

## **COASTAL WATER AUTHORITY**

### **Minutes of Finance and Audit Committee 2023 Budget Workshop Meeting**

**October 12, 2022**

The Finance and Audit Committee ("Committee") of Coastal Water Authority ("CWA") convened its Committee Budget Review Meeting, open to the public, at the CWA Conference Room, 1801 Main Street, Suite 800, Houston, Texas, with the following in attendance:

#### **Committee Members**

Joseph G. Soliz, Assistant Chairman

D. Wayne Klotz, Director

Jon M. Sjolander, Director

#### **Additional Board Members Present:**

Douglas E. Walker, Director

Giti Zarinkelk, Director

#### **CWA Staff**

Greg Olinger

John Baldwin

James Lewis

### **BUDGET REVIEW – FISCAL YEAR 2023**

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

The meeting of the Finance and Audit Committee (Committee) was called to order at 11:15 A.M.

#### **II. Review of Proposed 2023 Operating Budgets**

##### **A. Consolidated Coastal Water Authority Operating Budget**

- 1) Trinity River Water Conveyance Project**
- 2) Lake Houston Facilities Project**
- 3) Bayport Water System Funds**
- 4) Red Bluff Water Treatment Plant Funds**
- 5) Luce Bayou Water System Project**

Mr. Baldwin presented to the Committee the CWA Consolidated 2023 Annual Budget for all five of the Authority's Operating Budgets. The Trinity River Water Conveyance Project; the Lake Houston Facilities Project and the Luce Bayou System Project are City of Houston contracts. The Bayport Water System Project and Red Bluff Water Treatment Plant Project are contracts with CWA's other customers. Mr. Baldwin stated the Reconciliation of 2022 Budget to 2023 Budget was the first item of discussion which included the roll up summary of all of five of CWA's operating budgets. The total of all five operating budgets in 2022 totaled \$35,970,500. The total for next year's 2023 budget on all five operating budgets totals \$44,088,000, a significant increase of about \$8.1 million. The biggest piece of the increase is in materials and supplies, chlorine and ammonia. Director Klotz asked if there is still an opportunity for a reduction of chemical costs of chlorine in 2023 if CWA is able to join the City's chemical contracts. Mr. Olinger stated yes. Director Klotz asked if CWA is budgeting as if it is not. Mr. Olinger stated that was correct. Mr. Baldwin noted that should CWA be able to join the City's chemical contracts, it would be a reduction at the end of the year. Regarding the anticipated budget under field salaries, Mr. Baldwin stated that a 3% pool for salary increases was included in the 2023 Budget. CWA does not do across the board cost of living increases as the City has been doing for the last couple of years. The City will give a 3% increase across the board in 2023. CWA utilizes the 3% funding to provide potential salary increases during the employee annual performance review via merit increases. Not every

employee receives an automatic 3% increase. Director Klotz asked in terms of competitive hiring and inflation, though the City is controlled by union agreements, which CWA does not have, is CWA okay with only 3% increases. Mr. Baldwin stated that he fully funded all 108 positions including the vacant positions which he did not on last year's budget. Mr. Baldwin noted the starting salaries for some of our more technical positions are rising, he paired that off with some of CWA's retirees. There have been employees with 25-35 years of experience so it has been balancing out a little. Director Klotz noted that his point was that CWA cannot get to the point where employees are leaving because CWA is not paying them enough. Director Walker asked if there are any signs that the major reasons employees are leaving due to the salary discrepancies between CWA and outside companies. Mr. Olinger stated the industries' current salary rates have lured away some of CWA's younger staff with salaries that are way beyond what CWA could compensate. CWA is subscribed with AWWA and they do annual salary surveys on municipalities in various sizes and by labor category so anytime CWA is looking at hiring or promotions, we are making sure that we are in-line with the industry standard. Director Sjolander asked if CWA is in-line. Mr. Olinger stated CWA is in-line and is keeping an eye on it every year. Director Klotz asked for information on the Capital Outlays. Mr. Baldwin stated the SEALS Fund is being rapidly depleted. The Bayport Capital Fund has a fee of 19 cents that covers operating costs and the excess goes to capital. Mr. Olinger noted that under the Trinity River Project Fund, the pump rehabs of Pumps 206 and 201 at \$18M that would be funded by the City and CWA is coordinating with Houston Public Works/Houston Water Department. The other items would be the annual O&M endeavors including pipeline condition assessment work at \$1.2M; an access road replacement at the Trinity River at \$2.5M; and at Bayport, CWA is continuing to engage on the pipeline replacement project at \$2M coming out of the Bayport Construction Fund. Director Klotz asked if it is known that the City will move forward with its idea to add the remaining four pump systems at Capers Ridge Pump Station as long as there is TWDB funding available. Mr. Olinger stated that in speaking with Ms. Yvonne Forrest (City of Houston-Houston Public Works-Houston Water) she is firmly behind it, and would like the Water Authorities to be on board. Director Klotz asked if that would happen within the next year. Mr. Baldwin stated that sometime next year, CWA will finish the Capers Ridge access road to the point where CWA will not be spending money out of the TWDB Fund and we would be discussing with the TWDB the action needed for the remaining funds.

