



NORTH
TEXAS
MUNICIPAL
WATER
DISTRICT

FINANCE COMMITTEE MEETING

June 11, 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 – April 9, 2025
- B. Amendments to the Finance Policies Manual

V. DISCUSSION ITEMS

- A. Fiscal Year 2024-25 Amended and Fiscal Year 2025-26 Preliminary Budget Overview
- B. Investment Portfolio Review
- C. Opportunity for Committee members to provide feedback on Finance Committee meeting or request potential future agenda items



Agenda

Jeanne Chipperfield, AGM

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Finance Policies Manual Review

- Manual currently includes 9 individual policies, investment strategy statement, and authorized lists of training sources, investment advisors, and investment brokers
- Annual review and approval of Investment Policy required by Public Funds Investment Act (PFIA)
- Proposed updates include
 - Clarification of use of budgeted debt service funds
 - Refinement of fund balance policies
 - Addition of a funding policy for the Employee Retirement Plan
 - Minor typographical and formatting corrections
- Anticipate more significant updates, particularly in the Procurement section, next year due to implementation of the Workday ERP system



Section 1. Fiscal Management–Operating Fund Budgets

- Debt service on for new bonds or planned refunding of extendable commercial paper is budgeted for the upcoming year based on award schedules prepared 12-18 months in advance of the bond sale
- Changes in award timing or amounts can make a significant difference in the first year's debt service
- To preserve the budgeted intent for the funds, recommend adding language stating the budgeted debt service funds for a new bond sale may be reallocated to reduce the size amount of the bond sale
 - Principal reduction will lower overall debt service costs



Section 2. Fund Balance

- Update definition of Contingency Fund and Reserve for Maintenance to include *large planned system maintenance expenses and unforeseen major repairs* as authorized uses of funds
- Regional Water System Contingency Fund – remove “150 day target” from the combined Operating and Contingency Fund balances
 - Not well defined and implies budgeting funds to meet target
- Health Insurance Holding Funds – update language to maintain separate minimum balances instead of a cumulative balance
 - Funds are budgeted as separate line items and are not interchangeable



Section 4. Investments

- Public Funds Investment Act (PFIA) requires
 - District to have written Investment Policy and Investment Strategy
 - Governing body to review investment policy and investment strategy no less than annually. Board last approved 9/2024
- PFIA states what investments are allowed for public entities and provides investment objectives, in order of importance
 1. Understanding of the suitability of the investment to the financial requirements of the entity
 2. Preservation and safety of principal
 3. Liquidity
 4. Marketability of the investment if need arises to liquidate the investment before maturity
 5. Diversification of the investment portfolio
 6. Yield
- Requires quarterly reporting – included in District's Quarterly Financial Report
- District has received the Government Treasurers' Organization of Texas (GTOT) Certification of Investment Policy, confirming our policy meets PFIA requirement and standards for prudent investing (FY23-FY25)
- No changes to Investment Policy recommended at this time – may be legislative changes that require additional updates



Section 10. Proposed Retirement Plan Funding Policy

- State law requires that a retirement plan and plan sponsor jointly adopt a pension funding policy
- District began following a funding practice in 2023 after the completion of an actuarial experience study; however, a formal policy was not established
- District's actuaries, with staff input, developed a Retirement Plan Funding Policy that reflects best practices and Texas Pension Review Board guidance
 - Retirement Plan Committee reviewed the and approved the proposed policy at its February 2025 meeting
- Policy includes the following sections
 - Purpose
 - Primary Funding Objective – fully fund the long-term cost of benefits
 - Priorities and Guidelines - to achieve the funding objective
 - Funding - methods to measure plan assets and liabilities; amortization of liabilities; timing of experience studies



Sections 10.1 & 10.2: Purpose and Primary Objectives of Funding Policy

- Define the goals and objectives of funding of the Retirement Plan
- Ensure objectives are consistent with Texas Pension Review Board, State statutes and Retirement Plan document
- Ensure objectives consider best practice recommendations
- Provide policy guidance to current and future Boards
- Primary objective to fully fund the long-term cost of the benefits provided in the Plan



Section 10.3: Funding Policy Priorities and Guidelines

- Priorities and Guidelines
 - 100% payment of vested benefits when due
 - Target a funded ratio of 100% (Texas statute, best practice)
 - Contribution stability and sound financing of benefits
 - Intergenerational equity
 - Benefit enhancement guidelines

