



# NORTH TEXAS MUNICIPAL WATER DISTRICT

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## MINUTES SPECIAL MEETING OF THE BOARD OF DIRECTORS AUGUST 17, 2018

The North Texas Municipal Water District (NTMWD) Board of Directors met in a special meeting on Friday, August 17, 2018, at 12:30 p.m. in the NTMWD Administrative Offices located at 501 E. Brown Street, Wylie, Texas. Notice of the meeting was legally posted in accordance with Government Code, Title 551, Open Meetings.

### I. CALL TO ORDER

President John Sweeden called the meeting to order at approximately 12:30 p.m.

### II. INVOCATION – Director Bill Glass

Director Bill Glass offered the invocation.

### III. PLEDGE OF ALLEGIANCE

President John Sweeden led the Pledge of Allegiance.

### IV. PLEDGE OF ALLEGIANCE TO THE TEXAS FLAG

President John Sweeden led the Pledge of Allegiance to the Texas Flag.

### V. ANNOUNCEMENT OF QUORUM

Secretary Larry Parks announced a quorum was present. Directors absent are noted below, and any reference to unanimous votes excludes the Directors identified as being absent from the meeting:

1	Anderson, Terry Sam	
2	Carr, John	
3	Crump, George	
4	Dyer, Phil	
5	Farmer, Joe	
6	Fuller, Marvin	
7	Glass, Bill	
8	Gordon, Don	
9	Grooms, Darrell	
10	Hogan, Rod	
11	Hollifield, David	
12	Island, David	
13	Johnson, Blair	
14	Joplin, Joe	
15	Kerr, James	

16	Lofland, Bill	
17	May, Jack	
18	McKissick, Charles	
19	Murphy, John	
20	Parks, Larry	
21	Paschall, David	
22	Peasley, Richard	
23	Shuyler, Lynn	
24	Sweeden, John	
25	Thurmond, Robert	Absent

The following NTMWD consultants attended the meeting:

Lauren Kalisek – Lloyd Gosselink Rochelle & Townsend  
Molly Carson – McCall Parkhurst & Horton  
David Medanich and Nick Bulaich - Hilltop Securities  
Rick Ericson - The LeMaster Group  
Chris Ekrut - NewGen Strategies and Solutions

Executive Director Tom Kula explained that staff would present a proposed change in the manner in which operations and maintenance expenses and capital projects for the regional water system are budgeted in the upcoming fiscal year for the Board's consideration. He noted that although the manner in which the District projected these expenses over the last 50 years assuming use of full annual contract minimums was a valid method, changing conditions have indicated new trends that should be taken into account in the budgeting process, including abnormal weather conditions over the past few years, water conservation and impacts to consumption, and completion of the permitting process for Bois d' Arc Lake.

Mr. Kula indicated NTMWD staff was not proposing changes to the budgeting process in relation to the ongoing rate case at the Public Utility Commission (PUC), but that the recommendations to be discussed were identified as a part of the District's annual budgeting process to identify and implement budget efficiencies whenever possible. He explained that Deputy Director Rodney Rhoades would lay out the details and risk associated with the changes, but that any risk is manageable as will be discussed in the staff presentation. He asked the Directors to hold their questions related to PUC case until later in the meeting.

## VI. ACTION ITEMS

### A. Discussion and Possible Action on Proposed FY19 and Future Budget Methodology

Deputy Director Rodney Rhoades presented the proposed changes to the budget methodology, including:

- (i) budgeting for 90% instead of 100% of the following budget line items to meet the contractual water system minimums:
  - a. chemicals
  - b. production power, and
  - c. water purchase expenses and
- (ii) instituting a more refined execution of the Capital Improvement Plan (CIP).

On the issue of budgeting variable expenses (ie. chemicals, power, water purchases) based on annual minimums, Mr. Rhoades presented a graph showing total system contract annual minimums over the last ten years and actual consumption, indicating that, on average, total actual consumption equaled approximately 83% of the total system contract annual minimums.

Mr. Rhoades explained the contingency funds and other funding sources are available in the budget that can be accessed if actual costs exceed budgeted costs. These include the 90 day operating fund balance, and the unappropriated contingency fund of \$15 million and the Capital Improvement Fund. As shown in the staff presentation, the overall impact to the budget is a savings of \$5.5 million that results in a \$.05 reduction in the system water rate.

In response to a question from a Board member related to the timeframe on which the proposed methodology is based, Tom Kula stated the staff reviewed several years of actual consumption versus contract minimums. Rodney Rhoades added even with dry, wet years, the average actual consumption is about 83% of the minimums.

Board members discussed the impacts of use of contingency funds if necessary and whether the proposed change would impact the District's credit rating. Mr. David Medanich responded that he did not see an impact to the credit rating. Mr. Rhoades explained that the calculated maximum exposure would be approximately \$2 million over the fiscal year which could be covered by the available contingency funds and if drawn down, those funds can be built back up over time. What will be important is to monitor the impacts over time and make sure the District is not routinely experiencing a budget shortfall that requires use of the contingency funds on an ongoing basis.

The Board also discussed the timing of the recommendation coming late in the budget preparation process and whether it would be an issue to explain to Member Cities and Customers as to why this recommendation has not been implemented sooner. Staff acknowledged that the recommendation has come late in the budget preparation process for the upcoming fiscal year, but that it was the result of a hard look at historical consumption trends. The District now has a decade of data showing a sustained and substantive difference between contract annual minimums and actual consumption that can be taken into account as a part of the budgeting process. Board members also discussed the likelihood of the trend continuing or if it was skewed by the years of drought. Board members expressed concerns that the proposed change is being implemented too quickly and should be studied for at least a year or so to confirm viability.

