



## **NORTH TEXAS MUNICIPAL WATER DISTRICT**

**501 E. Brown Street • Wylie, Texas 75098  
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### **MINUTES OF WORK SESSION MEETING OF THE BOARD OF DIRECTORS NOVEMBER 11, 2021**

The North Texas Municipal Water District (NTMWD) Board of Directors met in a Work Session meeting on Thursday, November 11, 2021, at 2:00 p.m. Notice of the meeting was legally posted in accordance with Government Code, Title 551, Open Meetings.

#### **I. CALL TO ORDER**

President Phil Dyer called the meeting to order at approximately 2:02 p.m.

President Dyer advised the following regarding the meeting:

The meeting today is being conducted in person with two-way video and audio communication between Board members participating by videoconference, establishing a quorum. The public may attend the meeting in person. Audio and video of Board members participating by videoconference will be visible. Members of the public wishing to listen to live audio from the meeting may do so by calling in.

#### **II. PLEDGE OF ALLEGIANCE**

President Dyer led the Pledge of Allegiance.

#### **III. PLEDGE OF ALLEGIANCE TO THE TEXAS FLAG**

President Dyer led the Pledge of Allegiance to the Texas Flag.

#### **IV. ROLL CALL/ANNOUNCEMENT OF QUORUM**

The roll was called, and attendance was confirmed by teleconference as follows:

	<b>DIRECTORS</b>	<b>ABSENT</b>	<b>REMOTE</b>
1	Anderson, Terry Sam	√	
2	Appolito, Robert		
3	Boren, Kalen	√	
4	Carr, John		
5	Crump, George		
6	Dyer, Phil		
7	Farmer, Joe		
8	Fuller, Marvin		

9	Gordon, Don		
10	Hollifield, David		
11	Imrie, Chip		
12	Johnson, Blair		
13	Kelley, Ron		√
14	Kerr, James (Jim)		
15	Kever, Geralyn	√	
16	May, Jack		
17	Murphy, John	√	
18	Obera, Marlo	√	
19	Parks, Larry		
20	Patrick, Brenda Jean		√
21	Peasley, Richard		√
22	Shuylar, Lynn	√	
23	Stephens, Keith		
24	Sweeden, John		√

The following NTMWD legal and financial consultants attended the meeting:

Lauren Kalisek and James Aldredge – Lloyd Gosselink Rochelle & Townsend  
 Kate Norman – Coffin Renner  
 Alan Raynor McCall Parkhurst & Horton  
 David Medanich and Nick Bulaich– Hilltop Securities  
 Ed Markus and Shan Lin- Amawalk Consulting Group

**V. OPENING REMARKS**

- A. President’s Remarks concerning current events, conduct of meeting, posted agenda items, committee assignments, and related matters

President Dyer offered thanks to those in attendance.

- B. Executive Director’s Status Report concerning legislation and regulatory matters, budgets, current projects and ongoing programs of the District including the Regional Water System, Regional Wastewater System, Regional Solid Waste System, Watershed Protection, and Water Conservation

Executive Director Jenna Covington advised the following:

“I want to thank the Board for meeting on Veterans Day – a day we stop to remember the contributions and sacrifices of those who served in the military for our nation. Their service enables us all to live in a free society and enjoy the rights and responsibilities of a democratic republic.

North Texas Municipal Water District is privileged to have veterans in positions throughout the District including on our Board of Directors. We currently employ over 90 veterans, while hundreds more have worked for the District over our years of operations. The skills and abilities that our veterans have brought to the District have greatly enhanced our ability to meet our daily mission to provide high quality and dependable water, wastewater and solid waste services in a cost efficient manner. Thank you to all veterans for their service and sacrifice.”

Executive Director Covington advised that an Open House was recently held in Josephine regarding the proposed monofil project the District has planned for their area. She advised that approximately 90 people attended. District staff clarified the project and advised that the monofil site is for the storage of residuals from the water treatment process at the Wylie Water Treatment Plant and it will not be used as a landfill for sewage sludge disposal. Questions were received from those in attendance. Executive Director Covington advised that the event was successful and that the TCEQ permit process is continuing.

