

**BOARD OF DIRECTORS
SAN JACINTO RIVER AUTHORITY
MINUTES OF REGULAR MEETING
JULY 25, 2019**

A regular meeting of the Board of Directors of the San Jacinto River Authority was held at 8:00 a.m., July 25, 2019, at the San Jacinto River Authority General and Administration Building, a notice of said meeting was posted as required by law. President Lloyd Tisdale, Vice-President Ronnie Anderson, Treasurer Mark Micheletti, Assistant Secretary Ed Boulware, and Board Members Brenda Cooper and Jim Alexander were present. Secretary Kaaren Cambio was absent. General Manager Jace Houston, Deputy General Manager Ron Kelling, Director of Financial and Administrative Services Tom Michel, Director of Water Resources and Flood Management Chuck Gilman, Director of Communications and Public Affairs Heather Ramsey Cook, Woodlands Division Manager Chris Meeks, GRP Division Manager Mark Smith, Lake Conroe Division Manager Bret Raley, Highlands Division Manager Kimberly Wright, Administrative Services Manager Cynthia Bowman, General Counsel Mitchell Page, and Financial Advisor Jan Bartholomew were in attendance.

1. CALL TO ORDER

The meeting was called to order at 8:05 a.m.

2. PLEDGES OF ALLEGIANCE

The Pledges of Allegiance were led by Mr. Alexander.

3. PUBLIC COMMENTS

Mr. Dan Krueger spoke in opposition to the Lake Conroe seasonal lowering.

4. DIVISION UPDATES

a. G & A:

Mr. Houston provided an update related to the results of a research effort co-funded by NASA and Southern Methodist University (SMU), which was published in a recent article entitled, "Identify and Monitor Growth Faulting Using InSAR over Northern Greater Houston, Texas, USA."

b. G & A:

Ms. Cook reported on various projects within the Authority, to include recent posts on social media and various mentions in Bass Masters Magazine and other media outlets.

c. G & A:

No update was provided related to Finance and Administration.

d. Woodlands:

No update was provided by the Woodlands Division.

e. GRP:

No update was provided by the GRP Division.

f. Lake Conroe:

Mr. Raley reported on the progress of the dam road repair, relief well, and the Adams Building rehabilitation projects.

g. Highlands:

Ms. Wright provided an update of the Siphon 7 Phase I project as well as the Wallisville Siphon Improvements project.

h. Flood Management:

Mr. Gilman reviewed the policy for Lake Conroe seasonal lake lowering, which is scheduled to begin August 1, 2019. He also provided an update related to the regional flood study and dredging projects.

5. CONSENT AGENDA

Mr. Anderson made a motion to approve the consent agenda as recommended. The motion was seconded by Mr. Micheletti and carried unanimously.

a. Approval of Minutes

Approve minutes of Regular Meeting of June 27, 2019.

b. Unaudited Financials for the Month of June, 2019

Approve the unaudited financials for the month of June, 2019.

c. Annual Review of the San Jacinto River Authority's Pension Plan and Affirm the Pension Plan Investment Policy Statement as Adopted July 27, 2017

Approve annual review of the San Jacinto River Authority's pension plan and affirm the Pension Plan Investment Policy Statement as adopted July 27, 2017.

d. Amendment to Retirement Plans Investment Committee Charter

Approve the amendment to the Retirement Plans Investment Committee Charter.

e. Amendment to Contract with Texas Water Development Board to Release Committed Funds for the Fifth Cycle Regional Water Planning on Behalf of the Region H Water Planning Group

Authorize the General Manager to execute an amendment to the contract with the Texas Water Development Board to release funds related to the Fifth Cycle Regional Water Planning on behalf of the Region H Water Planning Group.

f. Construction Contract for Wastewater Treatment Facility No. 2 Generator Replacement

Authorize the General Manager to execute a construction contract with Boyer, Inc., in the amount of \$246,946, for Wastewater Treatment Facility No. 2 Generator Replacement in The Woodlands, and contract modifications up to \$61,000.

g. Construction Contract for Rehabilitation of Water Well No. 34

Authorize the General Manager to execute a construction contract with Weisinger Incorporated, in the amount of \$179,350, for Rehabilitation of Water Well No. 34 in The Woodlands, and contract modifications up to \$44,000.

h. Construction Contract for Wastewater Treatment Facility No. 2 Plant Process Water Motor Control Center Replacement

Authorize the General Manager to execute a construction contract with C.F. McDonald Electric, Inc., in the amount of \$243,527, for Wastewater Treatment Facility No. 2 Plant Process Water Motor Control Center Replacement in The Woodlands, and contract modifications up to \$60,000.

i. Interlocal Cooperation Agreement with the Texas Water Development Board for Volumetric and Sedimentation Survey of Lake Conroe

Authorize the General Manager to execute an Interlocal Cooperation Agreement with the Texas Water Development Board in the amount of \$76,098, for a Volumetric and Sedimentation Survey of Lake Conroe.

j. Texas Department of Transportation Easements for Widening of FM 1097

Authorize the General Manager to grant easements in the vicinity of Lake Conroe to the Texas Department of Transportation for the widening of FM 1097.

6. REGULAR AGENDA

a. G&A

1. Resolution Confirming and Creating Certain Funds for Lake Conroe Division, Highlands Division, and General and Administration Division; Establishing Policies and Procedures Related to the Use of Such Funds; and Establishing Policy Related to the Sufficiency of Fees, Rates, and Charges

Ms. Steiger, Controller, provided an overview of the Lake Conroe Division, Highlands Division, and General and Administration Division reserve resolution presented in detail last month. Mr. Boulware made a motion to adopt Resolution No. 2019-R-08, attached hereto as Exhibit "A", of the San Jacinto River Authority Board of Directors confirming and creating certain funds for Lake Conroe Division, Highlands Division, and General and Administration Division; establishing policies and procedures related to the use of such funds; and establishing policy related to the sufficiency of fees, rates, and charges. The motion was seconded by Mr. Alexander and carried unanimously.

b. WOODLANDS

1. Change Order No. 3 to Construction Contract for Lift Station No. 4 Replacement, Lift Station No. 23 Rehabilitation, and Wastewater Treatment Facility No. 3 Lift Station Rehabilitation

Mr. Schindewolf provided information related to Change Order No. 3. Mr. Alexander made a motion to authorize the General Manager to finalize and execute Change Order No. 3 to the construction contract with Black Castle General Contractors in the amount of \$217,225.02, for Lift Station No. 4 Replacement, Lift Station No. 23 Rehabilitation, and Wastewater Treatment Facility No. 3 Lift Station Rehabilitation in The Woodlands, after the construction of Lift Station No. 4 replacement is determined to be substantially complete by the Woodlands Division Manager and the Technical Services Department Manager. The motion was seconded by Mr. Anderson and carried unanimously.

c. GRP

1. Resolution Confirming and Creating Funds for Groundwater Reduction Plan Division, Establishing Policies and Procedures for the Use of Such Funds, and Establishing Policy Related to Sufficiency of Fees, Rates, and Charges

Mr. Smith provided an overview of the GRP Division reserve resolution. He explained the various processes of the flow of funds. He stated that the groundwater pumpage fees and surface water fees collected from customers are deposited into the GRP General Fund. Further, the General Fund distributes funds into Operations and Maintenance Expenses, Debt Service Fund, and Debt Service Reserve Fund. He stated that the Operating & Rate Stabilization Reserve Fund, Emergency Reserve Fund, and Repair and Replacement Fund reside within the GRP General Fund. Mr. Smith explained that if all reserves and funds are fully funded, the remaining funds will be placed in the Operating and Rate Stabilization Reserve Fund. He explained that the Construction Escrow Fund and the Surplus Revenue Fund will only be used if directed by the GRP Review Committee and approved by the Board of Directors. Mr. Smith stated that the proposed resolution was presented to the GRP Review Committee and it was recommended for approval by the Board of Directors by a vote of 4-0. Mr. Alexander made a motion to adopt Resolution No. 2019-R-09, attached hereto as Exhibit "B", of the San Jacinto River Authority Board of Directors confirming and creating funds for Groundwater Reduction Plan Division; establishing policies and procedures related to the use of such funds; and establishing policy related to the sufficiency of fees, rates, and charges. The motion was seconded by Mr. Micheletti and carried unanimously.

d. FLOOD MANAGEMENT

1. Work Order No. 2 for Professional Services Related to the Texas Water Development Board Phase 2 Flood Protection Grant

Mr. Barrett, Division Engineer, provided an overview of Phase 1 of the Texas Water Development Board flood protection grant stating that it resulted in a model of the Lake Conroe Watershed. Further, he explained that Work Order No. 1 evaluated platforms for various tools and ultimately selected HEC-RTS, the same platform used by the Harris County Flood Control District. He explained that Work Order No. 2 will provide for development of the tool as well as training for staff. Mr. Barrett went on to say that the tool will utilize the Phase 1 model, observed and forecasted rainfall, lake level, and other data to support the operations. Mr. Micheletti made a motion to authorize the General Manager to execute Work Order No. 2 with

Halff Associates, Inc., in an amount not to exceed \$311,920.69, for professional services related to the Texas Water Development Board Phase 2 Flood Protection Grant. The motion was seconded by Ms. Cooper and carried unanimously.

