



NORTH TEXAS MUNICIPAL WATER DISTRICT

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FINANCE/AUDIT COMMITTEE MEETING MINUTES MAY 13, 2020

In accordance with the COVID-19 public health threat and the related March 16, 2020, action by the Office of the Governor, temporarily suspending certain provisions of the Texas Open Meetings Act, NTMWD will hold its meeting by telephonic conference call.

In lieu of physical attendance of the meeting, the public may teleconference in to the Finance/Audit Committee meeting by calling toll free (1) (844)-621-3956 and entering the following access code: 928 587 040. Members of the public wishing to make public comment during the meeting should follow the instructions for on-line registration listed under Item II. below no later than the start time of the meeting. The meeting will be recorded, and the audio recording will be available on the NTMWD website after the meeting.

I. CALL TO ORDER

Chairman Phil Dyer called the meeting to order at 1:32 p.m. He called the role and confirmed teleconference attendance of the Finance/Audit Committee members that 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 by teleconference.

Members of the Executive Committee were present. Nick Bulaich and David Medanich with Hilltop Securities, Lauren Kalisek with Lloyd Gosselink Rochelle & Townsend, P.C., Billie Day with Paradox Compensation Advisors, and Alan Raynor and Molly Carson with McCall Parkhurst & Horton attended the meeting by teleconference. Interim Executive Director Rodney Rhoades along with other members of the NTMWD management team were in attendance.

II. PUBLIC COMMENTS (FOR TELECONFERENCE COMMITTEE MEETINGS ONLY)

INSTRUCTIONS FOR PUBLIC COMMENT ON-LINE REGISTRATION: Prior to the start of the Finance/Audit Committee meeting, members of the public wishing to provide public comment must submit via email to PublicRelations.Info@ntmwd.com their first and last name, organization, comment topic, mailing address and email address. During the public comment portion of the meeting, speakers will be recognized by name and asked to provide their comments. The time limit is five (5) minutes per speaker, not to exceed a total of thirty (30) minutes for all speakers. The Committee may not discuss these items but may respond with factual or policy information. Public comment is provided for

committee meetings held by teleconference during the COVID-19 health threat to confirm the opportunity for two-way communication with the public during the meeting.

There were no public comment requests.

III. OPENING REMARKS

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

Interim Executive Director Rodney Rhoades briefed the Committee on the agenda items.

IV. ACTION ITEMS

- A. Review and possible action on approval of Finance/Audit Committee meeting minutes – April 8, 2020

Upon a motion by Director Joe Farmer and a second by Director George Crump, the Finance/Audit Committee voted unanimously to approve the minutes.

- B. Review and possible action on the Upper East Fork Interceptor System Contract Revenue Bonds, Series 2020

Assistant Deputy Erik Felthous reviewed that the Upper East Fork Interceptor System conveys wastewater from the cities to the regional wastewater system which currently consist of four wastewater treatment plants. The District is preparing to construct the fifth plant, the Sister Grove Regional Water Resource Recovery Facility. He advised that all the projects included for these bonds are growth related. Only the Wilson Creek Lift Station Improvements project is related to the Sister Grove Facility. Mr. Felthous added that if needed, some of these items could be rearranged, and this funding should last into December.

Nick Bulaich with Hilltop Securities advised the total cost of projects for this bond sale is \$59.9 million. He advised the term is for 30 years, with the first five years being interest only, then a level debt service. The estimated interest rate is 3.15%. The timeline and Municipal Interest Rate Market Conditions were discussed.

In response to questions from Committee members, Mr. Bulaich explained that the five year interest only period impacts the rate minimally in that the average life is a little longer and that the PUC action regarding the NTMWD water system has no impact on the Upper East Fork Interceptor System.

In response to questions from Committee members, Mr. Felthous advised that the Strategic Financial Plan was used to determine the term of the bond issue. Mr. Rhoades further explained that three years ago, the District decided that if a project had a useful life of greater than 30 years, a 30-year issuance would be prudent. Market conditions have favored this.

Upon a motion by Director Chip Imrie to accept the staff's recommendation, and a second by Director Richard Peasley, the Finance/Audit Committee voted unanimously to approve the motion.