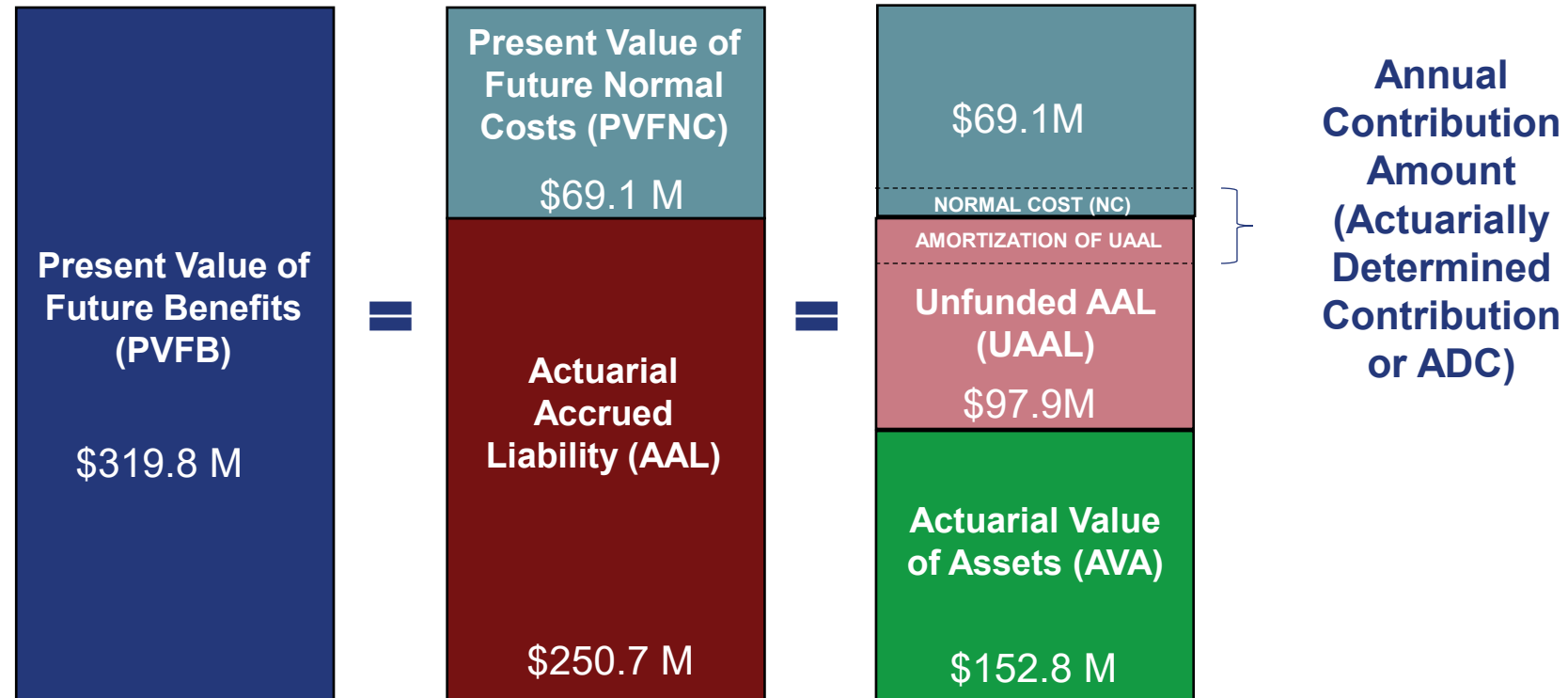


Section 10.4: Funding Policy

- **Defines methods to determine annual contribution, liability and asset valuation**
 - Annual District contribution determined by the Actuarially Determined Contribution (ADC)
 - Cost Method – Entry Age Normal (EAN) Level Percent of Pay
 - Asset Method – smoothed value of assets using a 5-year smoothing period
 - Amortization methods defined
- **Other Considerations**
 - Timing of actuarial experience studies
 - Risk sharing
 - Review of policy from time to time
 - Joint adoption of the policy



Funding Valuation Terminology



- AAL relates to past service
- PVFNC relates to current and future service
- NC relates to current service
- UAAL is the amount required to fully fund the AAL

- Valuation provides estimate of plan's financial position as of each January 1
- Amounts as of January 1, 2025



Comparison to Published Recommendations

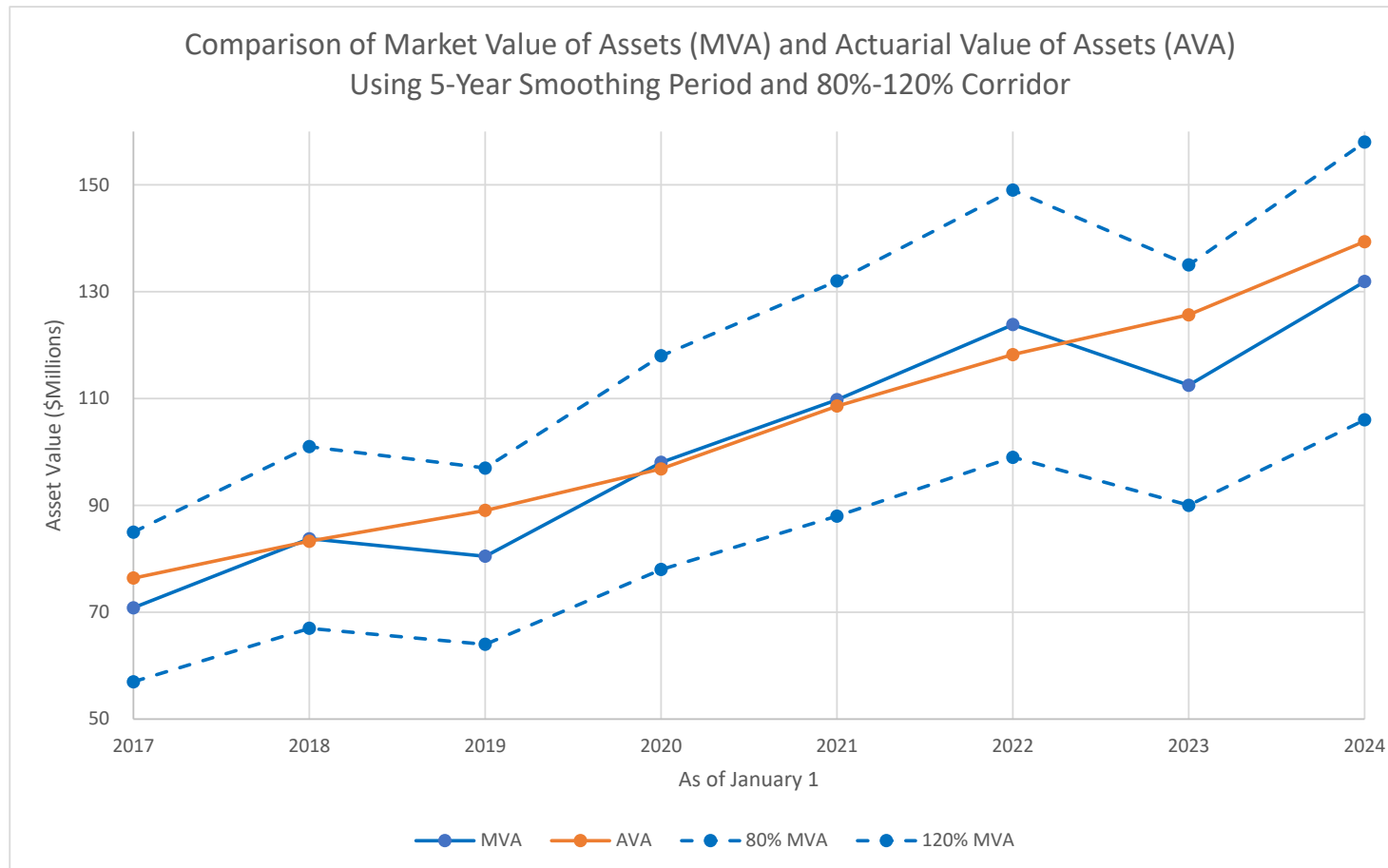
Policy Component	PRB	CCA PPC	GFOA	District Policy
Contribution Method	ADC	ADC	ADC	ADC
Actuarial Cost Method	Entry Age Normal (EAN) Level %	EAN Level %	EAN Level %	EAN Level %
Asset Smoothing Period	No specific recommendation	3 to 7 years	≤10 years, ideally ≤5 years	5 years
Amortization: Closed Period vs. Open Period	Closed Period	Closed Period	Closed Period	Closed Period
Amortization: Level Dollar vs. Level Percent	Either	Level Percent	Either	Level Percent
Amortization: Single vs. Layered	Layered; generally 10-25 years	Layered; generally 10-25 years	Layered; generally 15-25 years	Layered; 15-20 years