7. BRIEFINGS AND PRESENTATIONS

a. Presentation of Fiscal Year 2020 Operating Budgets

Ms. Steiger and Ms. Lewis provided an overview of the proposed Fiscal Year 2020 operating budgets. Ms. Lewis stated that the budget was developed based on general assumptions of normal weather conditions, conservative projection of water demands, stability in fuel prices and electric and natural gas, and the proposed reserve and R&R funds (pay-as-you-go) policies. She went on to review the various staffing assumptions related to Full Time Equivalent (FTE) positions, salaries and wages, healthcare, retirement, and workers compensation. Ms. Lewis provided the rate assumptions relative to the increases of the raw water rate, the Woodlands wholesale water rate, the Woodlands wholesale wastewater rate, and the GRP pumpage and surface water rates. She continued by stating the proposed budget has been presented to various customers and stakeholders over the past few months.

b. Presentation Regarding the Proposed Rate Order for Woodlands Division Customers

Mr. Houston explained that the proposed rate order for Woodlands Division Customers has been provided for review. Further, he mentioned that approval of same is scheduled for the August Board meeting.

c. Presentation Regarding the Proposed Rate Order for Raw Water Customers

Mr. Gilman provided information related to the proposed rate order for raw water customers. He stated the key components for the increase are to continue reinvesting in raw water infrastructure to maintain system reliability, and to create a Repair and Rehabilitation (R&R) Fund for Raw Water to transition away from long-term debt financing. To support the 3.2% increase to \$0.48/1,000 gallons, Mr. Gilman provided an overview of the 10-Year Project Plans for the Highlands and Lake Conroe Divisions as well as the “pay-as-you-go” rate projection based on the 2018 Raw Water Rate Study. Mr. Gilman stated that the proposed rate order is scheduled for consideration and approval during the August Board meeting, and if approved, will become effective January 1, 2020.

d. Presentation of GRP Rate Study Report

Mr. Smith provided an overview of the GRP Rate Study Report. He explained that the goal is for a minimum target balance of \$4,600,000 for Operating and Rate Stabilization Reserve; \$2,000,000 for Emergency Reserve; and \$3,400,000 for Repair and Replacement Reserve. He reviewed the various assumptions used to forecast the GRP Division's rates over the next five fiscal years. He also provided the groundwater fee and surface water fee forecasts for the next five fiscal years.

e. Presentation of GRP Raw Water Pump Station Pump 4 addition

Mr. Smith stated that the raw water pump station contains two, 400 horsepower, variable speed pumps that can produce between 17 and 31.5 MGD of flow. He stated that there is only one, 100 horsepower, variable speed pump that produces in the 9 to 15.75 MGD range of flow and went on to explain that with production rates often being less than 17 MGD, the GRP needs to have provisions in place should the current small pump fail. He further stated that back-up provisions for a second small pump would increase process reliability, avoid temporary plant shutdown, and

provide operational flexibility. Mr. Smith estimated project costs to be a total of \$1,023,899, which would be funded from the Construction Reserve Fund.

8. EXECUTIVE SESSION

The Board did not convene in executive session.

9. RECONVENE IN OPEN SESSION

Because the Board did not convene in executive session, there was no action.

10. ANNOUNCEMENTS / FUTURE AGENDA

Mr. Tisdale mentioned that the next San Jacinto River Authority Board Meeting will take place on August 22, 2019

11. ADJOURN

Without objection, the meeting was adjourned at 10:18 a.m.



Kaaren Cambio
Kaaren Cambio
Secretary, Board of Directors

Exhibit A

RESOLUTION NO. 2019-R-08

RESOLUTION CONFIRMING AND CREATING CERTAIN FUNDS FOR LAKE CONROE DIVISION, HIGHLAND DIVISION AND GENERAL AND ADMINISTRATION DIVISION; ESTABLISHING POLICIES AND PROCEDURES RELATED TO THE USE OF SUCH FUNDS; AND ESTABLISHING POLICY RELATED TO THE SUFFICIENCY OF FEES, RATES AND CHARGES

WHEREAS, the San Jacinto River Authority (the "Authority"), is a conservation and reclamation district, body politic and corporate and a governmental agency of the State of Texas created and operating under the provisions of Chapter 426, Acts of the 45th Texas Legislature, Regular Session, 1937, as amended, enacted pursuant to the provisions of Section 59 of Article XVI of the Texas Constitution (the "Act"); and

WHEREAS, the Authority is authorized by the Act, and the general laws of the State to purchase, construct, acquire, own, operate, maintain, repair, improve, or extend, inside and outside its boundaries, any and all works, improvements, facilities, plants, equipment and appliances necessary to provide a raw water storage, supply and delivery system (the "System") for serving its needs and/or the needs of its customers; and

WHEREAS, the Authority has created its Lake Conroe Division to provide for the operation and maintenance of the Lake Conroe Dam and Reservoir pursuant to contractual arrangements with the City of Houston, Texas, said dam and reservoir being part of the System; and

WHEREAS, the Authority has created its Highland Division to provide for the operation and maintenance of that portion of the System located in eastern Harris County, Texas; and

WHEREAS, the Authority has also created a General and Administration Division ("G&A Division") to provide management, administrative, human resources, accounting, technical and other support for the aforesaid operating division of the Authority; and

WHEREAS, by that certain "RESOLUTION CONFIRMING CREATION OF CERTAIN FUNDS FOR LAKE CONROE DIVISION, HIGHLAND DIVISION AND GENERAL AND ADMINISTRATION DIVISION; ESTABLISHING POLICIES AND PROCEDURES RELATED TO THE USE OF SUCH FUNDS; AND ESTABLISHING POLICY RELATED TO THE SUFFICIENCY OF FEES, RATES AND CHARGES" passed and approved on August 28, 2014 (the "Prior Resolution"), the Board of Directors of the Authority has heretofore confirmed the creation of certain funds and accounts to provide reserve, working capital, emergency and contingency funds for the Lake Conroe Division, Highlands Division and G&A Division, and the Board of Directors of the Authority deems it necessary and proper at this time to confirm the creation of such funds and accounts and to establish written policies related to such funds and accounts; and

WHEREAS, the Board of Directors of the Authority deems it necessary and proper at this time to adopt this resolution to modify certain provision of the Prior Resolution, which resolution shall supersede the Prior Resolution in all respects;

NOW, THEREFORE, be it resolved by the Board of Directors of the San Jacinto River Authority that:

ARTICLE I

FINDINGS; EFFECTIVE DATE

Section 1.01: Findings. Each of the recitals stated in this Resolution are hereby adopted as findings of fact of the Board of Directors.

Section 1.02: Effective Date; Prior Resolution. This Resolution shall be effective as of July 25, 2019 (the "Effective Date"). The Prior Resolution shall be repealed and superseded hereby in all respects as of the Effective Date.

ARTICLE II

DEFINITIONS; INTERPRETATIONS; REFERENCES

Section 2.01: Definitions. In addition to terms defined elsewhere in this Resolution, and unless the context requires otherwise, the following terms used in this Resolution shall have the following meanings and, to the extent applicable, shall serve to supplement terms defined elsewhere in this Resolution:

"Act" is defined in the recitals hereto and means and includes any amendments to the Act.

"Authority" is defined in the recitals hereto and means and includes the legal successors or assigns of the Authority.

"Bonds" is defined in the Series 2013 Resolution and, for purposes of this Resolution only, means and includes the terms "Outstanding Bonds" and "Additional Bonds" as also defined in the Series 2013 Resolution.

