



Finance Committee

W E D N E S D A Y , F E B R U A R Y 7 , 2 0 2 4





Call Open Meeting To Order



Public Comments

Items For Discussion

1. Presentation and Discussion by External Auditor Burton McCumber & Longoria, LLP on the Brownsville Public Utilities Board's Annual Comprehensive Financial Report (ACFR) for the Period Ending September 30, 2023 - Miguel Perez
2. Presentation and Discussion by External Auditor Burton Mccumber & Longoria, LLP on the Southmost Regional Water Authority Annual Financial Report for the Period Ending September 30, 2023 - Miguel Perez
3. Presentation, Discussion and Possible Recommendation of the Brownsville Public Utilities Board's Financial Performance Report for the Period Ending December 31, 2023 - Monica Cavazos
4. Presentation, Discussion and Possible Recommendation on the Brownsville Public Utilities Board's Other Post-Employment Benefits (OPEB) Trust - Miguel Perez
5. Presentation, Discussion and Possible Recommendation on Year-To-Date Capital Expenditures as of December 31, 2023 - George Rangel





The Right Choice.

BML

Burton
McCumber
& Longoria, LLP
CPAs & Advisors

Brownsville • McAllen

Public Utilities Board of the City of Brownsville, Texas

FINANCIAL REPORTING AUDIT – GOVERNANCE COMMUNICATIONS – FY 2023

Engagement team



Ben Pena, CPA, CVA, CFE

- Audit Partner
- 27+ Years Experience
- 956-574-0305 (direct)
- Ben.Pena@bmltexas.com



• Jose Diaz, CPA, CVA

- Audit Manager
- 12+ Years Experience
- 956-574-0315 (direct)
- Jose.Diaz@bmltexas.com

STAFF

- Zorayda DeLeon, CPA
- Roberto Santillana, CPA
- Gustavo Garcia
- Kristian Zamora
- Adrian Perez

Communications to Governance

AREA

New Accounting Policies Adopted

GASB 96 – Subscription Based Information Technology Agreements.

Similar to Leases accounting

Footnote (13) – **Right of Use asset of \$138,667** and current year amortization of \$18,719

Sensitive Estimates

Unbilled revenue

Allowance for Doubtful Accounts

Depreciation on Capital Assets

Estimated Costs on Capital Contributions

Estimated self-Insurance Claims

Net Pension / OPEB liability and related deferrals

Communications to Governance

AREA

No Difficulties encountered in performing the Audit.

There were no uncorrected misstatements noted.

There were no disagreements with Management.

There were no reportable financial statement findings.

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New in Current Year – Compliance

AREA	WHAT IS IT?	WHICH ONES?	
<p>Single Audit under Title 2 U.S. Code of Federal Regulations Part 200 (Uniform Guidance)</p>	<p>Audit of Expenditures of Federal Awards related to Compliance Requirements under the Uniform Guidance and Controls over Financial Reporting</p>	<p>U.S. Dept of Treasury – through Texas Commission of Environmental Quality.</p> <p>RESTORE ACT Grant Town Resaca Watershed \$1,417,688</p>	<p>U.S Dept of Treasury – Through the City of Brownsville, Texas</p> <p>American Rescue Plan Act (ARPA) Downtown Water/Wastewater Improvements \$923,603</p>
<p>What we audit:</p>	<p>Internal Controls over Financial Reporting (ICFR)</p> <p>Findings: NONE</p>	<p>Internal Controls over Compliance (ICOC)</p> <p>Findings: NONE</p>	<p>Compliance (C)</p> <p>Findings: NONE</p>

AUDITORS' OPINIONS & FINDINGS

FINANCIAL
STATEMENTS

GOVERNMENT
AUDITING
STANDARDS
(GAS) REPORT

SINGLE AUDIT
REPORT ON
COMPLIANCE
– MAJOR

**UNMODIFIED
(a Clean Opinion”)**

“...the financial statements referred to above **present fairly, in all material respects**, the respective financial position of the Public Utilities of Board of the City of Brownsville...”,

No Reportable Findings

Internal Controls over Financial Reporting, and “..compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements.

**UNMODIFIED
(a Clean Opinion”)**

“...in our opinion, the BPUB **complied, in all material respects, with the types of compliance requirements** ...that have a direct and material effect on each of its major programs”.

With No Reportable Findings



Brownsville PUB OPEB

FINANCE COMMITTEE 2/7/24

Agenda

1. Background
2. BPUB OPEB Plan
3. Actuarial Report as of September 30, 2023
4. OPEB Performance and Valuation Dashboard as of December 31, 2023
5. Plan Distributions and Benefits
6. Questions

Background

- GASB 45

- Effective January 2008
- Liability recognized on footnote of financial statements
- Discount rate was undefined

- GASB 75

- Replaces GASB 45
- Effective June 2017
- Requires the full liability to be recognized on balance sheet
- Specifies index for discount rate (20 Year Municipal AA GO Bond Index Yield)

Background

- GASB 75 allows the City to set up a special trust for future payments of OPEB
- Internal Revenue Code allows establishment of a trust to fund future benefits under Section 115
 - Funds not subject to Texas Public Funds Investment Act – So can invest for greater earnings and growth
- BPUB offers retiree medical benefits for retirees receiving annuities from TMRS upon retiring prior to age 65. Medical benefits are not available after age 65.