C. Review and possible action on modified budget guidance

Mr. Rhoades advised that Process Improvement Advisor, Brian Brooks has been researching impacts to Member Cities from COVID-19. Mr. Brooks advised that 10 of 13 Member Cities have advised they are being extremely cautious for the remainder of this fiscal year and for next year. Most are only filling essential vacant positions, and no or minimal raises are predicted. Sales tax impacts are anticipated.

Mr. Rhoades advised that a survey conducted by TWCA (Texas Water Conservation Association) revealed that many cities have concerns about their municipal budgets and are holding off on non-essential maintenance and new projects. He also advised that they are experiencing a shortage of personal protection equipment (PPE) and are allowing modified work schedules for employees.

Mr. Rhoades reviewed the revised budget guidance for FY20 and FY21 as follows:

Flat growth budget unless it is related to new or expanded facilities where possible

- Only items to meet our most essential service levels and growth projections:
 - Engineering/Consultant Services/Studies
 - Minimize capital outlay unless critical
 - Only fill critical vacancies as determined by Executive Director and Deputy Directors
- Overtime
- Only previously planned or required travel and training
- Partial year funding of new positions starting January 1st.
- No or minimal pay increases for FY21. Possibly looking at a one-time payment to employees
- Minimal funding for escrow and contingency funds
 - Staff will work with impacted cities

In response to questions from the Committee, Mr. Rhoades noted that staff will continue to evaluate whether to continue with funding of Regional Water System variable costs at 92% or move to 100%. Mr. Brooks advised that Member Cities have not asked anything specifically from the District other than to be mindful of the Cities' situations and that Cities are experiencing some delinquencies in payment of utility bills.

In response to Committee member questions, Mr. Rhoades reported staff is projecting a flat/no increase in water and solid waste. For wastewater, the goal is to maintain no more than 10% increase, adding that the District is taking proactive

steps going forward. Chairman Dyer thanked the staff for being cautious of spending during this time.

Mr. Rhoades also noted that staff is looking into a one-time payment to employees as a thank you for their service and will have more information for the Committee at its next meeting.

Director Chip Imrie made a motion to accept the modified budget guidance. The motion was seconded by Director Joe Farmer.

The Committee discussed whether the guidance should include a goal statement of no increases. Staff explained this would be difficult given the capital programs and bond issues planned for the wastewater system.

The Finance/Audit Committee voted unanimously to approve the motion.

D. Review and possible action on FY21 new personnel requests

Mr. Rhoades advised this was presented to the Personnel Committee on Monday, May 11, 2020, with detail. Committee feedback was to go through the list and minimize the list where possible. Staff is currently reviewing the list and plans are to bring a final recommendation to the Committee at the June meeting. He added that most of the new personnel requests are for new facilities or expanded facilities. No action is requested at this time. There were no questions from Committee members.

(The Committee returned to this Item following Item E. to entertain a motion.)

Upon a motion by Director Joe Farmer and a second by Director Richard Peasley, the Committee voted to table Item D. until the June meeting. Director Chip Imrie was absent from the meeting during the vote.

E. Review and possible action on recommendation of accepting the findings of the comprehensive Compensation and Benefits Survey as completed by Paradox Compensation Advisors

Mr. Rhoades introduced consultant Billie Day. He added that every three or four years a full compensation study for the District is done. Every year the District also does "spot market studies" so compensation can be reviewed yearly. He noted that this study was done prior to the COVID outbreak.

Ms. Day advised that the study includes 120 positions to use as benchmarks in the compensation study, and focuses on identifying the 50th, 65th and 75th percentiles of the market. She reviewed the report that includes a summary of market data for each benchmark position. It also includes descriptive statistics of the market for base pay and compares them with the NTMWD current pay range midpoint. Ms. Day said the type of entities used to assemble the study includes cities, other water districts, river authorities, some private sector, and counties.

Ms. Day summarized that overall, the current pay structure is 1.1% below the 65th percentile and 3.4% below the 75th percentile. She added that for those positions that are more than 10% below the market, there are potentially two primary reasons: the position is under graded, or the position is truly below the market. She noted that the current COVID-19 situation is most likely going to have a significant impact on municipal and water/wastewater industry pay decisions in the near term. With reduced tax revenue, the pressure to increase pay structures is most likely reduced. She said that it remains important to be in a strong position to compete for and retain employees. She added that if there is an increase in pay, Paradox recommends that the District consider raising pay ranges from 1.5% to 2.5%.