- PRB = Texas Pension Review Board
- CCA PPC = Conference of Consulting Actuaries Public Plans Community
- GFOA = Government Finance Officers Association



Asset Method

- Five-year smoothed actuarial value of assets
- Subject to 20% corridor (i.e., no less than 80% of MVA and no more than 120% of MVA)





Amortization Methods

Amortization Method	Funding Policy
Closed Period vs. Open Period	Closed Period
Level Dollar vs. Level Percent	Level Percent
Single vs. Layered	Layered

Source of Amortization Layers	Selected Amortization Period
Actuarial Experience Gain/Loss	20 Years
Assumption and Method Changes	20 Years
Plan Amendments	15 Years
Transition to New Policy	21 Years as of 1/1/2023

¹ Amount determined as of beginning of the year. The total 2025 Annual Amortization Payment with interest assuming payments are made monthly is \$7,220,912.



Amortization Methods

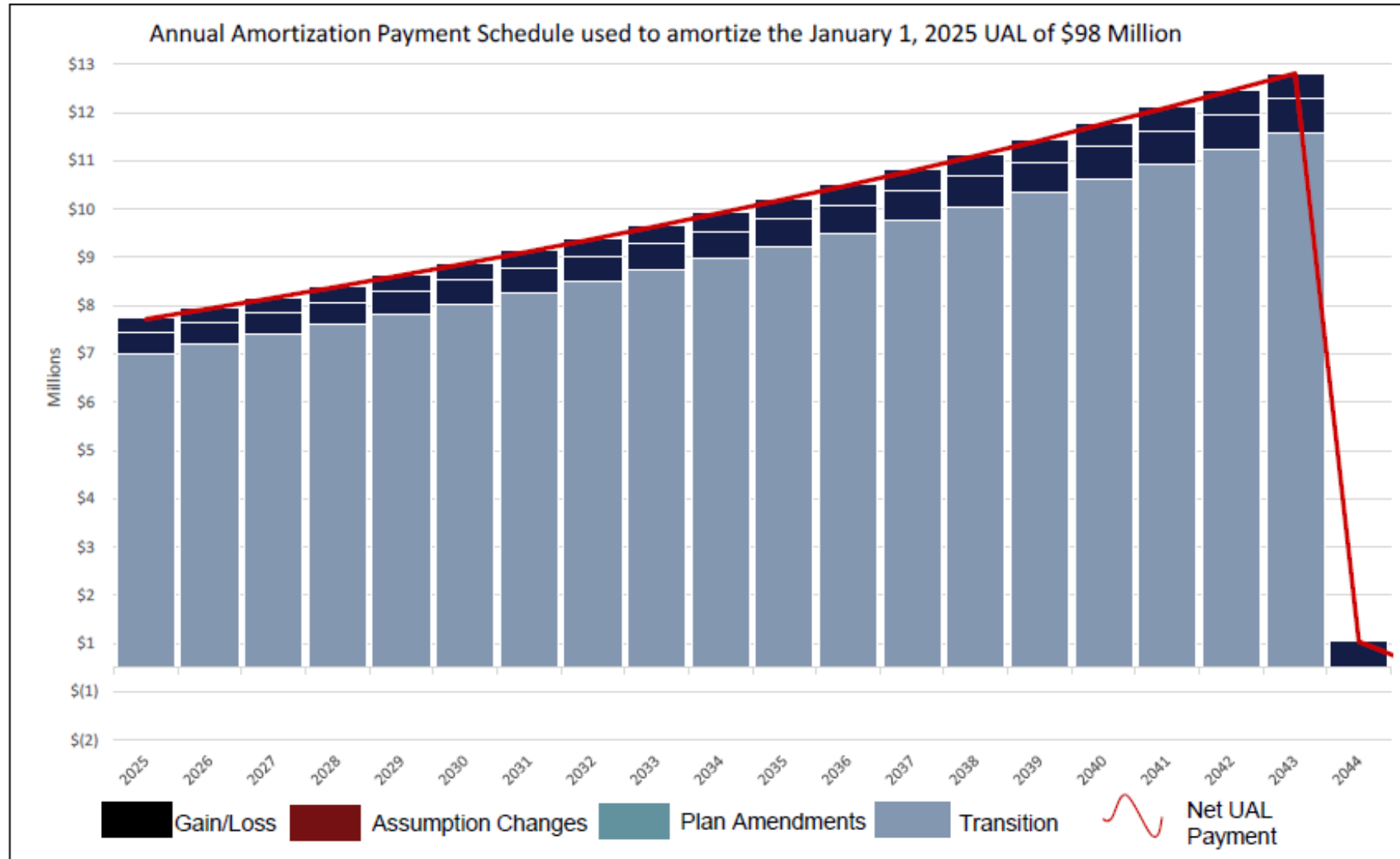
Schedule of amortization layers for the Retirement Plan as of 1/1/2025