"Contributions" means and refers to Net Revenues transferred or to be transferred to the Operating and Rate Stabilization Reserve Fund, the Emergency Reserve Fund, or the Repair and Replacement Fund pursuant to Section 4.02 of this Resolution.

"Debt Service Fund" shall have the meaning ascribed to such term under Section 2.01 of the Series 2013 Resolution.

"Debt Service Reserve Fund" shall have the meaning ascribed to such term under Section 2.01 of the Series 2013 Resolution.

"Emergency Condition" shall have the meaning ascribed to such term under the prevailing Purchasing Policy approved by the Board of Directors of the Authority.

"Fiscal Year" shall mean the annual fiscal period for the Authority from September 1, through August 31, or such other annual fiscal period as may hereafter be established by the Authority.

"General Fund" shall have the meaning ascribed to such term under Section 2.01 of the Series 2013 Resolution.

"Gross Revenues" shall have the meaning ascribed to such term under Section 2.01 of the Series 2013 Resolution.

"General Fund Minimum Balance" means and refers to a target balance to be maintained in the General Fund, which balance shall equal forty five (45) days of budgeted Operations and Maintenance Expenses for the Fiscal Year.

"Investment Policy" means and refers to the orders of resolutions adopted by the Board of Directors of the Authority pursuant to Chapter 2256, Texas Government Code, as amended, and Section 49.199, Texas Water Code, as amended, establishing investment rules, regulations and policies applicable to the investment of Authority funds.

"Net Revenues" shall have the meaning ascribed to such term under Section 2.01 of the Series 2013 Resolution.

"Operation and Maintenance Expenses" shall mean all costs, payments and expenses necessary to provide for the administration, efficient operation and adequate maintenance of the System, together with such other costs and expenses as many now or hereafter be defined by applicable law as proper operation and maintenance expenses of the System, including all expenses of the G&A Division which have not, directly or indirectly, been allocated to the Authority's Woodlands Division and/or GRP Division for payment or reimbursement.

"Rates" shall mean and refer to the fees, rates and charges applicable to sale of raw water from the System adopted under the Rate Order.

"Rate Order" shall mean the order adopted by the Board of Directors of the Authority establishing, among other items, Rates applicable to sale of raw water from the System.

"Required Debt Service Reserve Fund Amount" shall have the meaning ascribed to such term under Section 2.01 of the Series 2013 Resolution.

"Series 2013 Resolution" means the resolution of the Board of Directors of the Authority adopted on February 28, 2013, authorizing the issuance, sale and delivery of the Authority's Water Revenue Bonds, Series 2013, in the original aggregate principal amount of \$6,730,000, and all amendments and supplements thereto.

"System" is defined in the recitals hereto and shall be understood to have the meaning ascribed to such term under Section 2.01 of the Series 2013 Resolution.

Section 2.02: Interpretations. The article, section, subsection and paragraph headings of this Resolution are included herein for convenience of reference purposes only and shall not constitute a part of this Resolution or affect its interpretation in any respect. Except where the context otherwise requires, words imparting the singular number shall include the plural and vice versa. References to an entity refer to the legal successors of such entity, and to the board of directors, officers, or other officials of such entity where appropriate.

Section 2.03: References. For the avoidance of doubt, any reference in this Resolution to a document shall mean such document and all exhibits thereto, as amended or supplemented from time to time.

ARTICLE III

CONFIRMATION OF FUNDS; USE OF FUNDS; FUNDING; EXPENDITURE AUTHORIZATION

Section 3.01: General Fund.

- (a) ***Creation.*** The prior creation of the General Fund is hereby confirmed.
- (b) ***Use of Fund.*** The General Fund shall be used in accordance with the Series 2013 Resolution as the general operating fund for the Lake Conroe Division, the Highlands Division and the G&A Division. In summary, Gross Revenues shall be deposited from time to time, as received by the Authority, into the General Fund. Operation and Maintenance Expenses shall be paid directly from the General Fund.
- (c) ***Funding.*** The General Fund shall be funded in accordance with the Series 2013 Resolution and this Resolution.
- (d) ***Minimum Balance.*** It is the policy of the Authority that, after payment of Operation and Maintenance Expenses from the General Fund and the transfer of Net Revenues from the General Fund to the Debt Service Fund and the Debt Service Reserve Fund in accordance with Section 4.02 of this Resolution and the Series 2013 Resolution, Net Revenues in an amount equal to the General Fund Minimum Balance shall be retained in the General Fund before making any Contributions to the other funds created or confirmed pursuant to this Resolution.
- (e) ***Authorization.*** The persons holding the following titles or positions within the Authority shall be authorized to make expenditures from Gross Revenues on deposit in or to the credit of the General Fund for payment of Operation and Maintenance Expenses or to transfer Contributions in accordance with this Resolution: General Manager, Deputy General Manager, Director of Water Resources and Flood Management, Director of Finance and Administration, and

Controller, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required (1) for Operation and Maintenance Expenses included in the budget for the Fiscal Year, (2) for Operation and Maintenance Expenses not included in the budget for the Fiscal Year that are within the discretionary spending authority of the General Manager, as established by the Board of Directors of the Authority, (3) in the event of an Emergency Condition, or (4) to transfer Contributions in accordance with this Resolution. Otherwise, approval of such expenditures or transfers by the Board of Directors of the Authority shall be required.

Section 3.02: Operating and Rate Stabilization Reserve Fund.

(a) ***Creation.*** There is hereby created within the General Fund an Operating and Rate Stabilization Reserve Fund.

(b) ***Use of Fund.*** It is the policy of the Authority that amounts on deposit in the Operating and Rate Stabilization Reserve Fund shall be used for (1) cash flow management, (2) rate stabilization, (3) revenue stabilization. Amounts in the Operating and Rate Stabilization Reserve Fund may be transferred to the General Fund for such purposes in the event that Gross Revenues and other funds in the General Fund are insufficient to pay Operation and Maintenance Expenses and to make any required transfer of Net Revenues from the General Fund to the Debt Service Fund and the Debt Service Reserve Fund in accordance with Section 4.02 of this Resolution and the Series 2013 Resolution.

(c) ***Funding.*** The Operating and Rate Stabilization Reserve Fund shall be funded in accordance with Section 4.02 of this Resolution.

(d) ***Target Fund Balance.*** The Target Fund Balance for the Operating and Rate Stabilization Reserve Fund shall be an amount equal to six (6) months of budgeted Operation and Maintenance Expenses for the then-current Fiscal Year.

(e) ***Authorization.*** The persons holding the following titles or positions within the Authority shall be authorized to make expenditures or transfers from the Operating and Rate Stabilization Reserve Fund for the purposes described under subsection (b), above: General Manager, Deputy General Manager, Director of Water Resources and Flood Management, Director of Finance and Administration, and Controller, and the designees of such persons. Approval of such expenditures by the Board of Directors of the Authority shall not be required (1) for Operation and Maintenance Expenses included in the budget for the Fiscal Year, (2) for Operation and Maintenance Expenses not included in the budget for the Fiscal Year that are within the discretionary spending authority of the General Manager, as established by the Board of Directors of the Authority, or (3) in the event of an Emergency Condition. Otherwise, approval of such expenditures or transfers by the Board of Directors of the Authority shall be required.

Section 3.03: Emergency Reserve Fund.

(a) **Creation.** The prior creation within the General Fund of the Emergency Reserve Fund is hereby confirmed.

(b) **Use of Fund.** It is the policy of the Authority that amounts in the Emergency Reserve Fund shall be used only for the purpose of providing a full or partial source of funds for the unplanned or emergency repairs or replacements of System capital assets or other Authority capital assets, exclusive of the capital assets of the Woodlands Division and the GRP Division, which are necessary, as reasonably determined by the Authority, (1) to address actual or potential interruptions in service, (2) to address actual or potential violations of applicable state or federal regulatory requirements, or (3) for any other reason, but which cannot be funded within the current Fiscal Year as part of Operation and Maintenance Expenses without a significant, short-term adjustment in Rates. Amounts on deposit in the Emergency Reserve Fund may be used for such purposes along with any other funds available to the Authority for such purposes, subject to the remaining provisions of this Resolution.

(c) **Funding.** The Emergency Reserve Fund shall be funded in accordance with Section 4.02 of this Resolution.

(d) **Target Fund Balance.** The Target Fund Balance for the Emergency Reserve Fund shall be equal to \$5,500,000, which is based upon estimate amounts of \$2,500,000 for Lake Conroe Division, \$2,500,000 for Highlands Division, and \$500,000 for G&A Division.

