously carried.

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 D**, including the Summary of Cash Transactions for the Authority's various funds for the period October 1, 2018 through November 7, 2018, and the disbursements presented for payment from the General Fund, the Series 2008 Capital Projects Fund, and the Series 2018 Capital Projects Fund, a Summary of Investments, a Statement of Revenues and Expenditures for the month of September 2018 and the first nine (9) months of the Authority's fiscal year ended December 31, 2018, and a Summary of Pumpage Fees Paid by Member Districts through September 2018. Ms. Matuska reviewed the status of and activity in each of the Authority's accounts and discussed certain transactions with the Board. After discussion, Director Meek 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.

REVIEW OF PROPOSED OPERATING BUDGET FOR THE AUTHORITY'S FISCAL YEAR ENDING DECEMBER 31, 2019

Ms. Matuska presented for the Board's review a draft Operating Budget for the fiscal year ending December 31, 2019, a copy of which is attached to the Bookkeeper's Report. Ms. Matuska advised the Board that she is still working with the Authority's consultants to complete the budget. Accordingly, the Board deferred action relative to the adoption of an Operating Budget for the fiscal year ending December 31, 2019, until its next meeting.

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, 2018. 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 \$18,900, plus expenses. Mr. Sissel noted that the Authority had previously engaged McCall Gibson Swedlund Barfoot PLLC ("McCall Gibson") to perform certain accounting procedures in order to eliminate the findings of material weaknesses in internal controls in the Authority's fiscal year end audits. After discussion, Director Boddy moved that (i) the firm of BKD be engaged to prepare the Authority's audit for the fiscal year ending December 31, 2018, (ii) 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 the Texas Ethics Commission Form 1295 provided by BKD in connection with same, and (iii) McCall Gibson be authorized to perform certain accounting procedures in order to eliminate the findings of material weaknesses in internal controls in the Authority's 2018 fiscal year end audit. Director Meek seconded said motion, which carried unanimously.

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 Northeast Water Purification Plant ("NEWPP"). Mr. Howell advised the Board that he had no new activity upon which to report regarding same.

Mr. Howell next addressed the Board regarding the City of Houston's ("City") FY 2019 adopted water rate for the NEWPP in the amount of \$1.4938 per 1,000 gallons, which became effective as of July 1, 2018. Mr. Howell advised the Board that he will begin updating the Authority's long term financial plan once the Operating Budget for the fiscal year ending December 31, 2019 has been completed, and expects to be able to present same and his recommendations with respect to any rate adjustments at the January 2019 meeting.

PRESENTATION FROM ACCURATE METER & SUPPLY REGARDING THE POSSIBLE IMPLEMENTATION OF AN AUTOMATED METER READING SYSTEM

Mr. Martin advised the Board that a representative of Accurate Meter & Supply will attend the December Board meeting to give a presentation regarding the possible implementation of an Automated Meter Reading System.

ENGINEER'S REPORT

Mr. Khouw next presented to and reviewed with the Board a written Engineer's Report dated November 7, 2018, a copy of which is attached hereto as **Exhibit E**, and updated the Board on the status of various matters of interest to the Authority.

Mr. Khouw reported to the Board regarding ground water usage, surface water usage, and total water usage, as well as the Harris-Galveston Subsidence District (the "HGSD") permit requirements, as detailed in the Engineer's Report.

Mr. Khouw addressed the Board regarding the status of construction of an extension of an Authority surface water supply line and meter station to serve No. 304's Water Plant, as

detailed in the Engineer's Report. Mr. Khouw then presented the Board with Pay Estimate No. 2 received from B-5 Construction Company, Inc. in the amount of \$30,327.34 in connection with the contract for construction of the surface water supply line extension and meter station project and recommended approval of same. After discussion, it was moved by Director Boddy, seconded by Director Meek and unanimously carried, that Pay Estimate No. 2 be approved.

Mr. Khouw next advised the Board that IDS submitted the Historically Underutilized Business (HUB) Project Participation Form in connection with projects financed through the State Water Implementation Fund for Texas to the Texas Water Development Board ("TWDB") earlier today.

