



NORTH
TEXAS
MUNICIPAL
WATER
DISTRICT

FINANCE COMMITTEE MEETING

February 12, 2025



Agenda

- I. CALL TO ORDER
- II. PUBLIC COMMENTS
- III. OPENING REMARKS
- IV. ACTION ITEMS
- V. DISCUSSION ITEMS
- VI. ADJOURNMENT



Agenda

IV. ACTION ITEMS

- A. Consider approval of Finance Committee meeting minutes – November 6, 2024
- B. Draft FY2023-24 Financial Audit by Crowe, LLP
- C. Extendable Commercial Paper Programs – Annual Refunding Resolutions
- D. Texas Water Development Board – SWIFT Applications
- E. Panther Creek Wastewater Treatment Plant System Bonds, Series 2025

V. DISCUSSION ITEMS

- A. FY2023-24 Budget vs Actual Results and Year End Reserve Balances
- B. Overview of Upcoming Regional Water System Extendable Commercial Paper Refunding and Potential Bond Current Refunding Opportunity
- C. Opportunity for Committee members to provide feedback on Finance Committee meeting or request potential future agenda items



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Kevin Smith, Crowe, LLP

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Smart decisions. Lasting value.™

North Texas Municipal Water District

Fiscal Year Ended September 30, 2024

Finance Committee

February 12, 2025

Kevin W. Smith, Partner



With You Today



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Independence Communications

Auditing standards generally accepted in the United States of America require independence for all audits, and we confirm that we are independent auditors with respect to the District under the independence requirements established by the American Institute of Certified Public Accountants.

Additionally, we wish to communicate that we have no relationships with the District that, in our professional judgment, may reasonably be thought to bear on our independence and that we gave significant consideration to in reaching the conclusion that our independence has not been impaired.



Results of Services

Unmodified (“Clean”) Opinion

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the District, as of September 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Results of Services

Internal Control - No material weaknesses or significant deficiencies in internal control reported or communicated to management.

Audit Differences – Corrected and uncorrected misstatements below.

Required Communications

Topic	Comments
Significant accounting policies	Implementation of GASB 99 and GASB 100; immaterial impact
Management Judgements and Accounting Estimates	Fair values of investments, useful lives capital assets, landfill closure/post-closure, pension and postretirement
Corrected or uncorrected misstatements	One corrected misstatement and three uncorrected; no income statement impact
Disagreements with management on financial accounting and reporting	None noted
Other information included in annual reports	No material inconsistencies noted
Major issues discussed with management prior to engagement	None noted
Consultations with other accountants	None noted
Difficulties in performing the audit	None noted
Material errors, irregularities or illegal acts	None identified
Material weaknesses in internal control	None identified
Representation letter	To be provided to Crowe prior to release of ACFR
Independence communications	No impairments identified

Corrected Misstatements

Corrected Misstatements			Increase (Decrease)					
Account Name	Debit	Credit	Asset	Deferred Outflows	Liability	Deferred Inflows	Net Position	Income
Interceptor Fund <i>Known error</i> Construction in progress Accounts payable <i>To properly state assets and accounts payable for easement</i>	2,058,235	2,058,235	2,058,235		2,058,235			

Uncorrected Misstatements

Uncorrected Misstatements			Increase (Decrease)					
Account Name	Debit	Credit	Asset	Deferred Outflows	Liability	Deferred Inflows	Net Position	Income
Regional Wastewater Fund								
<i>Known error</i>								
Accounts payable	2,297,355				(2,297,355)			
Construction in progress		2,297,355	(2,297,355)					
<i>To properly state assets and accounts payable</i>								
Interceptor Fund								
<i>Known error</i>								
Construction in progress	548,681		548,681					
Accounts payable		548,681			548,681			
<i>To properly state assets and accounts payable</i>								
Solid Waste Fund								
<i>Known error</i>								
Construction in progress	387,551		387,551					
Accounts payable		387,551			387,551			
<i>To properly state assets and accounts payable</i>								

Questions?