**VI. PUBLIC COMMENTS**

Prior to the start of the meeting, speakers must complete and submit a “Public Comment Registration Form.” During the public comment portion of the meeting, speakers will be recognized by name and asked to provide their comments. The time limit is three (3) minutes per speaker, not to exceed a total of thirty (30) minutes for all speakers. The Board may not discuss these items but may respond with factual or policy information.

There were no request for public comments.

**VII. DISCUSSION ITEMS**

**A. Update on Independent Review of financial methodologies as required per the Regional Water System Settlement Agreement**

Attorney Lauren Kalisek advised that today’s meeting is to discuss the report from Amawalk. She advised that as a requirement of the Public Utility Commission Settlement Agreement, the District must have an independent third party financial management analysis of the audited financial information of the Regional Water System (RSW), to be done every three years beginning with the preceding three years. This was not to bind the authority of this Board to continue to use its discretion in the operations and management of the District. The District contracted with Amawalk to conduct the review and today’s presentation will provide their recommendations. The District must implement or reject those recommendations during the next budget process. It is also in the Board’s discretion to accept part of the recommendations or to modify part of them. She noted that one thing that was not resolved is the matter of Customer rates. She advised that historically Customers have paid five cents more than Members have for their water.

Executive Director Covington added that following a formal selection process we executed an Intent to Award Letter with Amawalk prior to deadline required per the Settlement Agreement. The evaluation is planned for completion later this month in alignment with the 9 month requirement defined in the Agreement. She also mentioned that per the Agreement, this study is to be completed every 3 years. The Agreement outlined seven specific areas to be evaluated and today’s draft report and presentation will be according to those seven areas. For each of these areas, Amawalk will share their findings and their recommendations for that area. She noted that prior to any decisions during the budget cycle, the District will seek feedback from the Member and Customer cities. This will allow us to understand their viewpoints and take those into consideration prior to making any decisions regarding the recommendations.

Executive Director Covington introduced Ed Markus and Shan Lin with Amawalk Consulting Group who provided the presentation. She stated that Mr. Edward Markus is a Senior Financial Consultant and the President of Amawalk Consulting Group. He has provided financial and management consulting services to clients for over 38 years. Mr. Markus is a registered professional engineer in the State of New Jersey and is a member of the American Water Works Association and Water Environment Federation. Ms. Shan Lin is a Senior Manager with Amawalk providing financial and management consulting services. She has over 15 years of experience in preparing financial forecasts and reports to support the issuance of debt, the forecasting of water demand, complex data analysis, and the development and use of financial models.

Shan Lin presented the review of items A - C and summarized the Conclusions and the Recommendations.

- A. The reasonableness of the Operation and Maintenance (O&M) Expenses: Ms. Lin stated that they concluded that the O&M expenses for the Regional Water System (RWS) are reasonable. She explained that a company can have very low cost of service but provide poor quality of service. This evaluation is based on both good quality of service as well as cost. The RWS is providing good quality water on a reliable basis. She reviewed a table that highlighted some of the categories Amawalk reviewed along with their recommendations.
- B. Assignment of Shared Costs and Functionalization: Ms. Lin stated that the RWS cost allocation methodology and the phase-in process are reasonable.
- C. Bond Service Component: Ms. Lin stated that the RWS met the required Bond Service Component as specified in Section 9(a)(B) of the Contract and the Bond Resolution.