Mr. Khouw next addressed the Board concerning the status of the NEWPP Expansion Project, as further detailed in the Engineer's Report. He noted that there appear to be some deficiencies in the submittal of the Guaranteed Maximum Price ("GMP") for completion of the NEWPP Expansion Project which was recently provided to the City by the Houston Waterworks Team ("HWT"). Mr. Khouw advised the Board that the City is in the process of reviewing the GMP and preparing correspondence to HWT to request additional information in order to determine how the GMP was developed. A brief discussion followed concerning the GMP and status of the Project.

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.

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 that surveying along the water line route to Harris County Municipal Utility District No. 33 ("No. 33") and Fallbrook should be complete by the next meeting. He advised the Board that the water modeling is also almost complete, which indicates that the Authority may need to construct a pump station.

Mr. Khouw advised the Board that he had no new activity upon which to report concerning the Luce Bayou Interbasin Transfer Project.

Mr. Khouw additionally reported that IDS received updated data today regarding the Member Districts' projected water usage demand requirements. In that regard, he presented to and discussed with the Board a table regarding the updated 2025 and 2035 water usage demand requirements, a copy of which is attached to the Engineer's Report.

ISSUANCE OF SURFACE WATER COMMITMENTS TO MEMBER DISTRICTS

Mr. Rubinsky advised the Board that SPH will begin preparation of surface water commitments for the Board's consideration next month for issuance 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, based upon the updated data received today regarding the Member District's projected water usage demand requirements.

OPERATOR'S REPORT

Mr. Martin presented to and reviewed with the Board a written Operator's Report for October 2018, a copy of which is attached hereto as **Exhibit F**. 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.

Mr. Martin next reported to the Board concerning email correspondence received from Paul Villarreal of WWWS, Inc., the operator for No. 150, on October 29, 2018, regarding various issues related to surface water meters and the proposed new protective enclosures, as well as a leak near one of No. 150's surface water meters. Mr. Martin advised the Board that he had responded to Mr. Villarreal in detail on November 1, 2018, and that he believes that all of Mr. Villarreal's questions and concerns have been adequately addressed.

GOVERNMENT AFFAIRS UPDATE

Mr. Rubinsky next presented to and reviewed with the Board a Government Affairs Update received from C.J. Tredway dated November 7, 2018, a copy of which is attached hereto as **Exhibit G**. The Board concurred that no action was required in connection with said Update at this time.

ATTORNEY'S REPORT

The Board next considered the attorney's report. Mr. Rubinsky presented to and discussed with the Board correspondence received from Regina Adams, attorney for No. 33, dated October 24, 2018, a copy of which is attached hereto as **Exhibit H**, requesting an exemption from water importation fees imposed by the Authority. After a thorough review of the facts and discussion of said matter, Director Meek moved that No. 33's request for an exemption from the payment of the water importation fees for 2.81 million gallons of water imported from Harris County Utility District No. 14 ("No. 14") be approved by the Board, subject to No. 33 repaying No. 14 in-kind for the imported water over a period of time not to exceed 120 days. Director Boddy seconded said motion, which unanimously carried.

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

A discussion next ensued regarding the Authority's website. Lathan Johnson of Rankin Road noted that there has been no message posted on the Authority's website regarding the water quality issue experienced in late July by the Authority and the North Harris County Regional Water Authority. Mr. Khouw stated that the City is still investigating the discolored water issue and has not provided any additional information on which the Authority can report. After

discussion, Mr. Johnson and the Board concurred that, due to the passage of time and the fact that the problem has not occurred again, posting a message regarding the incident is no longer necessary.

**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 Final Closing Memorandum (Series 2018 Bonds)
- Exhibit B SPH Arbitrage Compliance Correspondence (Series 2018 Bonds)
- Exhibit C Resolution Adopting List of Qualified Brokers Authorized to Engage in
Investment Transactions with the Authority
- Exhibit D Bookkeeper's Report
- Exhibit E Engineer's Report
- Exhibit F Operator's Report
- Exhibit G Government Affairs Update
- Exhibit H Correspondence from Regina Adams, attorney for No. 33, dated October 24, 2018