



NORTH TEXAS MUNICIPAL WATER DISTRICT

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FINANCE/AUDIT COMMITTEE MEETING MINUTES FEBRUARY 12, 2020

I. CALL TO ORDER

Chairman Phil Dyer called the meeting of the North Texas Municipal Water District (NTMWD) Finance/Audit Committee to order at approximately 4:10 p.m. on Wednesday, February 12, 2020, at the NTMWD Administrative offices in Wylie, Texas.

Finance/Audit Committee members present included Chairman Phil Dyer, Directors Joe Farmer, George Crump, Marvin Fuller, Chip Imrie, Charles McKissick, and Richard Peasley. A quorum of the Finance/Audit Committee was present. Any reference to unanimous votes refers to a unanimous vote of the Committee members present.

Members of the Executive Committee were present as well as other Board members. Alan Raynor with McCall Parkhurst & Horton, and Nick Bulaich with Hilltop Securities were present. Executive Director Tom Kula along with other members of the NTMWD management team were in attendance.

II. OPENING REMARKS

- A. Chairman/Executive Director/Committee Champion Status Report concerning legislation and regulatory matters, budgets, current projects and ongoing programs of the District

Due to time constraints no reports were presented.

III. ACTION ITEMS

- A. Consider approval of Finance/Audit Committee meeting minutes – January 8, 2020

Upon a motion by Director Joe Farmer and a second by Director Charles McKissick, the Finance/Audit Committee voted unanimously to approve the January 8, 2020 minutes as presented.

- B. Review and possible action on authorizing Executive Director to execute Purchasing Agreements

Purchasing Manager Nicole Mucha presented this item. She advised that a Cooperative Purchasing Agreement involves two or more public entities purchasing under the same contract to leverage benefits of volume purchases and a reduction of administrative time and expense. Texas Local Government Code Chapter 271 authorizes government entities to enter into such agreements.

Deputy Director Rodney Rhoades provided some examples of how this type of agreement is used and there is no financial impact. He noted that this item is to give authorization to the Executive Director to sign agreements to become a member of an Interlocal Cooperative. This type of agreement purchase would not be presented to the Board of Directors for approval each time. It was noted that Interlocal Cooperative Agreements are common among cities.

Upon a motion by Director Chip Imrie and a second by Director Joe Farmer, the Finance/Audit Committee voted unanimously to recommend authorizing the Executive Director to execute purchasing agreements to the Board of Directors.

- C. Review and possible action on authorizing finance agreement with Texas Water Development Board for funding the Sister Grove Regional Water Resource Recovery Facility related projects

Assistant Deputy Erik Felthous presented this item. He reviewed that in March of 2019 the North Texas Municipal Water District (NTMWD) submitted a project information form to the Texas Water Development Board (TWDB) for financial assistance from the TWDB's Clean Water State Revolving Fund to provide funding for the Sister Grove Regional Water Resource Recovery Facility. In August 2019 the TWDB invited the NTMWD to apply and that application is currently under review. Mr. Felthous advised that the District expects a commitment from the TWDB for financial assistance at their Board meeting on February 27th.

Mr. Felthous advised that financial assistance under this program provides an interest rate subsidy of 165 basis points reduction for equivalency projects. Debt service savings for Sister Grove has been estimated to be \$212.8 million. If approved a financing agreement must be submitted to the TWDB. The District anticipates receiving the Texas Commission on Environmental Quality (TCEQ) permit for Sister Grove Regional Water Resource Recovery Facility between March and May of 2020. The TWDB is expected to loan \$458,920,000 and the proceeds should be received in June 2020. Mr. Felthous noted this is the first time the District is using the Clean Water State Revolving Fund and that due to the significant savings, finance is working with engineering to identify any projects that might qualify for these savings.

Mr. Felthous advised that this loan would have a 30-year repayment period. He also informed the Committee that should the District fail to issue its bonds and close on the financial transaction with the TWDB by July 31, 2020, the District will be required to pay damages of \$19,370,000. He also noted that this will be the first in a series of bond issues that involves "structuring". Deputy Director Rhoades advised that the Sister Grove project has two phases, Phase 2 has been rolled into the bond sale because of the low interest rates. The project must be completed within five years.

Upon a motion by Director Chip Imrie and a second by Director Charles McKissick, the Finance/Audit Committee voted unanimously to recommend approval of the finance agreement with the Texas Water Development Board for funding the Sister Grove Regional Water Resource Recovery Facility related projects to the Board of Directors.

D. Review and possible action on End of Year Actuals verses Fund Balance Policy

Erik Felthous presented this item. He reminded Committee members that the Fund Balance Policy was added to the Administration and Finance Policies Manual in November 2017 to increase transparency. In October 2019 the Board approved a minimum to the Regional Water System Capital Improvement Fund of \$15 million and a minimum to the Regional Water System Contingency Fund of \$20 million. This annual report is provided as required by the Fund Balance Policy.

Mr. Felthous reviewed the Regional Water System Operating Fund Balance for FY19, with a savings of \$6.6 million. Mr. Rhoades advised staff is proposing to transfer these funds out of the Operating fund balance to the Capital Improvement Program fund balance. The fund balance policy was reviewed, and it was noted that there must be a minimum of 90-days in the operating budget. Executive Director Tom Kula advised that capital funds remaining at year end due to unfinished projects will roll into the next year for completion of those projects.

Discussion concerning the Operating Fund, Capital Improvement Fund and Contingency Fund followed with the question being raised as to why excess funds are not used to reduce customer water rates. In response to this discussion Mr. Rhoades suggested that a budget review be held since the budget process will begin soon. A request was made to simplify the reports for the Committee Members that are suitable to pass along to the Member cities.

Upon a motion to table this item to the next meeting and provide simpler reports by Director Chip Imrie and a second by Director Charles McKissick, the Finance/Audit Committee voted unanimously to approve tabling this item.

IV. DISCUSSION ITEMS

A. Budget Discussion

Executive Director Tom Kula advised that annually he sends a letter to the staff containing guidance for the upcoming budget process. He reviewed the points contained in this year's letter as follows:

- Consider Member and Customer rates and cost impacts
- Only budget for what's absolutely needed
- Budget targets have been provided to managers• Supplemental forms required for any increases
- Strategic Financial Plans serve as the maximum budget considered
- Consider the most cost-efficient alternatives
- Only request personnel to adequately staff for growth or new programs
- Consider repurposing unfilled positions and outsourcing where appropriate

Erik Felthous reviewed the budget schedule for FY21.

- B. Opportunity for Committee members to provide feedback on the Finance/Audit Committee meeting

No comments were made.

- C. Opportunity for Committee members to request potential future agenda items
(No substantive discussion of items will take place at this time)

Director Marvin Fuller requested the scope of Audit be expanded.

Mr. Rhoades advised the cash funding versus issuance of debt and the debt service schedule will be provided. He also asked who would like to be involved in the Auditor interviews; Director Imrie advised he would.

Executive Director Tom Kula advised that the financial charts will be updated to a simpler format.

Director Joe Farmer asked for a discussion regarding utilizing contingency funds to help reduce water rates.

Director Brenda Jean Patrick suggested a link on the District website that provides information as to what the District did to help keep water rates lower in 2019.

V. ADJOURNMENT

There being no further business, the meeting adjourned at 5:09 p.m. The next meeting of the Finance/Audit Committee will be called by the Chairman with proper notification to the Members.

APPROVED:



PHIL DYER
Chairman