Ed Markus continued the presentation for the following:

- D. Balances Required by Bond Resolution: Mr. Markus stated that the RWS met the following requirements of the Bond Resolution: Flow of Funds, Rate Covenant, Reserve & Contingency Fund Balances.
- E. Balances Required by Board Policy: Mr. Markus stated that RWS meets or exceeds the balances required by Policy. There is an opportunity to enhance the Policies.
- F. Collection & Application of Other Revenues: Mr. Markus stated that 1) Annual estimates of Other Revenues for RWS are reasonable and prudent. 2) The opportunity exists to increase the existing rate premium to reflect the risks that the Member Cities bear as part of the RWS. Our preliminary calculations result in a premium of about 12% to 20%, depending policy decisions by the Board, on the rate of return chosen, and other assumptions.
- G. Compliance with Section 9 of the Contracts Re: Annual Requirement & Rate- Setting: Mr. Markus stated that the process described in Section 9 of the Contract is reasonable and the RWS is in compliance.

Details of the report including conclusions and recommendations are attached in the workshop presentation.

Executive Director Covington offered positive remarks regarding the findings in the report. She re-read the conclusions in support of the report.

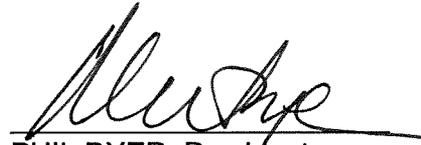
Clarification and informational questions were raised by Directors Carr, Farmer, Parks, Imrie, May, Gordon, Fuller, Crump and Patrick. Mr. Markus provided responses.

President Dyer requested that a timeline be prepared for phased consideration of the recommendations. Executive Director Covington added that the Customer and Member cities will be consulted on the finalized report early in 2022.

**VIII. ADJOURNMENT**

There being no further business, the meeting adjourned at approximately 3:59 p.m.

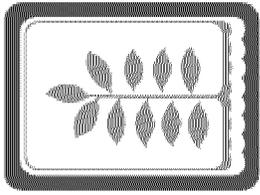
APPROVED:

  
PHIL DYER, President

ATTEST:

  
RICHARD PEASLEY, Secretary





# **Independent Review of the Regional Water System: Conclusions, Supporting Findings & Recommendations**

## **North Texas Municipal Water District**

Draft of November 5, 2021

**Amawalk**  
Consulting Group LLC

## Background & Purpose

- ✓ The thirteen (13) Member Cities and the District agreed to the First Amendment to North Texas Water District Regional Water Supply Facilities Amendatory Contract and the accompanying Settlement Agreement. Section III of the Settlement Agreement requires an independent, third-party consultant to perform a financial management analysis of the audited financial information and all additional relevant information for the RWS for the three preceding Fiscal Years.
- ✓ This presentation presents a summary of the results of the Independent Review prepared by Amawalk Consulting.

## **Conclusions/Findings & Recommendations by Task**

- **A – O&M Expenses**
- **B – Assignment of Shared Costs & Functionalization of Expenses**
- **C – Bond Service Component**
- **D – Required Fund Balances**
- **E – Funds Required by Board Policy**
- **F – Other Revenues**
- **G – Compliance with Section 9 of the Contract**

# Task A – Reasonableness of O&M Expenses

**Conclusion: The O&M Expenses of the RWS are reasonable**

Findings that support the conclusion (details are provided in the Appendix):

RWS Category	Observations
Assets under Management	Increased from \$2B to \$4B
Water Quality	In compliance
Project Cost Control	Reasonable
Labor Costs	Reasonable
Chemical Costs	Work-in-progress
Electricity Costs	Competitive
Inventory	Significant progress
Asset Management	Significant progress
Staff Training	Significant progress
Purchasing	Significant progress

Categories noted as “significant progress” are moving towards industry best practices

## **Task A – Reasonableness of O&M Expenses (continued)**

### Recommendations:

- Consider implementing an Owner-Controlled Insurance Program (OCIP) for construction contracts, if permissible.
- Add to the existing performance measures for the RWS; a phase-in of new measures over time is suggested together with reporting of results to the Board.
- Continue to implement the recommendations of the Prior Organization Study.
- Continue purchasing enhancements; including responsibility for construction bidding.