In response to Committee questions regarding positions that are 20% or more below and above market, Ms. Day confirmed that the District needs to look specifically at those positions and follow up is being discussed with the Human Resources Department.

Ms. Day advised that regarding benefits, the retirement plans are extremely competitive given the data provided, and this should be a focus when recruiting and retaining talent. Medical, dental and vision, life insurance and disability are average or above average. She advised that she does not recommend any changes to the benefits.

Chairman Dyer inquired as to what the action was on by the Personnel Committee on this item (May 11, 2020). Mr. Rhoades advised that the Committee voted 5 to 1 to accept the report.

In response to additional questions from the Committee, Mr. Rhoades advised that staff is gathering information on the number of employees for each category as well as some other information to present at the June meetings.

Director Farmer inquired whether Agenda Item D. should have been tabled.

Upon a motion by Director Joe Farmer and a second by Director Charles McKissick, the Committee voted to accept the study. Director Chip Imrie was absent from the meeting during the vote.

At this time, Chairman Dyer asked if anyone has a motion regarding Item D. (See D. above.)

F. Review and possible action on the Strategic Financial Plans

Assistant Deputy Erik Felthous presented this item. He advised that in the Regional Water System, two models are being presented, a Base model and a COVID model. The COVID model keeps the rate flat. Both are heavily debt funded to help keep rates down. He added that for both models, the April 2020 CIP is 90% funded for FY21 and beyond. Variable Costs are 92% funded in FY21 and increase 1% per year to a max of 95% beginning in FY24. O&M escalations are at 3% all years. Mr. Felthous further explained that the CIP in the Base model has a

weighted average for FY21, 22 & 23 of 87% debt funded (13% cash funded.) The average for FY21, 22, & 23 is \$27.5M CIP Cash Funding. The normal 5% Personnel escalation is included. The COVID 1-year Flat Rate plan includes that the weighted average for FY21, 22 and 23 is 86% debt funded (14% cash funded.) The average for FY21, 22, & 23 is \$28.2M CIP Cash Funding. Personnel Escalations are at 2% for benefits in FY21 and FY22, returning to 5% in FY23.

Mr. Felthous reviewed the Standard Assumptions for the Wastewater Systems collectively, and reviewed graphs depicting the debt, noting that Structured Debt is the desired mechanism over the next several years. The Regional Wastewater System, Upper East Fork Interceptor System were discussed, as well as Sewer Systems that included Mustang Creek, Sabine Creek, Panther Creek, and Buffalo Creek. Mr. Rhoades advised that each city was contacted, and the structured debt was discussed. In response to Committee questions regarding the updated management expense allocation, Mr. Felthous explained that there was \$10 million in additional expenses. The reallocation of these expenses is to be phased in over five years. Approximately \$2 million more is to be moved into non-water systems each year, for five years. FY21 will be the second year. Staff does not expect this methodology to put the District behind in projects. In response to another Committee member question, Mr. Rhoades advised he will provide the Committee with a five year average of unbudgeted expenses. Chairman Dyer read the prepared recommendation by staff as follows:

“Given current economic circumstances in the Regional Water System, staff recommends moving forward with the COVID version of keeping next year flat, and in all other wastewater systems, staff recommends moving forward with the structured versions.”

Upon a motion by Director George Crump and a second by Director Richard Peasley to accept the staff recommendation, the Committee voted to approve the motion. Director Chip Imrie was absent during the vote.

V. DISCUSSION ITEMS

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

There were no Committee member comments.

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

Director Peasley inquired whether COVID-19 has had any impact on customer cities due to people not paying their bills. Mr. Rhoades responded that the cities expect additional write-offs at the end of the year that will reduce the revenue streams. Director Farmer asked if that would result in an impact on the NTMWD. Mr. Rhoades responded not directly but it does impair the cities' ability to plan their own budgets.

Chairman Dyer offered his thanks and appreciation for the extra effort needed by everyone during this time.

VI. ADJOURNMENT

There being no further business, the meeting adjourned at 2:57 p.m. The next meeting of the Finance/Audit Committee will be called by the Chairman with proper notification to all members.

APPROVED:


PHIL DYER
Chairman