



NORTH
TEXAS
MUNICIPAL
WATER
DISTRICT

Regional Service Through Unity... Meeting our Region's Needs Today and Tomorrow



FINANCE COMMITTEE

November 2, 2022

3:00 pm



AGENDA

I. CALL TO ORDER

II. 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 Committee may not discuss these items but may respond with factual or policy information.

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



AGENDA

IV. ACTION ITEMS

- A. Consider approval of Finance Committee meeting minutes – September 7, 2022

V. DISCUSSION ITEMS

- A. Discuss Implementation of the 2021 Independent Review Recommendations
- B. Overview of Customer Premium and Buy-in Study
- C. Opportunity for Committee members to provide feedback on the Finance Committee meeting or request potential future agenda items

VI. ADJOURNMENT



AGENDA

IV. ACTION ITEMS

- A. Consider Approval of Finance Committee Minutes –
September 7, 2022

Recommend Approval of Finance Committee Minutes –
September 7, 2022



AGENDA

Jeanne Chipperfield
Deputy Director
NTMWD

V. DISCUSSION ITEMS

- A. Discuss Implementation of the 2021 Independent Review Recommendations



HISTORY/PRIOR ACTIONS

- Amawalk engaged to conduct independent financial review of District as part of the rate case settlement with Member Cities
- Independent Review report formally accepted at December 2021 Board meeting
- District found to have reasonable expenses, appropriate balances, met contractual requirements
- 16 recommendations provided for the Board's consideration
- Meetings held with Member Cities and Listening Sessions with Customers to receive feedback held February – March, including meeting with group of Customer Cities and their rate consultant
- Board adopted three resolutions related to the recommendations on April 28th
 - 10 Adopted as written
 - 4 Adopted with modifications
 - 2 Rejected



IMPLEMENTATION STATUS

Task A: Reasonableness of O&M Expenses

- **Consider creating an Owner-Controlled Insurance Program (OCIP) for construction contracts, if feasible.**
 - RFP for an OCIP assessment being completed.
 - Anticipate final report late FY23
- **Phase-in additions to the existing performance measures for the Regional Water System with results reported to the Board**
 - Performance metrics reported to Water Committee May with quarterly updates planned
 - Performance Goals Strategic Plan Initiative 4.3.1
 - Improved and added performance measures included in FY23 Budget document



IMPLEMENTATION STATUS

Task A: Reasonableness of O&M Expenses (cont'd)

- **Continue to implement the recommendations of the prior Organizational Study**
 - Many recommendations will take multiple years to implement – several fully implemented; progress is on-going; several recommendations included in Strategic Plan Initiatives.
 - Implemented recommendations include creation of Technical Support; improved communications within Operations and external groups; annual safety training and audits; improved part stock management; and analysis of specialty fleet.



IMPLEMENTATION STATUS

Task A: Reasonableness of O&M Expenses (cont'd)

- **Continue to implement the improvements to Purchasing, including management of construction bidding**
 - Conducted 2 pilot CIP construction bid processes with Engineering and Procurement teams to understand and identify needs/gaps in current processes
 - Identified and implemented several documentation improvements; automation of bid tabulation in Bonfire procurement system underway
 - Recommend Procurement Team manage procurement pre-award processes to provide process consistency and compliance oversight
 - Implement changes effective 10-1-23, pending approval of new position to manage construction bidding processes. Anticipate 20 construction procurements per year.
 - Small savings anticipated per project as consultants' responsibilities reduced slightly
 - Map roles/responsibilities through additional pilots during FY23 to be ready for 10-1 start date



IMPLEMENTATION STATUS

Task B: Assignment of Shared Costs & Functionalization of Expenses

- **Perform the next comprehensive cost allocation plan update just prior to the expiration of the current 5-year phase-in.**
 - Comprehensive update scheduled for FY24 with implementation in FY25.
- **Simplify the cost allocations somewhat by moving some support services (e.g., maintenance) into direct costs**
 - ✓ Legal services and raw water development moved in FY23 budget from indirect to direct. Allocations reviewed annually.

Task C: Bond Service Component

- **Reserve the option to assume interest only in the first year after bond issuance and 1/2 of interest capitalized.**
 - ✓ Added debt structuring options into Administration & Financial Policies Manual – Aug 2022.
- **Have revenues, less operating expenses, well in excess of debt service.**
 - ✓ Revised policy on cash financing of capital improvement projects – Aug 2022.