## Task B – Assignment of Shared Costs & Functionalization of Expenses

**Conclusion: The RWS cost allocation methodology and the phase-in process are reasonable.**

Findings that support the conclusion:

- Allocation methodology is consistent with American Water Works Association (AWWA) guidance.
- Methodology is consistent with the approach used by peers; relying on direct measurements as available (e.g., # of laboratory tests) as well as manager input regarding the time spent by employees on particular tasks.
- The 5-year phase-in of the recent study recommendations makes sense.
- Variable expenses for the purposes of rebate and current excess calculations are reasonable.

## Task B – Assignment of Shared Costs & Functionalization of Expenses(continued)

### Recommendations:

- Simplify the allocation process somewhat – consider moving at least part of maintenance into a direct cost basis and reduce the number of allocation factors, where practical.
- Perform the next comprehensive update just prior to the expiration of the current 5-year phase-in of the recent study recommendations.

## Task C – Bond Service Component

**Conclusion: RWS met the required Bond Service Component as specified in Section 9(a)(B) of the Contract and the Bond Resolution.**

Findings that support the conclusion:

- Differences between actual and budgeted debt service for the Review Period (actual is always somewhat less) are reasonable and explainable (both gross and net):
  - Projects & their financing are delayed; expected new debt service delayed.
  - Unspent construction \$ upon completion are used to pay debt service.
  - BABs subsidies, interest earnings & other available \$ can fluctuate.
  - The District pursues refunding/defeasance opportunities: the District has prudently taken advantage of changes in the financial markets to refund outstanding bonds to lower future annual debt service payments, savings of about \$63 million over a period of 20 years.

## Task C – Bond Service Component (continued)

Findings that support the conclusion:

- The process for paying debt service is reasonable; the payments are predictable.
- The District has partnered with the Texas Water Development Board to secure financing at below-market interest rates.
- It is a conservative and good financial practice to have actual debt service that is equal to or less than budgeted amounts; a rating agency compliment for the District's conservative financial performance.
- The RWS is a closed loop: any revenues  $>$  budget or costs  $<$  budget are a benefit.

## **Task C – Bond Service Component (continued)**

### Recommendation:

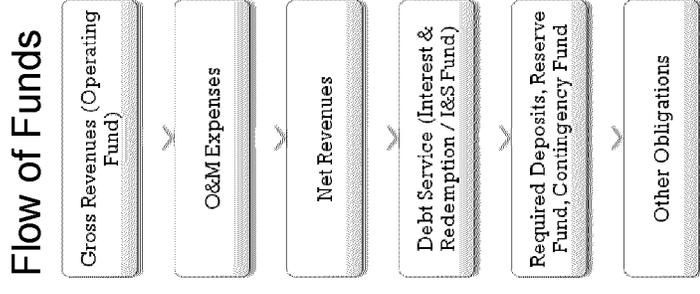
- An option for the District to consider (especially for a very large project) is to assume that interest only is paid in the first year after bond issuance and perhaps one-half of that interest is capitalized. This results in higher total interest costs but the incremental interest cost is much more manageable in a low interest rate environment, as it currently exists. In combination with the use of Extendable Commercial Paper (ECP), such an approach will reduce the risk of budgeting for debt service for a large project in an upcoming year and then having actual debt service be much lower if the project is delayed.
- It is prudent to have revenues, less operating expenses, well in excess of debt service. This “debt service coverage” is a common metric among revenue-backed water utilities and a significant focus of the bond rating agencies. This topic will be addressed further in Tasks D and E.

## Task D – Balances Required by Bond Resolution

**Conclusion: RWS met the following requirements of the Bond Resolution: Flow of Funds, Rate Covenant, Reserve & Contingency Fund Balances**

Findings that support the conclusion:

- The District follows the flow of funds set forth in the Bond Resolution for RWS.
- The District exceeds the rate covenant requirement for RWS.
- Actual results that exceed both budget expectations and minimums is a positive outcome.