- Eligibility is based on the following table:

Age	Service
60	10
55	25
Any Age	30

- Benefits were paid on a “Pay As You Go” basis
 - BPUB proactively budgeting \$1M per year and setting aside to cover the OPEB liability
 - Accumulated \$13.3M

Background

- On April 6, 2022, BPUB's 457(b) plan consultant made a presentation to the Finance Committee regarding the establishment of an irrevocable trust for BPUB's OPEB
- On August 8, 2022 the BPUB Board approved the establishment of an Irrevocable Trust with an initial contribution of \$13.3M and directed staff to initiate the RFP process for a Plan Administrator
- On November 14, 2022, the BPUB Board approved the selection of Public Agency Retirement Services (PARS) as the Plan Administrator for the OPEB Trust utilizing Vanguard Investments as the Investment Advisor
- On February 13, 2023 the BPUB Board approved a resolution approving adoption of the Public Agencies Post-Retirement Health Plan Trust administered by PARS
- Initial contribution of \$13.3M made in May 2023

BPUB OPEB Plan

PARS Trust Team

Trust Administrator & Consultant



PARS

- Serves as record-keeper, consultant, and central point of contact
- Sub-trust accounting
- Coordinates all agency services

- Monitors plan compliance (IRS/GASB/State Government Code)
- Processes contributions/disbursements
- Hands-on, dedicated support teams

39

Years of Experience
(1984-2023)

2,000+

Plans under Administration

1,000+

Public Agency Clients

500+

115 Trust Clients

500K+

Plan Participants

\$7B

Assets under Administration

Trustee



- 5th largest commercial bank and one of the nation's largest trustees for Section 115 trusts
- Safeguard plan assets, oversight protection
- Plan fiduciary
- Custodian of assets

160

Years of Experience
(1863-2023)

\$9.5T

Assets under Trust Custody

Investment Manager



- One of the worlds most respected investment management companies
- Independent low-cost investment advisor
- Offers index based mutual funds with low expense ratios
- Fees decrease as assets across Vanguard strategies grow

48

Years of Experience
(1975-2023)

\$8.4T

Assets under Management

BPUB OPEB Plan

Investment Advisor Update

- Mercer Investments is acquiring Vanguard Institutional Advisory Services
 - Mercer Investments does not maintain a governmental plan presence
 - Will not be able to provide investment advisory services to BPUB's plan following the transition
 - This will require BPUB to have an alternate investment advisor in place by April 1, 2024

Proposed Investment Solution

- PARS collaborated with U.S. Bank and its wholly-owned subsidiary, PFM Asset Management LLC to provide an investment solution
 - Continue the use of the same investment allocation strategy currently in place
 - Utilize a similar low-cost, passively managed index-based approach
 - Benefit from competitive investment fee structure that integrates trustee and investment management fees
 - Receive economies of scale pricing that can lower overall fees as additional contributions to the program are made from other PARS agencies

To seamlessly transition investment advisory services to PFM by April 1, 2024, all required documents should be executed by no later than March 1, 2024

BPUB OPEB Plan

Summary of BPUB's OPEB Plan

Plan Type:	IRC Section 115 Irrevocable Exclusive Benefit Trust
Trustee Approach:	Directed Approach with Vanguard
Plan Effective Date:	February 13, 2023
Plan Administrator:	Chief Financial Officer
Current Investment Strategy:	Vanguard Balanced Strategy

AS OF SEPTEMBER 30, 2023

Initial Contribution:	May 2023:	\$13,306,413
Additional Contributions:		\$0
Total Contributions:		\$13,306,413
Disbursements:		\$0
Total Investment Earnings:		(\$98,085)
Account Balance:		\$13,194,523

Actuarial Report as of 9/30/23

- BPUB OPEB Financial Reporting Valuation completed by Milliman, Inc.
- Discount rate used was 6.56% representing the LT expected ROR
- Changes in net OPEB assets and total OPEB liability for FY2023 follows:
 - Plan is funded at 104.79%

	September 30, 2023		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Total OPEB Liability - beginning of year	\$ 14,815,187	\$ -	\$ 14,815,187
Changes for the year:			
Service Cost	765,841	-	765,841
Interest on total OPEB Liability	604,241	-	604,241
Effect of economic/demographic gains or losses	530,718	-	530,718
Effect of assumptions changes or inputs	(3,013,111)	-	(3,013,111)
Benefit payments	(1,111,303)	-	(1,111,303)
Employer contributions	-	13,306,413	(13,306,413)
Net investment income	-	(111,890)	111,890
Net changes			
Total OPEB Liability - end of year	<u>\$ 12,591,573</u>	<u>\$ 13,194,523</u>	<u>\$ (602,950)</u>