Thank You

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Committee Consideration

The Executive Director and NTMWD staff recommend the Board of Directors authorize the acceptance of the Draft FY2023-2024 Financial Audit by Crowe, LLP



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Jeanne Chipperfield, AGM Chief Financial Officer

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Reauthorize Extendable Commercial Paper Refunding Bond Resolutions

Extendable Commercial Paper (ECP)

- Short term financial instrument used as interim financing to award contracts ahead of issuing long-term debt

Benefits

- Allows contracts to be awarded prior to selling bonds - ECP sold only when needed to pay invoices
- Postpones sale of long-term bonds until construction is underway and nearing completion
- Aligns borrowing with budget cycles helps produce rate stability
- Provides access to funds in the event of emergency

Considerations

- Risk of permanently financing at higher interest rates than current long-term rates
- Appropriately budgeting for variable interest rates and issuance timing
- Rating agencies and investors need to have comfort that the District can access the bond market



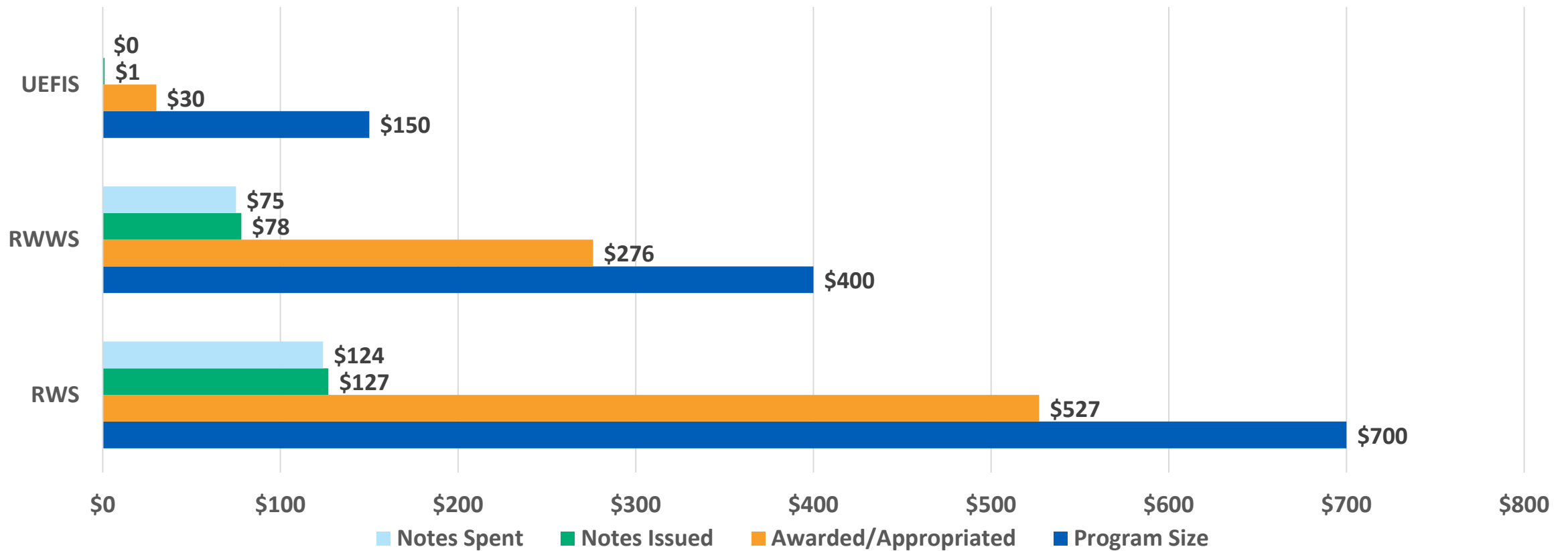
Extendable Commercial Paper Programs

- Established 3 ECP Programs in 2021 and increased sizes in 2023
 - Regional Water System - \$700 Million
 - Regional Wastewater System - \$400 Million
 - Upper East Fork Interceptor System - \$150 Million
- Upper East Fork Interceptor System Program - \$150 million Refunded in August 2024
- Regional Water and Wastewater System Programs Planned for May 2025