(e) **Authorization.** The persons holding the following titles or positions within the Authority shall be authorized to make expenditures or transfers from the Emergency Reserve Fund for the purposes described under subsection (b), above: General Manager, Deputy General Manager, Director of Water Resources and Flood Management, Director of Finance and Administration, and Controller, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required (1) for repair and replacement projects within the discretionary spending authority of the General Manager, as established by the Board of Directors of the Authority, or (2) in the event of an Emergency Condition. Otherwise, approval of such expenditures or transfers by the Board of Directors of the Authority shall be required.

Section 3.04: Repair and Replacement Fund.

(a) **Creation.** There is hereby created within the General Fund a Repair and Replacement Fund.

(b) **Use of Fund.** It is the policy of the Authority that amounts in the Repair and Replacement Fund shall be used for the purpose of providing a full or partial source of funds for capital improvements to the System, expansions, extension or modifications of the System or other additions to System capital assets, and planned or unplanned repairs or rehabilitation of existing System capital assets, or for any other capital assets of the Authority, exclusive of the capital assets of the Woodlands Division and the GRP Division. Amounts in the Repair and Replacement Fund

may be used for such purpose along with any other funds available to the Authority for such purpose, subject to the remaining provisions of this Resolution.

(c) **Funding.** The Repair and Replacement Fund shall be funded as set forth in Section 4.02 of this Resolution.

(d) **Target Annual Contribution Amount.** It is the policy of the Authority to establish the Target Annual Contribution Amount for the Repair and Replacement Fund for each Fiscal Year such that amounts are received, deposited, and accrued in the Repair and Replacement Fund as necessary to meet planned expenditures from the Repair and Replacement Fund over time and without the need for short-term adjustments in Rates. To this end, the Authority adopts the further procedures set forth below.

The Authority shall develop and keep current a summary of proposed capital improvement and/or construction projects ("CIP") for the repair and replacement of System assets. To the extent practicable, the CIP shall (1) include proposed projects to be undertaken over a period that, at a minimum, includes the five succeeding Fiscal Years, (2) include the estimated costs, by Fiscal Year, of implementing proposed projects, and (3) identify any proposed source(s) of funds for implementing proposed projects, if other than the Repair and Replacement Fund. The CIP is intended as a planning tool with only year-one projects defined with fully-developed cost estimates. Projects and cost estimates beyond year one are based on engineering estimates that are subject to refinement and further revision. The CIP should, as and if prudent maintenance practices allow, schedule projects for implementation such that transfers to and expenditures from the Repair and Replacement Fund will not require significant adjustments to Rates from Fiscal Year to Fiscal Year. In order to avoid such adjustments, the Authority may accrue funds in the Repair and Replacement Fund over one or more Fiscal Years. The Authority may expend funds from the Repair and Replacement Fund to implement a project over one or more Fiscal Years.

The Authority shall present the CIP to the Board as part of the annual process of obtaining approval of the Rates and/or the operating budgets for the System. In particular, the Authority shall present the projects in the CIP that are to be implemented in the coming Fiscal Year, and shall recommend the Target Annual Contribution Amount for the coming Fiscal Year. The recommendation of the Target Annual Contribution Amount shall take into consideration the need to (1) continue projects in the CIP that have been previously commenced and that will continue into the next ensuing Fiscal Year, (2) undertake projects in the CIP that are scheduled to be commenced in the next ensuing Fiscal Year, and (3) accrue revenues in the Repair and Replacement Fund to provide a source of funds for projects in the CIP that will be undertaken after the next ensuing Fiscal Year. The Target Annual Contribution Amount need not be established by written order or resolution of the Board of Directors of the Authority. Among other means or methods, the Target Annual Contribution Amount may be established by line item or in the notes of the operating budget(s) for the Lake Conroe, Highlands, and G&A Divisions adopted by the Board of Directors of the Authority for a given Fiscal Year.

(e) **Authorization.** The persons holding the following titles or positions within the Authority shall be authorized to make expenditures or transfers from the Repair and Replacement Fund for the purposes described under subsection (b), above: General Manager, Deputy General

Manager, Director of Water Resources and Flood Management, Director of Finance and Administration, and Controller, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required for items within the discretionary spending authority of the General Manager, as established by the Board of Directors of the Authority. Otherwise, approval of such expenditures or transfers by the Board of Directors of the Authority shall be required.

Section 3.05: Debt Service Fund.

(a) **Creation.** The creation of the Debt Service Fund pursuant to the Series 2013 Resolution is hereby confirmed.

(b) **Use of Fund.** The Debt Service Fund shall be used in accordance with the Series 2013 Resolution to make principal and interest payments on Bonds.

(c) **Funding.** During each Fiscal Year while any Bonds remain outstanding, the Authority shall deposit or cause to be deposited into the Debt Service Fund, monthly as collected, Net Revenues in an amount not less than one-twelfth (1/12) of the sum of the principal and interest payments scheduled to come due on any Bonds in such Fiscal Year; provided, however, such monthly deposits may be reduced or curtailed, as appropriate, based on the amount of funds already on hand in the Debt Service Fund. Subject to certain restrictions, the Authority may capitalize and debt-fund deposits to the Debt Service Fund.

(d) **Target Annual Contribution Amount.** The Target Annual Contribution Amount for the Debt Service Fund shall be an amount equal to the scheduled amount of principal and interest payments to come due on the Bonds in the then-current Fiscal Year.

(e) **Authorization.** The persons holding the following titles or positions within the Authority shall be authorized to make payments on Bonds from the Debt Service Fund in accordance with the Series 2013 Resolution: General Manager, Deputy General Manager, Director of Water Resources and Flood Management, Director of Finance and Administration, and Controller, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required.

Section 3.06: Debt Service Reserve Fund.

(a) **Creation.** The creation of the Debt Service Reserve Fund pursuant to the Series 2013 Resolution is hereby confirmed.

(b) **Use of Fund.** The Debt Service Reserve Fund shall be used in accordance with the Series 2013 Resolution to pay the principal of and interest on any Bonds remaining outstanding, if and whenever sufficient funds for such purpose are not available in the Debt Service Fund, and may be used to pay and retire the last of the Bonds to mature or to be redeemed.

(c) **Funding.** As provided under the Series 2013 Resolution, during each Fiscal Year while any portion of the Bonds remain outstanding, after making the required deposits to the Debt

Service Fund, the Authority shall deposit or cause to be deposited into the Debt Service Reserve Fund, monthly as collected out of Net Revenues, an amount not less than one-sixtieth (1/60) of the Required Debt Service Reserve Fund Amount described in subsection (d), below, until the amount therein equals the Required Debt Service Reserve Fund Amount. Subject to certain restrictions, the Authority may capitalize and debt-fund deposits to the Debt Service Reserve Fund.

(d) Target Fund Balance. As provided under the Series 2013 Resolution, the Required Debt Service Reserve Fund Amount is an amount equal to the sum of the average annual principal and interest payments scheduled to become due on any Bonds remaining outstanding.

(e) Authorization. The persons holding the following titles or positions within the Authority shall be authorized to make transfers or expenditures from the Debt Service Reserve Fund in accordance with the Series 2013 Resolution: General Manager, Deputy General Manager, Director of Water Resources and Flood Management, Director of Finance and Administration, and Controller, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required.

ARTICLE IV

SEPARATION OF FUNDS; FLOW OF FUNDS; SECURITY AND INVESTMENT OF FUNDS

Section 4.01: Separation of Funds. The funds described in Article III of this Resolution shall be kept separate and apart from each other, and separate and apart from all other funds of the Authority. The Authority reserves the right to create, establish, and maintain one or more additional funds or accounts within any of the funds described in Article III of this Resolution; provided, however, that such funds or accounts are used solely for the purposes herein described and are secured and invested in a manner consistent herewith.

Section 4.02: Flow of Funds.

(a) General. Gross Revenues received by the Authority shall be deposited into the General Fund and, together with any balance in the General Fund, shall be applied as follows:

(1) Operation and Maintenance Expenses shall be paid directly from the General Fund.

(2) After payment of Operation and Maintenance Expenses in accordance with the above, remaining Net Revenues in the General Fund shall be transferred to the Debt Service Fund in accordance with the Section 3.05(b) of this Resolution.

(3) After the above transfer of Net Revenues, remaining Net Revenues in the General Fund shall then be transferred to the Debt Service Reserve Fund in accordance with the Series 2013 Bond Resolution.