# Task D – Balances Required by Bond Resolution (continued)

Findings that support the conclusion:

- RWS required/actual funds & balances:

**I&S Fund**

- Monthly deposits of 1/12 of annual debt service

Date	Interest & Sinking Fund (\$)		
	Required	Actual	Difference
9/30/2017	13,526,391	16,637,928	3,111,537
9/30/2018	17,150,875	17,627,281	476,406
9/30/2019	17,178,585	18,361,814	1,183,229
9/30/2020	15,889,033	16,865,735	976,702

**Reserve Fund**

- Average annual debt service

Date	Debt Service Reserve Fund (\$)		
	Required	Actual	% Difference
9/30/2017	73,320,756	75,747,707	3%
9/30/2018	112,881,589	114,434,221	1%
9/30/2019	133,569,916	138,774,410	4%
9/30/2020	137,255,780	142,194,918	4%

**Contingency**

- Minimum: \$500,000
- Management policy: \$20 million

Date	Contingency Fund (\$)		
	Required	Actual	Difference
9/30/2017	500,000	13,870,864	13,370,864
9/30/2018	500,000	14,194,373	13,694,373
9/30/2019	20,000,000	23,902,427	3,902,427
9/30/2020	20,000,000	24,192,617	4,192,617

## **Task D – Balances Required by Bond Resolution (continued)**

Findings that support the conclusion:

- The RWS has exceptionally strong credit ratings, enabling it to borrow at very attractive interest rates. The credit ratings are based on the contractual pledges of the Members, the strong credit ratings of the Members, and historically good financial performance of the RWS. The Members' backup pledge is strong but the expectation is to never have the RWS in a position where it has to ask for financial help from that pledge.
- The District complies with the requirements of the RWS Bond Resolution with regard to Reserve Fund & Contingency Fund balances.

## **Task D – Balances Required by Bond Resolution (continued)**

### Recommendation:

- The debt service coverage requirement of the Bond Resolution is a weaker minimum than the requirements placed on many peer utilities. Amawalk respectfully recommends minimum parameters to be included in Board policies – these are included in recommendations for Task E.

## Task E – Balances Required by Board Policy

**Conclusion: RWS meets or exceeds the Balances required by Policy. There is an opportunity to enhance the Policies.**

### Findings that support the conclusion:

- RWS required funds/compliance at the end of 2019-20:

Operating Fund	• Minimum 90 Days of expense	About 130 days on its own; >150 days when combined w/ Contingency + RS
Contingency	• Minimum \$20 million	Somewhat > \$20 million
Capital Improvement Fund	• Minimum \$15 million	Much > \$15 million, temporarily
Construction Fund	• Bond proceeds plus interest earnings less payments	In compliance; substantial \$ for Bois D’Arc
Rate Stabilization	• Maximum \$7 million	Briefly below \$7 million; restored to maximum afterwards

# Task E – Balances Required by Board Policy (continued)

Findings that support the conclusion:

- Exceeding the required coverage minimums is important; peers generally do more. The RWS required coverage is 1.0x.

Source: Various publicly available documents such as official statements, annual budgets, and comprehensive annual financial reports. Coverage and bond ratings represent published figures at a recent point in time; the dates of publication vary and coverages and ratings may change from year to year.