ECP Programs Overview and Appropriation Status

Extendable Commercial Paper Programs (\$M)
As of January 2025

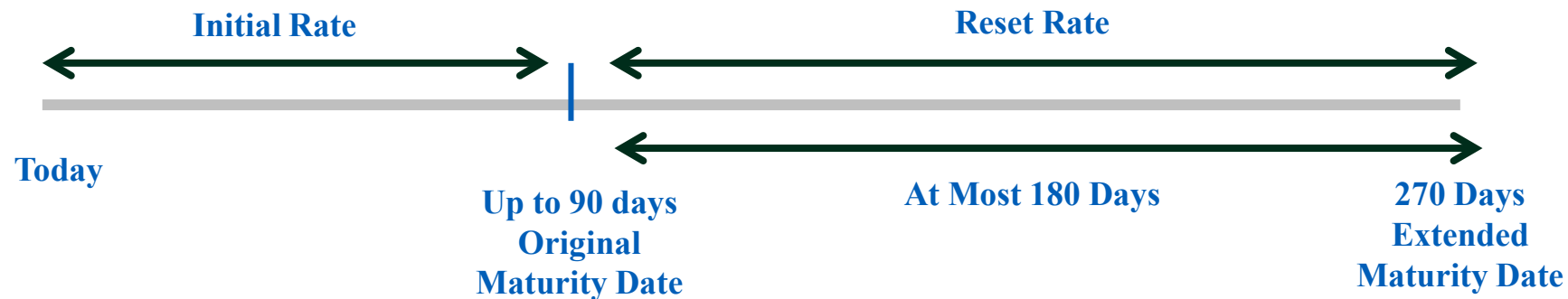


RWS reflects total spent and issued. \$11 Million of ECP notes were defeased in FY23.



Extendable Commercial Paper Structure

ECP issued with an Original Maturity of up to 90 days



On the ECP's Original Maturity Date, one of the following 3 scenarios will occur

- 1. Payoff** District pays off the maturing ECP with cash or proceeds from long-term bond sale.
- 2. Roll** Existing ECP matures. District issues new ECP on the same day. ECP has a new Original Maturity Date of up to 90 days and an Extended Maturity Date of up to 270 days from the most recent issue date
- 3. Extend** If the maturity of the ECP is *extended* (failed remarketing), the existing investors hold the ECP, and the ECP interest rate resets at a predetermined percentage of the Securities Industry and Financial Markets Association (SIFMA) index plus a fixed spread based on the District's prevailing short-term ratings (e.g., greater of SIFMA+250 bps or 7%)

ECP bears the reset rate until the Extended Maturity Date or earlier redemption by the District

ECP on its original maturity date can be rolled if extended or be paid off



Reauthorize Extendable Commercial Paper Refunding Bond Resolutions

Board annually approves resolutions authorizing ECP Refunding Bonds

- ECP Refunding Bond resolutions provide liquidity support for ECP Programs (utilized only if necessary)
- Each ECP Refunding Bond Resolution will match the size of each ECP Program



Committee Consideration

The Executive Director and NTMWD staff recommend the Board of Directors authorize the approval to reauthorize the ECP Refunding Bond Resolutions in the following amounts:

Regional Water System - \$700 Million

Regional Wastewater System - \$400 Million

Upper East Fork Interceptor System - \$150 Million



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Drew Farris, Finance Manager

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Regional Water System TWDB SWIFT Program

Texas Water Development Board (TWDB) State Water Implementation Fund for Texas (SWIFT) Program

- Provides financial assistance in the form of long-term, fixed-rate loans offered at below-market rates
- Maturities range from 20 to 30 years
- Interest rates are based on the TWDB's cost of funds, which reflects the program's AAA credit rating
- Interest rate is further reduced by a subsidy established by the TWDB Board for each funding cycle
- 2025 funding cycle subsidy percentages will be determined at the time of prioritization, anticipated to be in summer of 2025