Task D: Balances Required by Bond Resolution

- **Add to existing policies minimum requirements for cash-financed construction for the RWS**
 - ✓ Incorporated into Administration & Financial Policies Manual – Aug 2022.



IMPLEMENTATION STATUS

Task E: Balances Required by Board Policy

- **Continue the Debt Service Reserve Fund requirement at its current level equal to average annual debt service through maturity.**
 - ✓ No plan to change debt service reserve requirement on future bond issues.
- **Continue the practice of not funding the Maintenance and R&R (Rehabilitation and Replacement) Reserve Funds.** (District not precluded from reinstating practice in future.)
 - ✓ Reserves not funded in FY23. No current plans to reinstate.
- **Establish a policy to (1) budget a range of 5% - 15% of the historical 5-year average annual capital spending for cash-financed construction and/or extendable commercial paper defeasance; and (2) allow for end-of-year balances not required for reserve replenishment to be utilized for cash financed construction or commercial paper defeasance up to 15% of the historical 5-year average annual capital spending.**
 - ✓ Incorporated policy changes into Administration & Financial Policies Manual, August 2022
- FY23 Budget includes \$19.1m million in cash financing or 5.1% of historical capital spending.



IMPLEMENTATION STATUS

Task E: Balances Required by Board Policy (cont'd)

- **Update policy to maintain 130-150 days of O&M expenses with a target of 150 days of expenses in the Operating and Contingency Funds combined; and incorporate Rate Stabilization Fund into Contingency Fund.**
 - ✓ Incorporated policy changes into Administration & Financial Policies Manual, August 2022

Task F: Collection & Application of Other Revenues

- **Conduct a formal study to refine and document the basis for a long-term premium.**
 - Contract awarded for customer premium with anticipated report provided to Board in May 2024 (more detail to follow in next presentation)



SUMMARY & NEXT STEPS

Recommendation Status Summary

- **Implemented - 8**
- **Implementation underway – 5** - Premium Study, OCIP Feasibility Study, Procurement Improvements, Prior Organization Recommendations, and Performance Measures
- **Implementation scheduled in future – 1** – update of cost allocation plan

Next independent financial review

- Required every 3 years per Settlement Agreement with Member Cities
- Next review covers fiscal years 2021, 2022, and 2023
- Study topics set out in Settlement Agreement
- Contract must be awarded no later than March 1, 2024
- Selected consultant has 9 months to prepare report
- Begin procurement process to select consultant in September 2023 to meet mandated deadlines



AGENDA

Jeanne Chipperfield
Deputy Director
NTMWD

V. DISCUSSION ITEMS

B. Overview of Customer Premium and Buy-in Study



CUSTOMER PREMIUM AND BUY IN CHARGES STUDY

Scope of Work

- Provide analysis and rate models, if appropriate, for 3 study topics utilizing industry-accepted ratemaking practices
 - RWS Customer Premium
 - Buy in charge for existing RWS Customer to become RWS Member
 - Buy in charge for a new RWS Customer
- Provide periodic updates to Members and Customers during process
- Present draft and final study results to Board, Members and Customers
- Receive input/feedback from Board, Members and Customers on study topics
- Final report to be presented at May Board of Directors meeting (tentative)
- Provide training for staff on rate models



PREMIUM AND BUY IN STUDY

Selected Consultant - Carollo Engineers

- Conducted RFP process to select consultant
- 2 Proposals received – both engineering firms
- After committee evaluated proposals, held interviews with both proposers
- Conducted reference checks with current customers who have engagements with Carollo Engineers that are similar to our scope of work
- Prior similar studies include work for City of Houston Public Works; City of Fort Worth Water Department; San Antonio Water System; Eastern Municipal Water District (Perris CA), and Oklahoma City



PREMIUM AND BUY IN STUDY

Timeline

- **October** – contract award/kick off work; begin data collection and analysis
- **November – February**
 - Analytical work underway
 - Introductory and periodic status meetings with Members and Customers, including Customers' rate consultant
- **March – April** – present initial draft report to Board; Members and Customers
 - Anticipate Board Work Session
- **May** – finalize report and present to Board for consideration; provide results to Members and Customers



AGENDA

V. DISCUSSION ITEMS

- C. Opportunity for Committee members to provide feedback on the Finance Committee meeting or request potential future agenda items

VI. ADJOURNMENT