Utility	Coverage Policy	Coverage	Bond Ratings
Austin Water	Ordinance: 1.25x average annual debt service. Policy: 1.5x debt service coverage	2.07x	AA/AA-/Aa2
Dallas Water	Ordinance: 1.25x average annual debt service	2.96x	AAA/AA+/Aa2
DC Water	Indenture: 1.2x for senior coverage and 1.0x for subordinate coverage. Board resolution: 1.40x senior coverage and 1.0x subordinate coverage.	Senior: 4.59x, Subordinate: 2.13	AAA/AA+/Aa1
Denver Water	Covenant: 110% of debt service. Policy: 1.8x current annual debt service.	3.99x	AAA/Aaa
Louisville Water	Target: 2.0x	1.90x	AAA/Aaa
MWRA (Boston)	Covenant: 1.2x debt service (excl subordinate bonds) (primary bond coverage) and 1.1x debt service including subordinated bonds (secured bond coverage)	Primary: 2.46x	AA+/AA+/Aa1
Portland Water	Covenant: 1.25x first lien bonds and 1.10x combined annual debt service. Policy: 1.90x first lien bonds and 1.75x combined annual debt service.	First lien: 3.22x; Combined: 2.20x	Aa1
San Antonio Water	Ordinance: 1.25x max annual debt service	Max senior lien coverage: 9.68x; revenue bond coverage: 2.11x	AA+/AA+/Aa1
San Jacinto River Autho	1.25x annual average debt service	2.65x	AA-
Upper Trinity RWD	Goal: 1.25 - 1.35x; Minimum 1.15x	Regional Treated Water System: 1.21x; Lakeview Regional Water Reclamation System: 1.13x	A+/A2

# Task E – Balances Required by Board Policy (continued)

Findings that support the conclusion:

- Cash for construction/defeasance is important; peers generally do more.

Utility	Cash-Financed Construction %
Austin Water	30%
Dallas Water	15%
DC Water	39%
Denver Water	38%
MWRA (Boston)	6%
Portland Water Bureau	26%
San Antonio Water	48%
San Francisco	26%
San Jacinto River Authority	71%
Tarrant RWD	5%
Upper Trinity RWD	15%

Source: Publicly-available official statements and annual budgets that were identified during our Review reflecting a recent point in time. Percentages may vary from year to year.

## **Task E – Balances Required by Board Policy (continued)**

### Findings that support the conclusion:

- The largest balance of funds is set aside for construction; Texas' requirements differ from other states and Washington DC where water utilities finance construction cash flow. The new ECP authorization should help reduce construction balances and make new debt service more predictable.
- RWS also maintains a Pipeline Reserve Fund – Chapman with a maximum balance of \$500,000 as required by the June 4, 1988 Irving Operations Agreement. During the Review Period, the balance of funds on hand was less than the maximum.

## Task E – Balances Required by Board Policy (continued)

### Recommendations:

- Establish a financial policy for targeted debt service coverage for the RWS. Our suggestion is for a minimum covered of 1.40 for senior debt service and 1.25 for combined senior and subordinated debt service (in the event that the District issues subordinated debt in future years). The suggested minimums here and in the points below should be reviewed both upfront and periodically with the financial advisors for the RWS for their recommendations.
- An annual target level of cash-financed construction and/or defeasance of debt in the annual budget for the RWS, using an initial minimum of 15% to 20% of the cost of average annual capital spending over the following 5-year period.
- Consider balances in the Operating Fund and the Contingency Fund as additive and interchangeable; with a policy of maintaining a minimum of 150 days of O&M expenses in combined balances of the two funds.

## **Task E – Balances Required by Board Policy (continued)**

### Recommendations:

- Continue to follow the requirements of the Bond Resolution to fund the Reserve Fund for the RWS at the average annual debt service through the maturity of all outstanding bonds.
- Continue the current practice of not funding Maintenance or Renewal & Replacement (“R&R”) reserves for the RWS due to the availability of other sources of funds for those purposes.

## Task F – Collection & Application of Other Revenues

**Conclusion: 1) Annual estimates of Other Revenues for RWS are reasonable and prudent. 2) The opportunity exists to increase the existing rate premium to reflect the risks that the Member Cities bear as part of the RWS. Our preliminary calculations result in a premium of about 12% to 20%, depending on the rate of return chosen and other assumptions.**

### Findings that support conclusion 1):

- RWS budgeted Other Revenues from the Sale of Water are reasonable compared to actual Other Revenues from the Sale of Water:

Proposed/Original Budget				
Actual vs. Budget % Change	2016-17	2017-18	2018-19	2019-20
Customer Cities	-0.4%	1.4%	-1.9%	3.5%
Retail and Raw Water	-13.0%	4.7%	1.6%	18.2%

Source: NTMWD Budget Report Account Summary

**Note:** While the above percentage changes in Retail and Raw Water can be significant, the dollars involved are very small.