Regional Water System TWDB SWIFT Applications

Application Process

- January 31, 2025, NTMWD submitted an abridged application to the TWDB for financial assistance for two projects
- TWDB's project priority list will go to the TWDB's Board in spring 2025
- Upon TWDB Board approval, a formal invitation to apply may be extended
- Once invitation is received, have 30 days to submit formal applications, in late spring or early summer 2025
- Board action likely in April to authorize the District to submit formal applications, contingent upon invitation from TWDB
- NTMWD will execute Financing Agreements with TWDB in the late summer / early fall
- NTMWD will execute Bond Resolutions in the late fall
- TWDB's SWIFT Program bond closing in late fall, NTMWD bond closing in November/December 2025



Regional Water System TWDB SWIFT Application #1

Phase III High Service Pump Station – South (HSPS-S) & 25kV South Loop & Transformers

The following are scheduled to be awarded in November 2025:

Project	Amount (\$M)
Leonard WTP HSPS-South (Construction)	\$ 216.8
Leonard WTP HSPS-South (Eng. Services & Inspection)	6.8
Leonard WTP 25kV South Loop & Transformers (Construction)	20.8
Leonard WTP 25kV South Loop & Transformers (Inspection)	0.8
Deposit to Debt Reserve	15.5
Cost of Issuance	0.6
Total	\$ 261.3



Regional Water System TWDB SWIFT Application #2

Texoma Raw Water Pipeline No. 2 & Texoma to Leonard Raw Water Pipeline

The following are scheduled to be awarded in November 2025:

Project	Amount (\$M)
Texoma Raw Water Pipeline No. 2 (Construction)	\$ 493.1
Texoma Raw Water Pipeline No. 2 (Const. Mgmt. & Inspection)	10.9
Texoma to Leonard Raw Water Pipeline (Construction)	140.4
Texoma to Leonard Raw Water Pipeline (Const. Mgmt. & Inspection)	10.9
Deposit to Debt Reserve	41.5
Cost of Issuance	1.4
Total	\$ 698.2



Regional Water System TWDB SWIFT Applications

SWIFT Bond Details

- **30-year term, level debt service**
- **Application No. 1**
 - Estimated Annual Payment - \$15.4M
 - Estimated Savings - \$43.0M
- **Application No. 2**
 - Estimated Annual Payment - \$41.3M
 - Estimated Savings - \$70.1M



Committee Consideration

Application No. 1

The Executive Director and NTMWD staff recommend the Board of Directors to authorize filing an application for financial assistance from the Texas Water Development Board's State Water Implementation Fund for Texas (SWIFT) Program for financing the Bois d'Arc Lake/Leonard Water Treatment Plant - Phase III High Service Pump Station-South and 25kV South Loop & Transformers as follows:

Purpose: Financial Assistance Application

Amount: \$261,345,000



Committee Consideration

Application No. 2

The Executive Director and NTMWD staff recommend the Board of Directors to authorize filing an application for financial assistance from the Texas Water Development Board's State Water Implementation Fund for Texas (SWIFT) Program for financing the North System Raw Water Pipelines – Texoma Raw Water Pipeline No. 2 & Texoma to Leonard Raw Water Pipeline as follows:

Purpose: Financial Assistance Application

Amount: \$698,150,000



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Panther Creek WWTP Bonds Overview

Overview

- Serves and funded by Frisco
- Current Credit Ratings: (Aa2) Moody's, (AA-) S&P
- Bond Issue Budgeted in FY 2025 Annual Budget
- Open Market Bond Sale on 3/27/25
- Delivery of Funds on 4/24/25

Award Date	Project	Scope of Work	Depreciable Life of Asset	Amount \$ Million
03/2025	Panther Creek WWTP Expansion to 15 MGD	Construction	40 Years	\$ 141.0
03/2025	Panther Creek WWTP Expansion to 15 MGD	Construction Phase Engineering and Contingency	40 Years	9.0
03/2025	Panther Creek WWTP Expansion to 15 MGD	Management & Inspection	40 Years	4.0
				\$ 154.0