UAAL Source	Date Established	Initial Amount	Initial Amort. Period (Yrs)	Remaining Amort. Period (Yrs)	Outstanding Balance At 1/1/2025	2025 Amort. Payment
Transition Amount	1/1/2023	\$88,493,316	21	19	\$88,336,291	\$6,312,330
Actuarial (Gain)/Loss	1/1/2024	5,789,380	20	19	5,765,420	413,697
Actuarial (Gain)/Loss	1/1/2025	4,278,950	20	20	4,278,950	305,765
Plan Amendment	1/1/2025	(145,297)	15	15	(145,297)	(12,661)
Totals					\$97,869,771	\$7,220,912¹

¹ Amount determined as of beginning of the year. The total 2025 Annual Amortization Payment with interest assuming payments are made monthly is \$7,220,912.



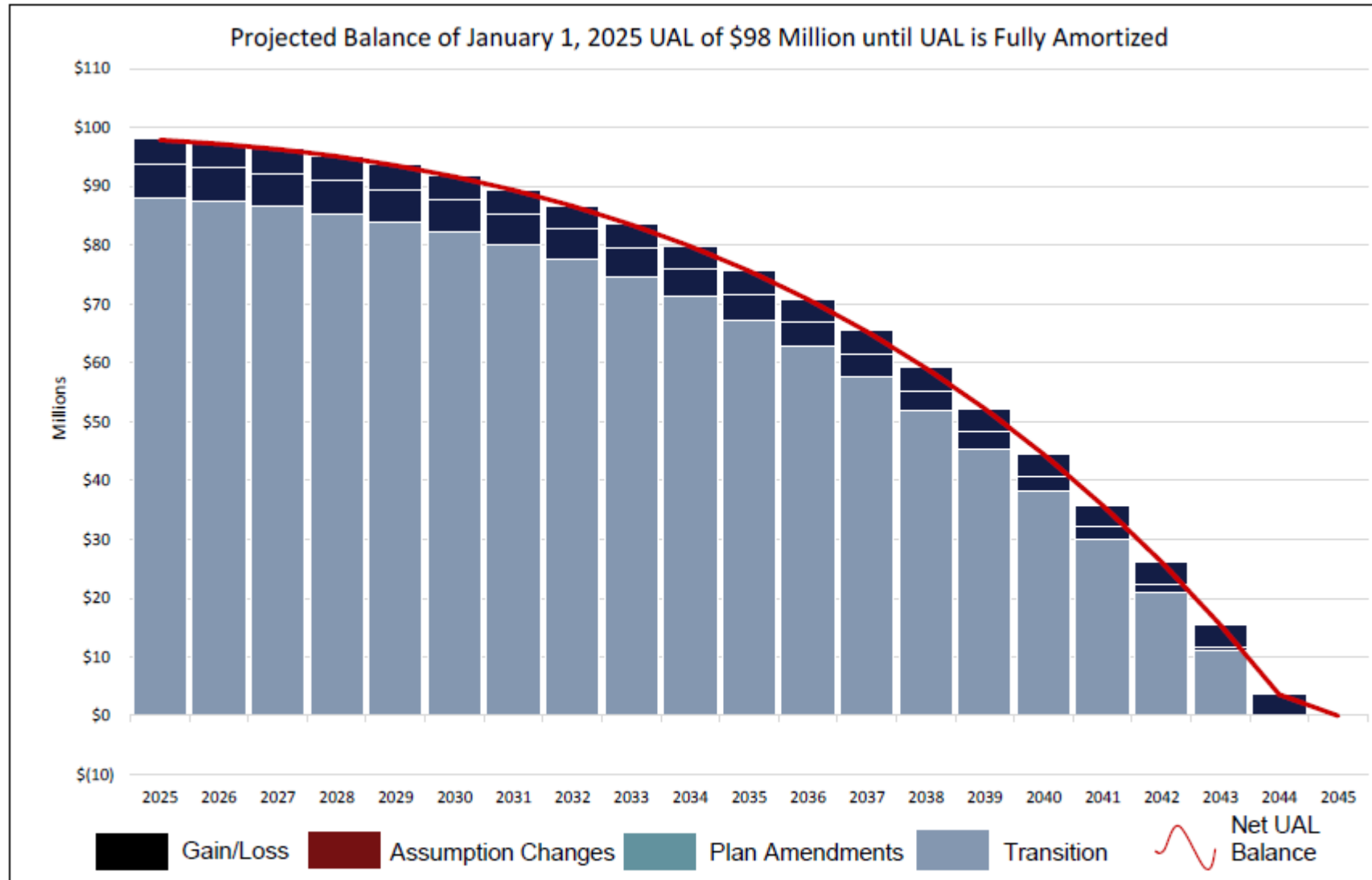
Amortization Methods (Annual Payment Schedule)



* January 1, 2025 Plan Amendment layer included, but not visible due to the relative size as compared to the other layers shown in the graph.