(4) After the above transfer of Net Revenues, any remaining Net Revenues in the General Fund in excess of the General Fund Minimum Balance shall then be transferred to the Operating and Rate Stabilization Reserve Fund until the amount in such fund equals the applicable Target Fund Balance.

(5) After the above transfer of Net Revenues, any remaining Net Revenues in the General Fund in excesses of the General Fund Minimum Balance shall then be transferred to the Emergency Reserve Fund until the amount in such fund equals the applicable Target Fund Balance.

(6) After the above transfer of Net Revenues, any remaining Net Revenues in the General Fund in excess of the General Fund Minimum Balance shall then be transferred to the Repair and Replacement Fund.

(b) *Frequency.* The transfer of Contributions in accordance with the above subsection (a) shall be undertaken at least once per quarter in a given Fiscal Year, and may be undertaken more often at the discretion of the Authority.

(c) *Transition Provisions.* Pursuant to the Prior Resolution, the Authority previously confirmed the prior creation of funds designated as the "Operating Reserve Fund" and the "Capital Repair and Replacement Reserve Fund." On or about the Effective Date, amounts on deposit in or to the credit of (1) the Operating Reserve Fund shall be transferred to the Operating and Rate Stabilization Reserve Fund created pursuant to Section 3.02(a) hereof, and (2) the Capital Repair and Replacement Reserve Fund shall be transferred to the Repair and Replacement Fund created pursuant to Section 3.04(a) hereof.

Section 4.03: Valuation of Funds. For purposes of determining from time to time whether a fund contains the balance prescribed by this Resolution, all investments belonging or allocable to the fund shall be valued at their fair market value with all interest earnings and/or investment profits accrued thereon to the date of such computation; provided, however, that nothing herein shall be deemed or construed to require the sale or liquidation of such investments prior to their maturity as a result of capital gains or losses in the value of such investments.

Section 4.04: Security of Funds. Any cash balance in any of the funds described in Article III of this Resolution, to the extent not insured by the Federal Deposit Insurance Corporation, or its successor, shall be continuously secured as, if and to the extent required by the Series 2013 Resolution and/or the Investment Policy.

Section 4.05: Investment of Funds. Moneys in any of the funds described in Article III of this Resolution may be invested or reinvested in accordance with the Series 2013 Resolution and/or the Investment Policy. All investments and any profits realized from or interest accruing on such investments shall belong to the fund from which the moneys for such investments were taken; provided, however, that in the discretion of the Board of Directors of the Authority, the profits realized from and the interest accruing on investments made from the Debt Service Reserve Fund may be transferred to the Debt Service Fund. If any moneys are so invested, the Authority shall have the right to have sold in the open market a sufficient amount of such investments to

meet its obligations in the event any fund does not have sufficient uninvested funds on hand to meet the obligations payable out of such fund. After such sale, the moneys resulting therefrom shall belong to the fund from which the moneys for such investments were initially taken.

ARTICLE V

SUFFICIENCY OF RATES

Section 5.01: Coverage.

(a) ***Minimum Coverage.*** It is the policy of the Authority that the Rates under the Rate Order shall be adopted, maintained, billed and collected in such a manner as will be at least sufficient, in conjunction with other funds lawfully available to the Authority for such purposes, to generate Gross Revenues to make all of the payments, transfers and deposits in the target amounts described in Section 4.02 of this Resolution, to maintain the target balances or in the target amounts described in Article III of this Resolution, without reliance upon existing balances in the General Fund.

(b) ***Additional Coverage.*** In advance of the issuance of additional Bonds or other obligations of the Authority which will be secured by a pledge of and lien on Net Revenues, whether in whole or in part, the Rates under the Rate Order may be adopted, maintained, billed and collected in such a manner as will generate Gross Revenues in excess of those necessary to make all of the payments, transfers and deposits described in Section 4.02 of this Resolution, if it is reasonably determined by the Board of Directors of the Authority that (1) such additional coverage is a required as a condition to the issuance of such additional Bonds or other obligations (e.g., to satisfy an "additional bonds test"), (2) such additional coverage will reduce the borrowing costs of the Authority (e.g., by enhancing the credit rating assigned to the additional Bonds or other obligations), or (3) such additional coverage is justified by any other compelling factor in connection with issuance of such additional Bonds or other obligations.

ARTICLE VI

MISCELLANEOUS

Section 6.01: Implementation. The General Manager, Deputy General Manager and other officers and staff of the Authority are hereby authorized and directed to implement this Resolution and the policies adopted hereunder. In the event that the provisions of this Resolution authorizing the expenditure of Authority funds shall be in conflict with any other orders, resolutions, policies or procedures relating to the expenditure of Authority funds which have been or may be adopted or approved by the Board of Directors of the Authority, the provisions of this Resolution shall prevail and control.

Section 6.02: Conflicts. In the event that any provision of this Resolution is in conflict with any provision of the Series 2013 Resolution, the provisions of the Series 2013 Resolution shall prevail and control.

Section 6.03: Future Amendments. As determined necessary by the Authority, the Authority reserves the right to amend this Resolution and the policies set forth herein, subject to any provisions of the Series 2013 Resolution. The Authority specifically reserves the right to open, close, transfer or consolidate the funds described in this Resolution by subsequent resolution, order, agreement, or other action authorized by its Board of Directors, subject to the provisions of the Series 2013 Resolution.

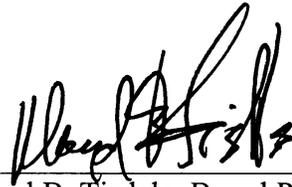
PASSED AND APPROVED on July 25, 2019.

ATTEST:

SAN JACINTO RIVER AUTHORITY



Kaaren Cambio, Board Secretary



Lloyd B. Tisdale, Board President



Exhibit B

RESOLUTION NO. 2019-R-09

RESOLUTION CONFIRMING AND CREATING FUNDS FOR GROUNDWATER REDUCTION PLAN DIVISION; ESTABLISHING POLICIES AND PROCEDURES RELATED TO THE USE OF SUCH FUNDS; AND ESTABLISHING POLICY RELATED TO THE SUFFICIENCY OF FEES, RATES AND CHARGES

WHEREAS, the San Jacinto River Authority (the "Authority"), is a conservation and reclamation district, body politic and corporate and a governmental agency of the State of Texas created and operating under the provisions of Chapter 426, Acts of the 45th Texas Legislature, Regular Session, 1937, as amended, enacted pursuant to the provisions of Section 59 of Article XVI of the Texas Constitution (the "Act"); and

WHEREAS, the Authority is authorized by the Act, and the general laws of the State to purchase, construct, acquire, own, operate, maintain, repair, improve, or extend, inside and outside its boundaries, any and all works, improvements, facilities, plants, equipment and appliances necessary to provide a water supply system for serving its needs and/or the needs of its customers; and

WHEREAS, the Authority has entered into certain contracts (the "Customer Contracts") for the financing, construction and operation of the Woodlands Water Supply System (as defined in the Customer Contracts) to serve the conservation and reclamation district customers of the Woodlands Division of the Authority; and

WHEREAS, each of the Customer Contracts has been amended and supplemented by a written addendum, dated as of November 10, 2009 (the "Addenda"), in order to address compliance with certain requirements imposed by the Lone Star Groundwater Conservation District (the "Conservation District") and that are applicable to the Authority and the Woodlands Water Supply System; and

WHEREAS, the Authority has also entered into contracts (the "GRP Contracts") with certain groundwater users (collectively, and inclusive of the Authority, the "Participants") in order to address certain requirements imposed by the Conservation District that are also applicable to the water supply systems of such groundwater users; and

WHEREAS, the Board of Directors of the Authority has heretofore adopted, and may from time to time hereafter amend, supplement or re-adopt, an order adopting fees, rates and charges applicable to the Participants (the "Rate Order"), as authorized and required under the Addenda and Section 6.04 of the GRP Contracts; and

WHEREAS, the Addenda and Section 6.04 of the GRP Contracts authorize the adoption of fees, rates and charges sufficient to establish, accumulate, maintain, or replenish one or more operating, debt service, contingency, or emergency reserve funds relating to the Project or the GRP, as deemed reasonably necessary by the Authority; and

WHEREAS, the Board of Directors of the Authority has heretofore created and made provision for the creation, funding, and use of a debt service fund and a debt service reserve fund in connection with the issuance of bonds for the financing of the Project; and