Mr. Baldwin prepared a summary of each Budget's increase and the categories that primarily contributed to that result and discussed various account categories that were reflecting sizeable increases forecasted in 2023 as summarized below:

- Materials and Supplies: The Trinity River proposed budget was the first to be discussed with an increase of \$5,967,100. Liquid chlorine cost is \$3,200,000 and aqueous ammonia cost is \$1,400,000. Mr. Baldwin noted that as stated earlier this is a significant increase impacting the 2023 budget. The Lake Houston proposed budget had increases in road base and rip rap materials. The Bayport Water System increases included various supplies including fuel, valves, electrical instruments, etc. The Red Bluff Water Treatment Plant's increases included cost of treatment chemicals (lime, ferric sulfate) as well as increases in various supplies (oil/lubricants, fuel, plumbing valves, etc.)
- Utilities: There is an anticipated slight decrease in electricity demand due to lower demand from the City in the Trinity River proposed budget. Lake Houston will have an anticipated increase in water demand to the City's East Water Treatment Plant. The Luce Bayou System Project will have an increase in electrical costs as the pump station will provide additional water in 2023. Mr. Baldwin noted that CWA is still locked in at the Texas General Land Office (GLO) contract rate of 3.7 cents per kWh with at all of CWA's facilities, with the exception of the Trinity River Pump Station and the Luce Bayou Facilities. The GLO contract is valid until 2025. The Trinity River Pump Station and the Luce Bayou Pump Station receives a PUC regulated electricity rate from Entergy.
- General Operating Expenses: This is the category for all of CWA's insurances. There are anticipated increases in the renewal of employee medical and dental insurance policies at the Trinity River facility, the Lake Houston facility, the Luce Bayou facility and the Bayport facility. Mr. Baldwin note that property insurance is slightly up.

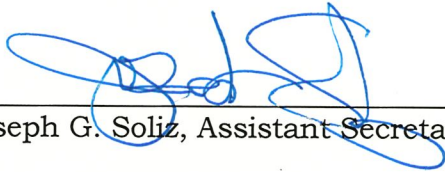
- Field Salaries: Increases have been forecasted for the Trinity River Water Conveyance Project due to allocation of workforce to a new pump project. The Lake Houston Facilities Project is forecasting an increase due to allocation of field staff supporting increase flow to the City's East Water Purification Plant. The Bayport Water System Project and the Red Bluff Water Treatment Plant have a forecast increase in allocation of field support staff. The Luce Bayou System Project is forecasting a decrease in staffing costs due to allocation of construction management staff to other Budgets to operate and maintain the Conveyance System as all components become fully operational during 2022.
- Administrative Expenses: Increases are anticipated for the Trinity River Water Conveyance Project, Lake Houston Facility Project, the Luce Bayou System Project and Bayport Water System Project due to salary allocations that impact additional Pension, Social Security and Medicare charges.
- Contract Labor and Equipment: Increases are expected for the completion of pump rehabs in 2023 and equipment purchase at the Trinity River Water Conveyance Project. Anticipated increases at the Lake Houston Facilities Project include the completed Water Quality Study, security equipment and the purchase of a mower. The Luce Bayou System Project also has an anticipated increase for the provision of security services at the pump station and maintenance facility. Enhanced security equipment needed and contract labor for pipeline repairs created anticipated increases at the Bayport Water System Project. The Red Bluff Water Treatment Plant Project had anticipated increase due to repair to the facility and upgrade of some of the Plant's infrastructure.
- Engineering, Legal and Professional Services: The Luce Bayou System Project has an increase due to the U.S. Geological Survey Division fee for measuring devices for Trinity River water pumpage, Mr. Olinger noted there is an interest in having a regional record available to the public for the amount of water being transferred into Lake Houston. This was previously talked through with the City of Houston, Houston Water Department. Director Klotz asked for a more detailed briefing on this this at some point.

The Committee voiced its support to continue on with the Budget Schedule. Mr. Baldwin stated that he would have the budgets forwarded to the applicable customers impacted by the 2023 Budgets for their review and comments. He also stated the schedule is to have the five operating budgets placed on the Board's Agenda for the November 9, 2022 Meeting for discussion and consideration of approval by the Board.

### **III. ADJOURNMENT**

The meeting was adjourned at 12:05 P.M.

[Signature page follows]



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Joseph G. Soliz, Assistant Secretary-Treasurer