## **Task F – Collection & Application of Other Revenues (continued)**

Findings that support conclusion 2):

- A rate premium is well-supported - there are differences in the obligations and risks of Member Cities versus Customers by contract:
  - Members have the obligation to "make-up" shortfalls in RWS revenues or increases in debt service or expenses, as and when needed.
  - Payments are part of O&M Expenses for the Members' combined water and sewer systems (becoming a 1st lien on revenues of such combined systems ahead of their payment of bonds or other similar obligations).
  - Members cannot leave.
  - Members bear the owners' risk and commit to joint and several liability on repayment of bond indebtedness, including:
    - If there is a shortfall in RWS revenues or increase in debt service or expenses.
    - If there is an extraordinary liability to be paid.

## Task F – Collection & Application of Other Revenues (continued)

### Findings that support conclusion 2):

- A rate premium is well-supported – utility commissions in other states allow for such premiums; peers use them; industry guidance endorses them.
- A rate premium is well-supported – potential methodologies for a rate premium:
  - A fixed percentage is applied to the base rate.
  - A negotiated payment to the owner(s) is included in the revenue requirements.
  - A base rate plus some form of equity premium is used to establish rates for non-owners.
  - A buy-in charge which, after being paid, allows a customer to be charged a base rate without a premium.
  - A combination of techniques.

## **Task F – Collection & Application of Other Revenues (continued)**

### Findings that support conclusion 2):

- Amawalk prepared preliminary computations for RWS using the utility approach:
  - O&M expenses remain the same.
  - Depreciation is used.
  - A preliminary rate base is calculated.
  - A rate of return is estimated and multiplied times the rate base.
  - Preliminary results show a premium factor of 12% to 20% depending on certain assumptions and the rate of return used.
  
- Suggested steps to refine the utility approach if the Board chooses this approach:
  - Establish a test year and project forward.
  - Refine the rate base, including supplies & materials and contributed capital.
  - Results are sensitive to the rate of return that is used.

## Task F – Collection & Application of Other Revenues (continued)

### Recommendations:

- Implement a 10% premium with an appropriate phase-in period, as a first step towards maintaining a higher premium.
- Simultaneously with the above recommendation, conduct a formal study to refine and document the basis for a long-term premium.

# Task G – Compliance With Section 9 of the Contracts Re: Annual Requirement & Rate-Setting

**Conclusion:** The Process Described in Section 9 of the Contract is Reasonable and the RWS is in Compliance.

Findings that support the conclusion:

- RWS annual requirement & rate-setting schedule:

On or Before	Budget/Rate-Setting Steps
1-Jun	Preliminary estimated schedule of the monthly payments
1-Aug	Updated estimated schedule of the monthly payments
30-Sep	Final schedule of the monthly payments

- Initial letters to the Member Cities were sent in May of each year.

# Task G – Compliance With Section 9 of the Contracts Re: Annual Requirement & Rate-Setting (continued)

(a.) Annual Requirement is  $\geq$  Sum of

- (A.) O&M Components, and
- (B.) Bond Component; principal + interest on bonds and deposits to reserves as required by Bond Resolution

(f.) Estimates of Revenues Other Than Amounts From Contracting Parties

- Revenues offset part of annual requirement

(b.) Calculation of Proportionate Payments, Rates

- Contracting Party minimum divided by aggregate minimum times annual requirement
- Expressed as rate per 1,000 gallons

(c.) Minimums are Specified for Each Contracting Party

- Minimums are used to calculate rates/payments

(d.) Computing Additional Payments for Use > Minimum (Excess)

(e.) Annual Requirement can be Amended During the Year

Findings that support the conclusion:

- Annual requirement & rate-setting process is similar to other large water utilities
- RWS provides the required information on a timely basis
- Process could be enhanced with additional assumptions:
  - Cash-financed construction %
  - Debt service coverage
  - Inflation
  - Interest rates

# Task G – Compliance With Section 9 of the Contracts Re: Annual Requirement & Rate-Setting (continued)

Findings that support the conclusion:

- Capital-related costs are about 60% of the Annual Requirement. Based on RWS financial projections, in 2030-31, debt service and related capital costs are expected to continue to be about 60% of the Annual Requirement prior to full implementation of our cash-financed construction/defeasance and debt service coverage recommendations.