Amortization Methods (Projected UAAL Balance)



* January 1, 2025 Plan Amendment layer included, but not visible due to the relative size as compared to the other layers shown in the graph.



Next Steps

- Update draft policy amendments based on Committee's feedback
- Brief Policy Committee – August/September
- Board considers recommended policy amendments – September Meeting



Committee Consideration

The Executive Director and NTMWD staff recommend the Board of Directors authorize amendments to the Finance Policies Manual.



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Jeanne Chipperfield, AGM

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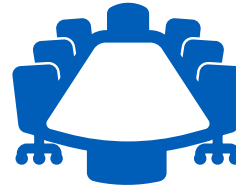


FY2024-25 Amended and FY2025-26 Budget Overview

- Budget Cycle
- Budget Summary
- Drivers
 - Debt
 - Personnel
- FY25 Amended Budget
- FY26 Budget
- Budget Variance to Strategic Financial Plans
- Next Steps



Annual District Budget Cycle – Stakeholder Engagement Milestones



District Departments

- **Jan-March** Budget kickoff, Budget guidance, Department requests for new personnel and budget items
- **April-August** Refine budget requests by working with Executive Team, Finance, HR, and requesting departments

Board of Directors

- **April** Finance Committee re: Strategic Financial Plans
- **May** Personnel Committee re: New Positions
- **June** Finance Committee
- **July** Budget Workshop
- **Aug** Briefing to Board & review of draft budget document
- **Sept** Final Amended Budget, Proposed Budget
- **Nov** Approval of RWS Rebates

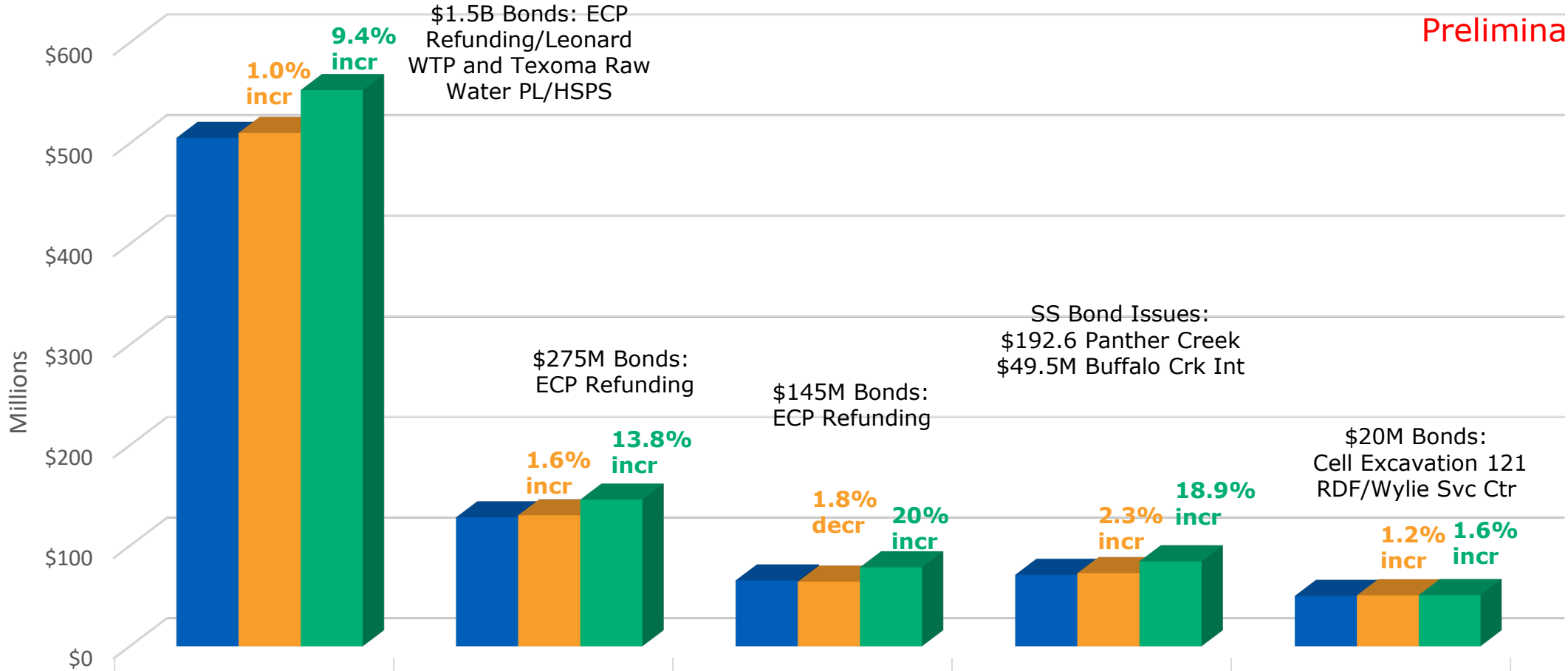
Members/Customers

- **May** Strategic Financial Plans, Letters re: estimated flow/tonnage and proposed RWS charges
- **June/July** Letters re: preliminary budget charges
- **Aug** Excess water bills
- **Sept** Final budget charge letters
- **Oct** Final billing adjustment from previous FY
- **Nov** RWS Rebates