Board members expressed a desire to recognize cities for conserving water and asked whether they would prefer a rate decrease or more in annual rebates. It presents a good opportunity to thank Member Cities and Customers for their conservation efforts.

In response to questions from Board members, staff confirmed that the recommended change only impacts the variable cost components of the water system rate, including chemical, production power, and water purchases, which comprise about 15% of the rate.

Mr. Rhoades also discussed proposed changes to CIP funding. As described in the staff presentation, more certainty now exists with respect to funding needs for Bois d'Arc Lake which results in a revision to the CIP for the next SWIFT bond issue. Total funding requirements have decreased from \$632 million to \$531 million, which will result in a reduction in the system water rate of \$0.04 for FY 19.

In addition, staff identified other budget savings that, combined with the above recommended changes, would result in a total system revenue requirement decrease from July's estimate of \$368 million to \$340 million.

To address the question of how these changes would impact Member Cities in consideration of annual rebates, Mr. Rhoades presented a slide comparing annual payments made by Member Cities under the previous budget approach, in FY17 to the proposed approach if it had been implemented in FY17. The analysis shows a net benefit to all Member Cities.

In response to a question from the Board members, Mr. Rhoades explained if the recommended changes to the budget method were not implemented, over time the District would see excess revenue being carried over into the CIP and higher annual rebates.

Board members also discussed the distinction between contract annual minimums which are used to allocate costs under the Member City contract and CIP planning that is driven by planning to meet peak usage by system customers.

In response to a question from a Board member, Mr. Rhoades explained the recommendation to budget for 90% of the variable costs and not some other percentage was driven by the desire to be conservative at the outset and plan to continue to monitor the impacts in future budget years to see if further adjustment is warranted.

In response to additional questions from Board members, Mr. Rhoades explained that the projected costs for chemicals and power took into account market price increases for the upcoming fiscal year.

The Board of Directors took a short break.

The regular session recessed at 2:35 p.m.

President John Sweeden declared a need for an Executive Session of the Board of Directors to discuss Agenda Item No. IV. A. pursuant to Texas Government Code, Title 5, Subchapter D, Section 551.071, Consultation with Attorney.

The Executive Session was called to order by President John Sweeden at 2:35 p.m.

The Executive Session adjourned at 3:46 p.m. No action was taken in the Executive Session.

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Director Darrell Grooms made a motion to table this item with a second from Director Joe Joplin. In response to a question on the length of tabling, Director Grooms stated indefinitely.

Board members discussed clarification of the motion, if the budget can be adopted without the methodology, what percentage is the right number to use, and whether they were in support of or opposed to the motion.

Upon a motion by Director Darrell Grooms, and a second by Director Joe Joplin, the Board of Directors voted fifteen to nine against tabling this item indefinitely as follows:

	<b>FOR</b>	<b>AGAINST</b>
1	Carr	Anderson
2	Glass	Crump
3	Gordon	Dyer
4	Grooms	Farmer
5	Joplin	Fuller
6	Lofland	Hogan
7	McKissick	Hollifield
8	Peasley	Island
9	Shuyler	Johnson
10		Kerr
11		May
12		Murphy
13		Parks
14		Paschall
15		Sweeden

The Directors further discussed the item and the opportunity for a new motion.

Upon a motion by Director David Paschall, and a second by Director Jack May, the Board of Directors voted fourteen to ten to approve the new budget methodology as stated in Administrative Memorandum No. 5523 as follows:

	<b>FOR</b>	<b>AGAINST</b>
1	Anderson	Carr
2	Crump	Fuller
3	Dyer	Grooms
4	Farmer	Hollifield
5	Glass	Johnson
6	Gordon	Joplin
7	Hogan	Lofland
8	Island	McKissick
9	Kerr	Peasley
10	May	Shuyler
11	Murphy	
12	Parks	
13	Paschall	
14	Sweeden	

VII. DISCUSSION ITEMS

- A. Review FY18 Annual All Systems Amended Budget and FY19 Proposed Annual All Systems Budget

Deputy Director Rodney Rhoades presented an overview of the presentation and indicated this information was also presented to the Finance/Audit Committee.

Assistant Deputy Director Erik Felthous reviewed the expected expenditures for each system for the FY18 Amended Budget as well as the FY19 Budget. He presented the breakdown of the personnel requests showing 12 mid-year additional positions in FY18 and 21 new positions for FY19.

Mr. Felthous reviewed positions wholly paid by the City of Frisco. He stated that 17 employees at the Panther Creek Wastewater Treatment Plant and 18 employees at the Stewart Creek Wastewater Treatment Plant are funded by the City of Frisco.


- B. Review Process of Renaming of North Texas Municipal Lake

Due to time constraints, the Board had to defer discussion on this item to the regular Board meeting on August 23, 2018.

VIII. ADJOURNMENT

There being no further business, the meeting adjourned at approximately 5:28 p.m.

APPROVED:

  
\_\_\_\_\_  
JOHN SWEEDEN, President

ATTEST:

  
\_\_\_\_\_  
LARRY PARKS, Secretary

(Seal)