WHEREAS, by that certain "RESOLUTION CONFIRMING AND CREATING FUNDS FOR GROUNDWATER REDUCTION PLAN DIVISION; ESTABLISHING POLICIES AND PROCEDURES RELATED TO THE USE OF SUCH FUNDS; AND ESTABLISHING POLICY RELATED TO THE SUFFICIENCY OF FEES, RATES AND CHARGES" passed and approved on August 28, 2018 (the "Prior Resolution"), the Board of Directors of the Authority has heretofore created and made provision for the creation, funding, and use of a multi-purpose operating reserve fund, a renewal and replacement reserve fund, and a capital reserve, and adopted policies related to such funds; and

WHEREAS, the Board of Directors of the Authority deems it necessary and proper at this time to adopt this resolution creating an operating and rate stabilization reserve fund, emergency reserve fund, and a repair and replacement fund, and adopting policies related to such funds, which resolution shall supersede the Prior Resolution in all respects;

NOW THEREFORE, be it ordered by the Board of Directors of the San Jacinto River Authority that:

ARTICLE I

FINDINGS; EFFECTIVE DATE

Section 1.01: Findings. Each of the recitals stated in this Resolution are hereby adopted as findings of fact of the Board of Directors.

Section 1.02: Effective Date; Prior Resolution. This Resolution shall be effective as of September 1, 2019 (the "Effective Date"). The Prior Resolution shall be repealed and superseded hereby in all respects as of the Effective Date.

ARTICLE II

DEFINITIONS; INTERPRETATIONS; REFERENCES

Section 2.01: Definitions. In addition to terms defined elsewhere in this Resolution, and unless the context requires otherwise, the following terms used in this Resolution shall have the following meanings and, to the extent applicable, shall serve to supplement terms defined elsewhere in this Resolution:

"Act" is defined in the recitals hereto and means and includes any amendments to the Act.

"Addenda" is defined in the recitals hereto and means and includes any amendments or supplements to the Addenda.

"Authority" is defined in the recitals hereto and means and includes the legal successors or assigns of the Authority.

"Bonds" is defined in the Series 2009 Resolution and, for purposes of this Resolution only, means and includes the terms "Outstanding Bonds" and "Additional Bonds" as also defined in the Series 2009 Resolution.

"Conservation District" is defined in the recitals hereto and means and includes the legal successors or assigns of the Conservation District.

"Construction Fund" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"Customer Contracts" is defined in the recitals hereto and means and includes any amendments or supplements to the Customer Contracts.

"Debt Service Fund" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"Debt Service Reserve Fund" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"Effective Date" is defined in Section 1.02 of this Resolution.

"Emergency Condition" shall have the meaning ascribed to such term under the prevailing Purchasing Policy approved by the Board of Directors of the Authority.

"Fiscal Year" shall mean the annual fiscal period for the Authority from September 1, through August 31, or such other annual fiscal period as may hereafter be established by the Authority.

"GRP General Fund" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"GRP General Fund Minimum Balance" means and refers to a target balance to be maintained in the GRP General Fund, which balance shall equal forty five (45) days of budgeted Operations and Maintenance Expenses for the Fiscal Year.

"Gross Revenues" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"GRP" shall have the meaning ascribed to such term in the Addenda and/or the GRP Contracts.

"GRP Administrator" shall have the meaning ascribed to such term in the GRP Contracts.

"GRP Contracts" is defined in the recitals hereto and means and includes any amendments or supplements to the GRP Contracts.

"Investment Policy" means and refers to the orders of resolutions adopted by the Board of Directors of the Authority pursuant to Chapter 2256, Texas Government Code, as amended, and Section 49.199, Texas Water Code, as amended, establishing investment rules, regulations and policies applicable to the investment of Authority funds.

"Net Revenues" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"Operations and Maintenance Expenses" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"Participant" means any of the Participants, without distinction.

"Participants" is defined in the recitals hereto and means and includes the Authority, and any groundwater user that executes a GRP Contract with the Authority.

"Project" shall have the meaning ascribed to such term in the Addenda and/or the GRP Contracts, and generally means and refers to the GRP Division's surface water treatment and transmission system, including all related facilities, improvements, appurtenances, property and interests in property and contract rights needed therefor, and administrative facilities needed in connection therewith.

"Rate Order" shall mean the order adopted by the Board of Directors of the Authority pursuant to the Addenda and Section 6.04 of the GRP Contracts establishing, among other items, fees, rates and charges applicable to the pumping of groundwater and the importation of groundwater by Participants, and the delivery of treated surface water from the Project to Participants.

"Required Debt Service Reserve Fund Amount" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"Series 2009 Resolution" means the resolution of the Board of Directors of the Authority adopted on October 14, 2009, authorizing the issuance of the Authority's Special Project Revenue Bonds (GRP Project), Series 2009, in the original aggregate principal amount of \$21,500,000, and all amendments and supplements thereto, including but not limited to the amendment affected by that certain Amendatory Resolution passed and approved by the Board of Directors of the Authority on March 24, 2011.

"Surplus Revenue Fund" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

Section 2.02: Interpretations. The article, section, subsection and paragraph headings of this Resolution are included herein for convenience of reference purposes only and shall not constitute a part of this Resolution or affect its interpretation in any respect. Except where the context otherwise requires, words imparting the singular number shall include the plural and vice versa. References to an entity refer to the legal successors of such entity, and to the board of directors, officers, or other officials of such entity where appropriate.

Section 2.03: References. For the avoidance of doubt, any reference in this Resolution to a document shall mean such document and all exhibits thereto, as amended or supplemented from time to time.

ARTICLE III

CONFIRMATION AND CREATION OF FUNDS; USE OF FUNDS; TARGET FUND BALANCES; EXPENDITURE AUTHORIZATION

Section 3.01: GRP General Fund.

(a) *Creation.* The creation of the GRP General Fund pursuant to the Series 2009 Resolution is hereby confirmed.

(b) *Use of Fund.* The GRP General Fund shall be funded and used in accordance with the Series 2009 Resolution and this Resolution. In summary, Gross Revenues shall be deposited from time to time, as received by the Authority, into the GRP General Fund. Operation and Maintenance Expenses shall be paid directly from the GRP General Fund.

(c) *Minimum Balance.* It is the policy of the Authority that, after payment of Operation and Maintenance Expenses from the GRP General Fund and the transfer of Net Revenues from the GRP General Fund to the Debt Service Fund and the Debt Service Reserve Fund in accordance with Section 4.02 of this Resolution and the Series 2009 Resolution, Net Revenues in an amount equal to the GRP General Fund Minimum Balance shall be retained in the GRP General Fund before making any transfers of Net Revenues to the other reserve funds created pursuant to this Resolution.

Section 3.02: Operating and Rate Stabilization Reserve Fund.

(a) *Creation.* There shall be created within the General Fund an Operating and Rate Stabilization Reserve Fund.

(b) *Use of Fund.* The Operating and Rate Stabilization Reserve Fund shall be funded in accordance with Section 4.02 of this Resolution. It is the policy of the Authority that amounts on deposit in the Operating and Rate Stabilization Reserve Fund shall be used for three purposes: (1) cash flow management, (2) rate stabilization, and (3) revenue stabilization. Amounts in the Operating and Rate Stabilization Reserve Fund may be transferred to the GRP General Fund for such purposes in the event that Gross Revenues and other funds in the GRP General Fund are

insufficient to pay Operations and Maintenance Expenses and to make any required transfer of Net Revenues from the GRP General Fund to the Debt Service Fund and the Debt Service Reserve Fund in accordance with Section 4.02 of this Resolution and the Series 2009 Resolution.

(c) **Target Fund Balance.** The Target Fund Balance for the Operating and Rate Stabilization Reserve Fund shall equal ninety (90) days of budgeted Operation and Maintenance Expenses.

(d) **Authorization.** The persons holding the following titles or positions within the Authority shall be authorized to make expenditures from the GRP General Fund for payment of Operations and Maintenance Expenses: General Manager, Deputy General Manager, Director of Finance and Administration, Director of Water Resources and Flood Management, Controller, and the designees of such persons. Approval of such expenditures by the Board of Directors of the Authority shall not be required (1) for Operations and Maintenance Expenses included in the budget for the Fiscal Year, or (2) in the event of an Emergency Condition. Otherwise, recommendation by the GRP Review Committee and approval of such expenditures or transfers by the Board of Directors of the Authority shall be required.