Budget Summary – Expenses By System

Preliminary



	Regional Water	Regional Wastewater	Upper East Fork Int	Small Systems	Regional Solid Waste
FY25 Budget	\$505,383,370	\$128,263,610	\$65,443,240	\$71,078,880	\$50,106,770
FY25 Amended Budget	\$510,332,130	\$130,314,370	\$64,245,635	\$72,741,405	\$50,729,440
FY26 Budget	\$552,823,794	\$145,942,775	\$78,550,690	\$84,498,000	\$50,904,565

FY25 Budget FY25 Amended Budget FY26 Budget



Comparison of Costs/Rate – By System

System	FY25 Rate or FY25 Participant Cost	FY26 Rate or Participant Cost – Preliminary	Variance	Explanation
Regional Water System – Member Rate	\$3.85/1000 gallons	\$4.19/1000 gallons	\$0.34 or 8.8% Member rate increase	Increase in annual minimums, interest earnings and customer premium affect rate calculation
Regional Wastewater - Participant Cost	\$127.1m	\$136.0m	\$8.9m or 7% increase	Reimbursements, use of escrows and other revenues reduce revenue required from participants
Upper East Fork Interceptor - Participant Cost	\$64.6m	\$74.2m	\$9.6m or 14.9% increase	Other revenues such as interest, slightly reduce revenue from participants
Solid Waste – Member Rate	\$38.25 / ton	\$38.85 / ton	\$0.60 or 1.6% Member rate increase	Customer revenues, sludge disposal, gas royalties affect rate calculation

Individual participants' overall change in costs will vary based on annual minimums and projected usage in each system



FY25 Amended Budget Forecasted Variances (\$M)

Total Amended Budget (+\$8.1)

Personnel (-\$3.2) – Savings due to vacancies / benefits

Supplies (+\$0.4)

Services (+\$6.2)

- Maintenance (+\$5.2)
 - RWS – Wylie Plant 3 – 84” Line Cleaning
 - Prior year encumbrances (Building / Electrical System Maintenance)
- Consulting (+\$3.4)
 - Legal
 - Special Studies/Reports – Capacity Assessments Interceptors
- Power (-\$0.7)
- Insurance (-0.6)
- Other (-\$1.0)

Capital Outlay (+\$1.8) – Prior year encumbrances

Capital Improvement Transfers / Debt Service (+\$2.8)

- Reallocate RWS debt service savings to reduce bond sale, pre-fund FY26 debt service, and cash finance additional capital projects
- Reallocate RWWS debt service savings to fund Reserve for Maintenance and pull forward several capital expenditures



FY26 Preliminary Budget (\$M)

Total increase compared to FY25 Budget (+\$92)

Personnel (+\$3.5)

- 17 net new positions, merit increases

Supplies (-\$0.4)

Services (+\$27)

- ERP (+\$6)
- Maintenance (+10.5)
 - Special Maintenance RWS (+\$7.6) – Water Residuals
 - Equipment Maintenance (+1.3)
 - Other (+1.6)
- Electric Power (+\$2.9)
- Wholesale Water Purchases (+\$2.8)
- Landfill Service Fees (+\$1.3)

Capital Outlay (+\$4.9)

- Computer purchases moved from supplies to capital outlay

Debt Service / Capital Improvement (+\$58)

- Transfers to Capital Improvement
- ECP Refunding in RWS, RWWS, UEFIS
- New money bond issues in RWS, RSWS, Panther Creek WWTP, Buffalo Creek Interceptor



Drivers – New Debt (\$M)

- 9 bond issues in 7 different systems currently planned that affect FY26 debt service expense
- Adds \$58M to the FY26 Budget for debt service on newly issued bonds / cash funding of capital improvement projects

Estimated Date	System	Project	Project Cost (\$M)
05/2025	Buffalo Creek Int	Buffalo Creek Parallel Interceptor Phase II	\$ 42.1
05/2025	Panther Creek WWTP	Expansion to 15 MGD	192.6
06/2025	Regional Water	ECP Refunding	610.0
09/2025	Regional Wastewater	ECP Refunding	275.0
09/2025	UEFIS	ECP Refunding	140.7
10/2025	Regional Solid Waste	Wylie Service Center and Mass Cell Excavation	19.9
11/2025	Stewart Creek WWTP	Expansion to 15MGD – Design	6.8
11/2025	Regional Water	SWIFT(2) – Leonard WTP/Texoma Raw Water Pipeline	<u>934.1</u>
Total			\$ 2,221.2