	2020-21 Budget (\$)	% of Total Expenses
Personnel	12,925,335	4%
Supplies	42,511,670	12%
Services	88,584,095	24%
O&M Expenses	144,021,100	39%
Capital Outlay	1,671,525	0%
Escrow	50,000	0%
Capital Improvement Fund	36,200,000	10%
Debt Service	183,460,985	50%
<b>Total Expenses</b>	<b>365,403,610</b>	

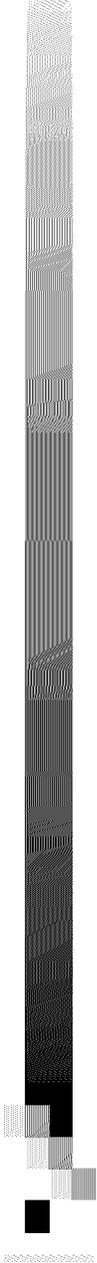
Source: FY 2020-21 Budget, RWS Expense Budget

Note: The personnel category includes employee costs for those directly assigned to the RWS. Support services personnel costs are included in the Services line item

# Questions

## Conclusions/Findings & Recommendations by Task

- A – O&M Expenses
- B – Assignment of Shared Costs & Functionalization of Expenses
- C – Bond Service Component
- D – Required Fund Balances
- E – Funds Required by Board Policy
- F – Other Revenues
- G – Compliance with Section 9 of the Contract



# Appendix

## **Task A – Reasonableness of O&M Expenses**

### **Conclusion: The O&M Expenses of the RWS are reasonable**

#### Findings that support the conclusion:

- Quality of the water supplied is in compliance with Texas State standards; service is reliable.
- Project cost control is sound: bid prices compare favorably vs. estimates, change orders are a small % of construction.
- Labor: average compensation (salaries, wages, benefits) per employee is reasonable. Comparisons were made with San Jacinto, Tarrant, Trinity River, Upper Trinity & Massachusetts Water (Boston).
- Chemical costs are expensive: raw water quality is a driving factor. Optimization is a work-in-progress with peer consultation.

# Task A – Reasonableness of O&M Expenses (continued)

Findings that support the conclusion:

- The District's unit costs for power are highly competitive reflecting the District's proactive power purchase strategies.
- A prior organizational study offered significant recommendations regarding inventory, maintenance, asset management, staff training and other components of O&M. The District has made significant progress; improvements in multiple functions are ongoing.
- The Purchasing department was created two years ago; previously, purchasing was decentralized. Significant progress thus far, more initiatives to come.

Comparison of Reported Electricity Use and Costs

Texas Utilities/Municipalities	kWh	Electricity Cost \$	\$/kWh
Tarrant RWD	165,970,126	8,732,946	0.053
<b>NTMWD</b>	<b>393,167,925</b>	<b>22,215,160</b>	<b>0.057</b>
Tarrant County	77,256,882	4,967,076	0.064
Upper Trinity RWD	11,448,601	781,620	0.068
San Jacinto River Authority	52,849,254	3,623,265	0.069
Clear Lake City Water Authority	8,920,400	672,220	0.075
South Padre Island	5,442,536	451,970	0.083
Anna	4,975,864	457,156	0.092
Richardson	28,026,369	2,811,870	0.100
Cedar Hill	13,712,617	1,419,484	0.104
Brady	3,367,129	422,229	0.125

Source: reporting as required by House Bill 3693