Section 3.03: Emergency Reserve Fund.

(a) **Creation.** There shall be created within the General Fund an Emergency Reserve Fund.

(b) **Use of Fund.** The Emergency Reserve Fund shall be funded as set forth in Section 4.02 of this Resolution. It is the policy of the Authority that amounts in the Emergency Reserve Fund shall be used for the purpose of providing a full or partial source of funds for unplanned expenses of the GRP Division. Amounts on deposit in the Emergency Reserve Fund may be used for such purpose along with any other funds available to the GRP Division for such purpose.

(c) **Target Fund Balance.** For the Fiscal Year beginning September 1, 2019, the Target Fund Balance for the Emergency Reserve Fund shall equal \$2,000,000. For each Fiscal Year thereafter, the Target Fund Balance for the Emergency Reserve Fund shall equal the Target Fund Balance for the prior Fiscal Year plus an increment equal to the Engineering News Record Construction Price Index for Construction Costs for such prior Fiscal Year times the Target Fund Balance for such prior Fiscal Year.

(d) **Authorization.** The persons holding the following titles or positions within the Authority shall be authorized to make expenditures or transfers from the Emergency Reserve Fund for the purposes described under subsection (b), above: General Manager, Deputy General Manager, Director of Finance and Administration, Director of Water Resources and Flood Management, Controller, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required in the event of an Emergency Condition. Otherwise, recommendation by the GRP Review Committee and approval of such expenditures or transfers by the Board of Directors of the Authority shall be required.

Section 3.04: Repair and Replacement Fund.

(a) ***Creation.*** There shall be created within the General Fund a Repair and Replacement Fund.

(b) ***Use of Fund.*** The Repair and Replacement Fund shall be funded as set forth in Section 4.02 of this Resolution. It is the policy of the Authority that amounts in the Repair and Replacement Fund shall be used for the purpose of providing a full or partial source of funds for (1) the planned repair and replacement of GRP Division and/or Project capital assets having a significant replacement value, a short-term useful life (generally ten (10) years or less), and for which such repair and replacement is not generally budgeted for on a current Fiscal Year basis, and (2) the unplanned repair and replacement of GRP Division and/or Project capital assets. Amounts on deposit in the Repair and Replacement Fund may be used for such purpose along with any other funds available to the GRP Division for such purpose.

(c) ***Target Fund Balance.*** It is the policy of the Authority to establish the Target Fund Balance for the Repair and Replacement Fund each Fiscal Year such that amounts are accrued in the Repair and Replacement Fund as necessary to meet forecasted expenditures from the Repair and Replacement Fund over time and without the need for short-term rate adjustments. The Target Fund Balance need not be established by written order or resolution of the Board of Directors of the Authority and, among other means or methods, may be established by improvement plan forecasts or by line item or note in the GRP Division budget recommended by the GRP Review Committee and adopted by the Board of Directors of the Authority for a Fiscal Year.

(d) ***Authorization.*** The persons holding the following titles or positions within the Authority shall be authorized to make expenditures or transfers from the Repair and Replacement Fund for the purposes described under subsection (b), above: General Manager, Deputy General Manager, Director of Finance and Administration, Director of Water Resources and Flood Management, Controller, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required for (1) repairs and replacements included in the budget for the Fiscal Year, or (2) in the event of an Emergency Condition. Otherwise, recommendation by the GRP Review Committee and approval of such expenditures or transfers by the Board of Directors of the Authority shall be required.

Section 3.05: Construction Fund; Escrow Fund.

(a) ***Creation.*** The creation of the Construction Fund and the Escrow Fund pursuant to the Series 2009 Resolution are hereby confirmed.

(b) ***Use of Funds.*** The Construction Fund and the Escrow Fund shall be funded and used in accordance with the Series 2009 Resolution. In summary, certain proceeds from the sale of the Bonds have been or shall be deposited into the Construction Fund (or the Escrow Fund pending approval by the Texas Water Development Board) and used to pay eligible Project costs in whole or in part. Following completion of the Project, amounts remaining in the Construction Fund may, subject to certain requirements, be used to redeem Bonds. The Authority may create multiple accounts within the Construction Fund and/or the Escrow Fund to facilitate the

management of such funds. By way of example, and without limiting the generality of the foregoing, accounts may be created to (1) segregate the proceeds of each series of Bonds in order to monitor compliance with Sections 103 and 141-150 of the Internal Revenue Code of 1986, (2) allocate and monitor the expenditure of the proceeds of Bonds in order to facilitate reporting the Texas Water Development Board, or (3) allocate and monitor the expenditure of the proceeds of Bonds on a project or contract basis.

(c) **Authorization.** The persons holding the following titles or positions within the Authority shall be authorized to make expenditures or transfers from the Construction Fund and the Escrow for the purposes described under subsection (b), above: General Manager, Deputy General Manager, Director of Finance and Administration, Director of Water Resources and Flood Management, Controller, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required for items with a cost of \$75,000 or less. Otherwise, recommendation by the GRP Review Committee and approval of such expenditures or transfers by the Board of Directors of the Authority shall be required.

Section 3.06: Debt Service Fund.

(a) **Creation.** The creation of the Debt Service Fund pursuant to the Series 2009 Resolution is hereby confirmed.

(b) **Use of Fund.** The Debt Service Fund shall be funded in accordance with the Series 2009 Resolution, as summarized in subsection (c), below. The Debt Service Fund shall be used in accordance with the Series 2009 Resolution to make principal and interest payments on Bonds. The Authority may create multiple accounts within the Debt Service Fund to facilitate the management of such funds. By way of example, and without limiting the generality of the foregoing, accounts may be created to ensure that applicable funding requirements are met with respect to each series of Bonds.

(d) **Authorization.** The persons holding the following titles or positions within the Authority shall be authorized to make payments on Bonds from the Debt Service Fund in accordance with the Series 2009 Resolution: General Manager, Deputy General Manager, Director of Finance and Administration, and Controller, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required.

(c) **Funding Requirements.** As provided under the Series 2009 Resolution, during each Fiscal Year while any Bonds remain outstanding, the Authority shall deposit or cause to be deposited into the Debt Service Fund, monthly as collected, Net Revenues in an amount not less than one-twelfth (1/12) of the scheduled amount of principal and interest to come due on the Bonds in such Fiscal Year; provided, however, such monthly deposits may be reduced or curtailed, as appropriate, based on the amount of funds already on hand in the Debt Service Fund. Subject to certain restrictions, the Authority may capitalize and debt-fund deposits to the Debt Service Fund.

Section 3.07: Debt Service Reserve Fund.

(a) **Creation.** The creation of the Debt Service Reserve Fund pursuant to the Series 2009 Resolution is hereby confirmed.

(b) **Use of Fund.** The Debt Service Reserve Fund shall be funded in accordance with the Series 2009 Resolution, as summarized in subsection (c), below. The Debt Service Reserve Fund shall be used in accordance with the Series 2009 Resolution to pay the principal and interest on any Bonds remaining outstanding, if and whenever sufficient funds for such purpose are not available in the Debt Service Fund, and may be used to pay and retire the last of the Bonds to mature or to be redeemed. The Authority may create multiple accounts within the Debt Service Reserve Fund to facilitate the management of such funds. By way of example, and without limiting the generality of the foregoing, accounts may be created to ensure that applicable funding requirements are met with respect to each series of Bonds.

(c) **Funding Requirements.** As provided under the Series 2009 Resolution, during each Fiscal Year while any portion of the Bonds remain outstanding, after making the required deposits to the Debt Service Fund, the Authority shall deposit or cause to be deposited into the Debt Service Reserve Fund, monthly as collected out of Net Revenues, an amount not less than one-sixtieth (1/60) of the Required Debt Service Reserve Fund Amount (equal to the average annual sum payable in respect of the principal and interest scheduled to become due on any Bonds remaining outstanding) until the amount therein equals the Required Debt Service Reserve Fund Amount. Subject to certain restrictions, the Authority may capitalize and debt-fund deposits to the Debt Service Reserve Fund.

(d) **Authorization.** The persons holding the following titles or positions within the Authority shall be authorized to make transfers or expenditures from the Debt Service Reserve Fund in accordance with the Series 2009 Resolution: General Manager, Deputy General Manager, Director of Finance and Administration, and Controller, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required.

Section 3.08: Surplus Revenue Fund.