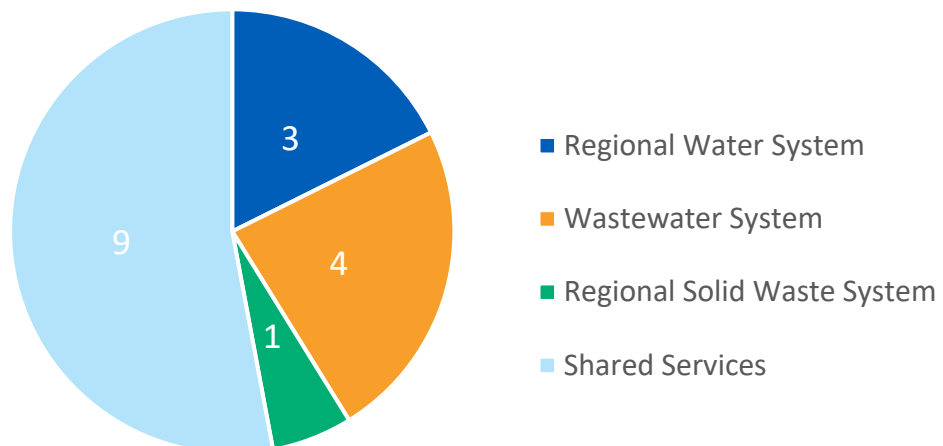


Drivers – New Positions

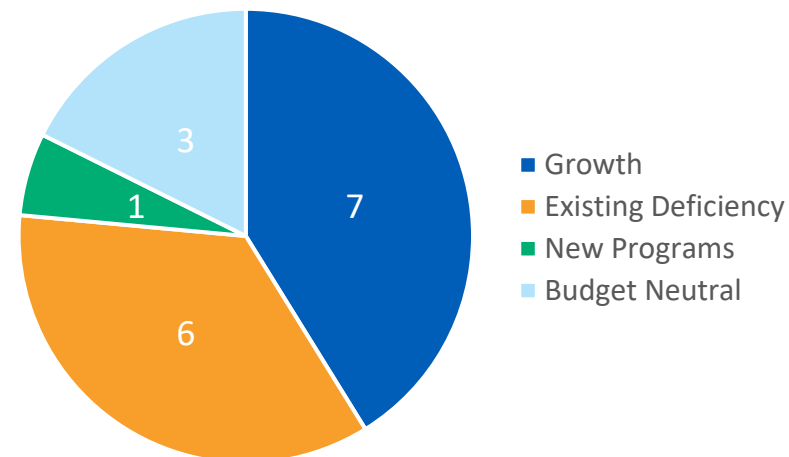
System	Positions
Regional Water System	3
Wastewater Systems	4
Regional Solid Waste System	1
Shared Services	9
Total	17

Driver	Positions
Growth – New & Expanded Facilities	7
Existing Deficiency	6
New Programs and Expanded Level of Service	1
Budget Neutral	3
Total	17

SYSTEM TOTALS



DRIVER TOTALS





FY26 Budget Variance to Strategic Financial Plans

16 of 25 Systems are currently within Strategic Financial Plans

9 Systems requiring additional review:

System	Variance	Variance %	Planned Use of Reserves
Shared Services	\$ 548,000	0.6%	
Plano Water Transmission	634,932	2,001.2%	\$300,000
Kaufman 4-1	28,234	26.4%	\$30,000
Seis Lagos WWTP	33,972	7.5%	
Lavon WWTP	20,338	2.6%	
Muddy Creek Interceptor	48,101	30.8%	\$49,000
Parker Creek Interceptor	41,292	9.8%	\$42,000
Sabine Creek Interceptor	21,762	36.2%	\$22,000
Parker Creek Parallel Interceptor	12,986	3.4%	\$13,000

- Work continues to refine budgets and align to SFP costs, some systems have available escrows or additional revenues to offset variances to SFP
- SFPs were not completed for new systems or systems expected to be turned over to cities



Budget Development Next Steps

- **July** – Budget Work Session with Board
- **August** – Tentative Budget Work Session with Board (if needed) and update at monthly Board Meeting
- **September**
 - Finance Committee final review of FY25 Amended Budget and FY26 Proposed Budget
 - Final Board consideration of FY25 Amended Budget and FY26 Proposed Budget



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Drew Farris, Finance Manager

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Investment Portfolio Review

- Overview
- Objectives
- Investment Process
- Portfolio Review



Investment Portfolio Review

- Investment Portfolio review applies to all NTMWD funds excluding Pension/OPEB Trusts and Employee Deferred Compensation
- District Investment Portfolio is managed according to the Texas Public Funds Investment Act and NTMWD Investment Policy
- Investment Portfolio Fund Types
 - Unrestricted Funds: Operating, Capital Improvement, Preventative Maintenance, Shared Services and Health Insurance Holding
 - Restricted Funds: Construction(Bond Proceeds), Interest and Sinking, Debt Service Reserves, Contingency, Reserve for Maintenance, Arbitrage, Lawsuit Settlement (Received Funds)



Investment Portfolio Review

- Portfolio Objectives
 - Primary Objective is the preservation of capital and the safety of principal throughout the portfolio
 - Maintain liquidity to meet reasonably anticipated cash flow requirements
 - Diversification of Investments
 - Yield



Investment Process

Step 1: Assess Cash Flow Needs

- Analyze cash flow forecasts and trends to determine available funds and timing of investment maturities

Step 2: Evaluate Investment Options and Prepare Proposals

- Review market with Investment Advisor, Hilltop Securities Asset Management (HSAM)
- Review offerings from HSAM for maturity and safety requirements
- Choose the Preliminary Securities that meets requirements