Panther Creek WWTP Bonds Overview

Sources of Funds	\$ Million
Par Amount of Bonds	\$ 163.0
Est. Premium	0.6
Total Sources	\$ 163.6

Uses of Funds	\$ Million
Project Costs	\$ 154.0
Deposit to Debt Service Reserve Fund (DSRF)	9.0
Cost of Issuance	0.6
Total Uses	\$ 163.6

- 30 Year Term Bonds
- Level Debt Payments
- Estimated Interest Rate: 4.5%



Committee Consideration

The Executive Director and NTMWD staff recommend the Board of Directors to authorize the approval of the Series 2025 Panther Creek Wastewater Treatment Plant System Bonds for project costs in the amount of \$154M plus funding for cost of issuance and debt service reserve fund. (Total Estimate of \$163.6M)



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Annual Fund Balance Review

- *Finance Policies Manual – Section 2 - Fund Balance Policy* (Amended September 2024)
 - Defines types of funds
 - Sets guidelines for fund balances
 - Fund balance requirements for several systems established via contract
 - Provides rationale for holding reserves such as liquidity, maintaining bond ratings, emergency preparedness, and contractual obligations
- Balances reviewed by the Finance Committee annually after the completion of the annual financial audit
- Review Regional Water System (RWS) Surplus Budgeted Funds – per amended Member City contract



Potential Fund Policy Changes

Current policy establishes a set number of days of O&M as a target for reserves

- Certain funds have policy maximum balances
- No policy minimums are established which could leave the reserves too small to handle even small repairs
 - Consider establishing minimum balance guidelines for reserves in the future



Year End Report (New Format)

- New report covers year-end results for all systems and their funds' balances at 9/30/2024
 - Regional Water System (RWS)
 - Regional Wastewater System (RWWS)
 - Upper East Fork Interceptor System (UEFIS)
 - Small Systems
 - 5 Water Storage / Distribution / Transmission Systems
 - 8 Wastewater Treatment Plant Systems
 - 9 Interceptor Systems
 - Pretreatment
 - Regional Solid Waste System
 - Internal Service (Shared Services) and Health Insurance Funds

On average about 5 funds per operating system

District is generally in compliance with comments denoting any exceptions



Fund Balance Policy Overview

All Systems

- Interest and Sinking (I&S) and Bond Reserve Fund balances are established via bond resolution
- Construction Funds refer to bond proceeds to be used for projects; no required balance

Regional Water System (RWS)

- Operating Fund – Minimum 90-day Operations and Maintenance (O&M) next year's expense
- Combined Operating and Contingency Fund - 130-150 days
- Capital Improvement Fund - \$15M minimum balance

Other Systems

- Operating Funds are break-even and thus have a \$0 balance after any reserves are replenished or ECP defeased (paid off)
- Reserve for Maintenance / Contingency – 90 days O&M with a max of \$500k, unless specified by contract
- Preventative Maintenance Escrow – based on preventative maintenance schedules
- Equipment Replacement Escrow – based on equipment replacement schedules
- Capital Improvement Fund – based on upcoming capital improvement projects



RWS Surplus Budgeted Funds Review

- Amended RWS Member City Contract includes a provision to distribute “surplus budgeted funds” at the end of the fiscal year to Member Cities based on prior year’s usage
- Analyze reserve and other required balances to determine if surplus budgeted funds are available and recommend appropriate use of funds
- Annual calculation effective for fiscal year ending 9-30-21, per amended Member City Contract
 - 9-30-21 distributed \$3.4 million
 - 9-30-22 no distribution
 - 9-30-23 distributed \$5.3 million
 - 9-30-24 no distribution recommended



RWS Operating / Contingency Fund

	Days		\$ Million		
	Target	Actual 9/30/24	Target	Actual 9/30/24	Variance
Operating Fund	90	95.4	\$50.5	\$53.5	\$3.0
Contingency Fund	<u>60</u>	<u>49.3</u>	<u>\$33.7</u>	<u>\$27.7</u>	<u>(\$6.0)</u>
Total	150	144.7	\$84.2	\$81.2	(\$3.0)