(a) **Creation.** The creation of the Surplus Revenue Fund pursuant to the Series 2009 Resolution is hereby confirmed.

(b) **Use of Fund.** The Surplus Revenue Fund may be funded and used in accordance with the Series 2009 Resolution and Section 4.02 of this Resolution. The Surplus Revenue Fund does not constitute a trust fund for the benefit of the holders of the Bonds. Amounts in the Surplus Revenue Fund may be used for any lawful purpose, subject to the provisions of the Addenda and/or the GRP Contracts.

(c) **Authorization.** Recommendation of expenditures or transfers to and from the Surplus Revenue Fund by the GRP Review Committee and approval of expenditures or transfers

to and from the Surplus Revenue Fund by the Board of Directors of the Authority shall be required in all instances.

ARTICLE IV

SEPARATION OF FUNDS; FLOW OF FUNDS; SECURITY AND INVESTMENT OF FUNDS

Section 4.01: Separation of Funds. The funds described in Article III of this Resolution shall be kept separate and apart from each other, and separate and apart from all other funds of the Authority. The Authority reserves the right to create, establish and maintain one or more additional funds or accounts within any of the funds described in Article III of this Resolution; provided, however, that such funds or accounts are used solely for the purposes herein described and are secured and invested in a manner consistent herewith.

Section 4.02: Flow of Funds.

(a) General. Gross Revenues received by the Authority shall be deposited into the GRP General Fund and, together with any balance in the GRP General Fund, shall be applied as follows on a monthly basis:

(1) Operation and Maintenance Expenses shall be paid directly from the GRP General Fund.

(2) After payment of Operations and Maintenance Expenses in accordance with the above, remaining Net Revenues in the GRP General Fund shall be transferred to the Debt Service Fund in accordance with the Series 2009 Bond Resolution.

(3) After the above transfer of Net Revenues, remaining Net Revenues in the GRP General Fund shall then be transferred to the Debt Service Reserve Fund in accordance with the Series 2009 Bond Resolution.

(4) After the above transfer of Net Revenues, any remaining Net Revenues in the GRP General Fund in excesses of the GRP General Fund Minimum Balance shall then be transferred to the Operating and Rate Stabilization Reserve Fund until the amount in such fund equals the applicable Target Fund Balance.

(5) After the above transfer of Net Revenues, any remaining Net Revenues in the GRP General Fund in excesses of the GRP General Fund Minimum Balance shall then be transferred to the Emergency Reserve Fund until the amount in such fund equals the applicable Target Fund Balance.

(6) After the above transfer of Net Revenues, any remaining Net Revenues in the GRP General Fund in excesses of the GRP General Fund Minimum Balance shall then

be transferred to the Repair and Replacement Fund until the amount in such fund equals the applicable Target Fund Balance.

(7) After the above transfer of Net Revenues, any remaining Net Revenues in the GRP General Fund in excesses of the GRP General Fund Minimum Balance shall be transferred to the Operating and Rate Stabilization Reserve Fund.

(b) **Surplus Revenues.** If the balances of the Operating and Rate Stabilization Reserve Fund, Emergency Reserve Fund, and the Repair and Replacement Fund, exceed the applicable Target Fund Balances for such funds for a given Fiscal Year as of the last business day of such Fiscal Year, then the GRP Review Committee may recommend and the Board of Directors may by written resolution or order direct that all or part such excess funds be deposited to the credit of any fund identified in subsection (a), above, notwithstanding the flow of funds set forth therein. It is the policy of the Authority not to transfer any part of such excess funds to the Surplus Revenue Fund in accordance with the Series 2009 Resolution.

(c) **Transition Provisions.** Pursuant to the Prior Resolution, the Authority previously created funds designated as the "Multi-Purpose Operating Reserve Fund," the "Renewal and Replacement Reserve Fund," and the "Capital Reserve Fund". On or about the Effective Date, amounts on deposit in or to the credit of each of said funds shall be transferred to the GRP General Fund and applied as set forth in Section 4.02(a). Thereafter, the Multi-Purpose Operating Reserve Fund, the Renewal and Replacement Reserve Fund, and the Capital Reserve Fund shall be closed.

Section 4.03: Valuation of Funds. For purposes of determining from time to time whether a fund contains the balance prescribed by this Resolution, all investments belonging or allocable to the fund shall be valued at their fair market value with all interest earnings and/or investment profits accrued thereon to the date of such computation; provided, however, that nothing herein shall be deemed or construed to require the sale or liquidation of such investments prior to their maturity as a result of capital gains or losses in the value of such investments.

Section 4.04: Security of Funds. Any cash balance in any of the funds described in Article III of this Resolution, to the extent not insured by the Federal Deposit Insurance Corporation, or its successor, shall be continuously secured as, if and to the extent required by the Series 2009 Resolution and/or Investment Policy.

Section 4.05: Investment of Funds. Moneys in any of the funds described in Article III of this Resolution may be invested or reinvested in accordance with the Series 2009 Resolution and/or the Investment Policy. All investments and any profits realized from or interest accruing on such investments shall belong to the fund from which the moneys for such investments were taken; provided, however, that in the discretion of the Board of Directors of the Authority, the profits realized from and the interest accruing on investments made from the Debt Service Reserve Fund may be transferred to the Debt Service Fund. If any moneys are so invested, the Authority shall have the right to have sold in the open market a sufficient amount of such investments to meet its obligations in the event any fund does not have sufficient uninvested funds on hand to meet the obligations payable out of such fund. After such sale, the moneys resulting therefrom shall belong to the fund from which the moneys for such investments were initially taken.

ARTICLE V

SUFFICIENCY OF FEES, RATES AND CHARGES

Section 5.01: Coverage.

(a) ***Minimum Coverage.*** It is the policy of the Authority that the fees, rates and charges under the Rate Order shall be adopted, maintained, billed and collected in such a manner as will be at least sufficient to generate Gross Revenues to make all of the payments, transfers and deposits described in Section 4.02 without reliance upon existing balances in the GRP General Fund.

(b) ***Additional Coverage.*** In advance of the issuance of additional Bonds or other obligations of the Authority which will be secured by a pledge of and lien on Net Revenues, whether in whole or in part, the fees, rates and charges under the Rate Order may be adopted, maintained, billed and collected in such a manner as will generate Gross Revenues in excess of those necessary to make all of the payments, transfers and deposits described in Section 4.02, if it is reasonably determined by the Board of Directors of the Authority that (1) such additional coverage is required as a condition to the issuance of such additional Bonds or other obligations (e.g., to satisfy an "additional bonds test"), (2) such additional coverage will reduce the borrowing costs of the Authority (e.g., by enhancing the credit rating assigned to the additional Bonds or other obligations), or (3) such additional coverage is justified by any other compelling factor in connection with issuance of such additional Bonds or other obligations.

ARTICLE VI

MISCELLANEOUS

Section 6.01: Implementation. The General Manager, Deputy General Manager or other staff of the Authority are hereby authorized and directed to implement this Resolution and the policies adopted hereunder. In the event that the provisions of this Resolution authorizing the expenditure of Authority funds shall be in conflict with any other orders, resolutions, policies or procedures relating to the expenditure of Authority funds which have been or may be adopted or approved by the Board of Directors of the Authority, the provisions of this Resolution shall prevail and control.

Section 6.02: Conflicts. In the event that any provision of this Resolution is in conflict with any provision of the Series 2009 Resolution, the Addenda and/or the GRP Contracts, or the Rate Order, the provisions of the Series 2009 Resolution, the Addenda or the GRP Contracts, and/or the Rate Order shall prevail and control.

Section 6.03: Future Amendments. As determined necessary by the Authority, the Authority reserves the right to amend from time to time amend this Resolution and the policies set forth herein, subject to any provisions of the Series 2009 Resolution, the Addenda and/or the GRP

Contracts. The Authority specifically reserves the right to open, close, transfer or consolidate the funds described in this Resolution by subsequent resolution, order, agreement, or other action authorized by its Board of Directors, subject to any provisions of the Series 2009 Resolution, the Addenda and/or the GRP Contracts.

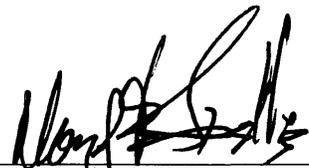
PASSED AND APPROVED on July 25, 2019.

ATTEST:

SAN JACINTO RIVER AUTHORITY



Kaaren Cambio, Board Secretary



Lloyd B. Tisdale, Board President