Step 3: Obtain Authorization from Finance Manager and CFO

Step 4: Execute the Investment Trade with HSAM

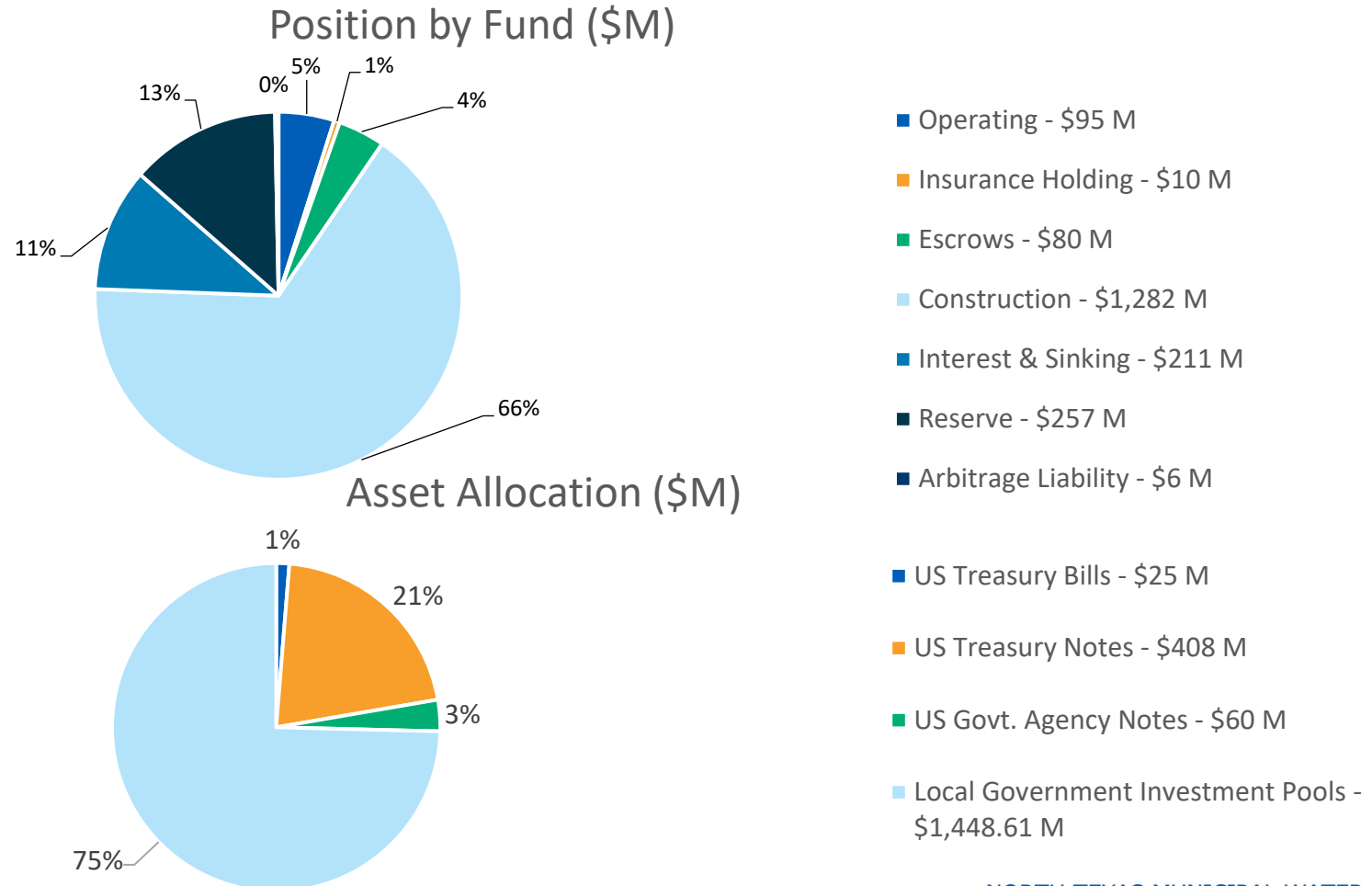
- HSAM utilizes 27 Broker/Dealers

Step 5: Settle Investment Transaction with Safekeeping Bank (BNY)



Investment Portfolio Review

- Investment Portfolio as of 03/31/2025 = \$1.94B



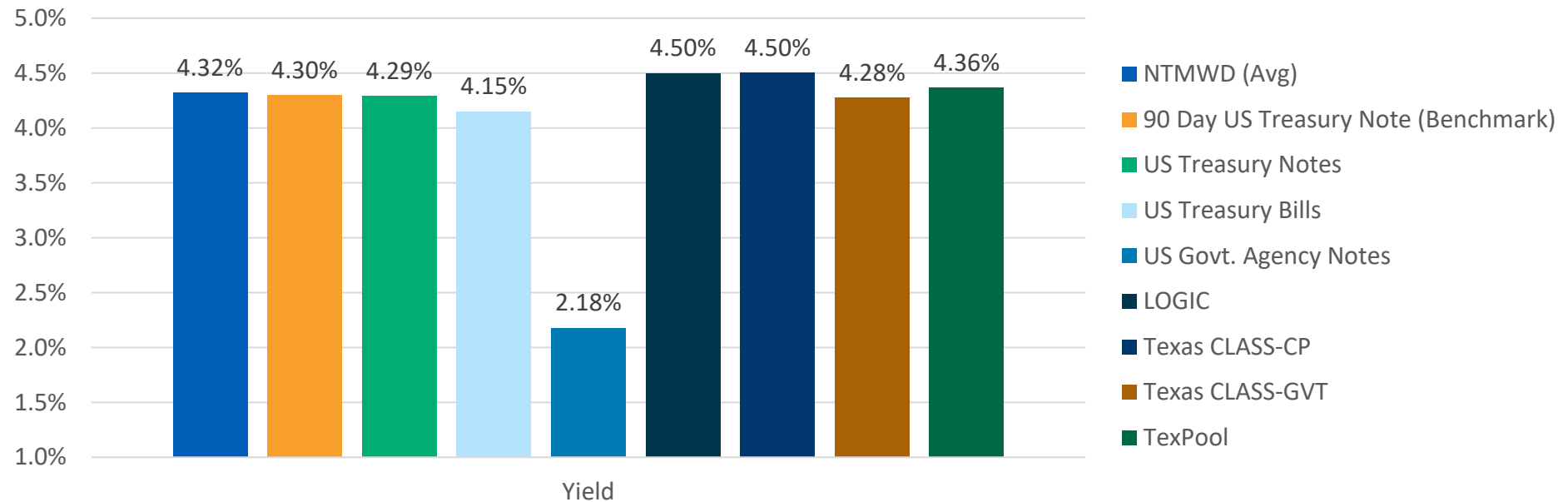


Investment Portfolio Review

Local Government Investment Pools (LGIPs) Allocation (\$M)



Portfolio Yield





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