- Combined Operating and Contingency Fund is within the policy range of 130-150 days
- No distribution of funds to Members recommended



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Regional Water System Upcoming Bond Sale

Refund Existing Extendable Commercial Paper Bonds (“ECP”)

- Refund approximately \$150-\$175 million of outstanding ECP Bonds to long-term debt plus new money of \$500-\$525 million
 - In total, will fund approximately \$675 million of projects previously awarded contracts and appropriated to RWS ECP program
- Allows District to replenish appropriation authority for future projects
- Amortized over 30 years, estimated interest rates of 4.64% (as of 1/30/25)
- Annual payment of approximately \$41.6 million



Regional Water System Upcoming Bond Sale

Refund/Refinance selected maturities of existing 2014 and 2015 Bond Issues

- \$316.475 million eligible to be refinanced, however, \$270.590 million of Prior Bonds currently make economic sense to refund
- Prior Bonds are outstanding at an average interest rate of 4.74%
- Refunding portion of 2025 bonds interest rate of 3.63% (as of 1/30/25)
- Estimated total savings of \$20.3 million
 - Approximately \$1.56 million annually from 2026-2038
- Net present value of 5.78% of the bonds being refunded
 - District's Financial Policies require a minimum of 3% savings on a current refunding
- Final term of existing bond issues will not be extended

2014 and 2015 Refunding Savings Analysis



North Texas Municipal Water District

Water System Revenue Refunding Bonds, Series 2025

PROJECTED SAVINGS ANALYSIS

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
Year Ending	<u>Old</u> 2014 & 2015 Debt Service	<u>New</u> 2025 Ref Debt Service	<u>Projected</u> <u>Savings</u>
9/30/2026	\$ 33,839,063	\$ 32,276,410	\$ 1,562,652
9/30/2027	33,906,063	32,343,500	1,562,563
9/30/2028	33,907,313	32,347,750	1,559,563
9/30/2029	33,928,313	32,370,000	1,558,313
9/30/2030	24,743,688	23,181,750	1,561,938
9/30/2031	34,622,138	33,060,750	1,561,388
9/30/2032	34,649,700	33,088,750	1,560,950
9/30/2033	34,623,888	33,061,750	1,562,138
9/30/2034	34,609,263	33,049,250	1,560,013
9/30/2035	29,337,200	27,777,250	1,559,950
9/30/2036	12,286,700	10,725,250	1,561,450
9/30/2037	5,426,200	3,866,750	1,559,450
9/30/2038	5,475,600	3,916,500	1,559,100
	351,355,125	331,065,660	\$ 20,289,465

Net Present Value ("PV") Savings:

\$ 15,635,667

PV Savings as % of Bonds being Refunded:

5.78%

Note: Interest Rates as of 1/30/2025.

Interest Rate Sensitivity

- If interest rates decline by 25 basis points (0.25%), savings increase to \$24.8 million total and \$1.9 million annual with a 7.2% NPV
- Interest rates can increase by 50 basis points (0.5%) and still achieve the 3% policy requirement, but savings are reduced to \$11.1 million in total savings or \$855 thousand annual savings



Negotiated Bond Sale

- District's financial advisor (FA), Hilltop, recommends utilizing a negotiated sale instead of an open market (competitive) sale
 - Overall bond sale size approaching \$1 billion
 - Interest rate volatility
 - Negotiated sale provides flexibility to resize the sale if market conditions change
- District pre-selects underwriters to form a syndicate to buy the bonds
 - Underwriter recommendation to follow at April Finance Committee
- Financial advisor monitors the sale and ensures that the District receives a competitive interest rate on the bonds



Next Steps

- April Finance Committee
 - Provide updated bond sale size, interest rate projections and potential refunding savings
 - Provide proposed underwriting syndicate members
- May Board Meeting
 - Approval of bond sale with details of final interest rates and savings



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