OPEB Performance and Valuation Dashboard as of 12/31/23

Account Summary

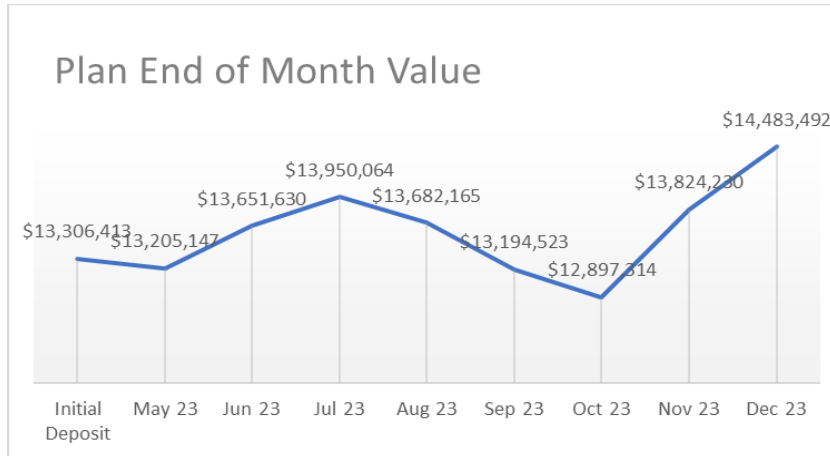
Source	Beginning Balance as of 12/1/2023	Contributions	Earnings	Expenses	Distributions	Transfers	Ending Balance as of 12/31/2023
OPEB	\$13,824,230.40	\$0.00	\$656,234.72	\$3,149.52	\$0.00	\$0.00	\$14,477,315.60
Totals	\$13,824,230.40	\$0.00	\$656,234.72	\$3,149.52	\$0.00	\$0.00	\$14,477,315.60

Investment Return

Source	1-Month	3-Months	1-Year	Annualized Return			Plan's Inception Date
				3-Years	5-Years	10-Years	
OPEB	4.75%	9.80%	-	-	-	-	5/5/2023

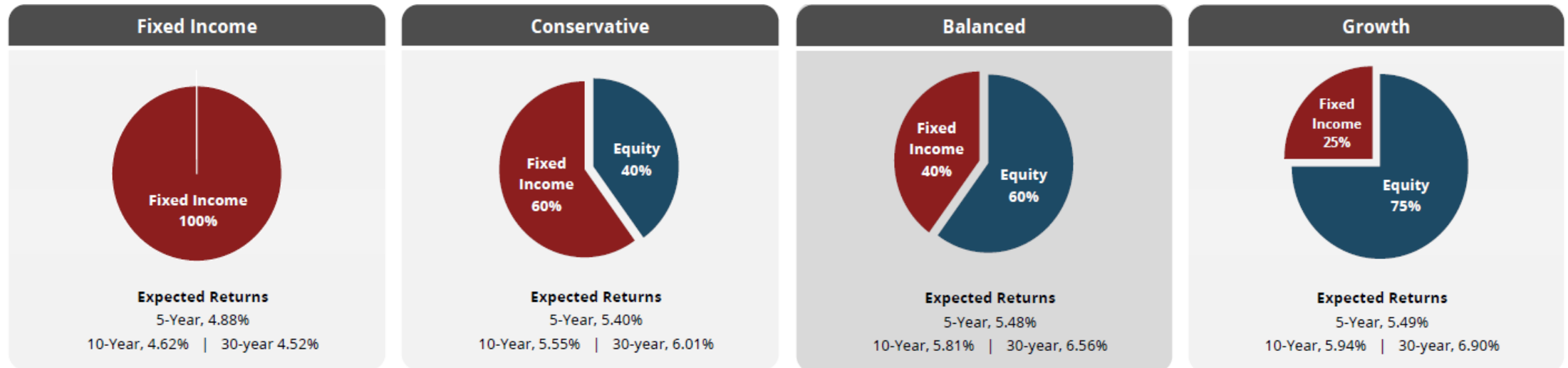
OPEB Performance and Valuation Dashboard as of 12/31/23

■ ROR from inception is 9.02%



OPEB Performance and Valuation Dashboard as of 12/31/23

Vanguard Investment Options



OPEB Performance and Valuation Dashboard as of 12/31/23

Balanced Strategy

Investment Objective

The Balanced Strategy seeks to provide capital appreciation and low to moderate level of current income consistent with its current allocation.

Investment Strategy

The Balanced Strategy invests in Vanguard mutual funds using an asset allocation strategy designed for investors seeking capital appreciation and a low to moderate level of current income. The underlying funds are: Vanguard Total Stock Market Index Fund, Vanguard Total International Stock Index Fund, Vanguard Total Bond Market Index Fund, Vanguard Intermediate-Term Investment-Grade Fund, Vanguard Short-Term Investment-Grade Fund, Vanguard Total International Bond Index Fund, and Vanguard REIT Index Fund.

The strategy's indirect stock holdings are a diversified mix of U.S. and foreign large-, mid-, and small-capitalization stocks. The strategy's indirect bond holdings are a diversified mix of short-, intermediate-, and long-term U.S. government, U.S. agency, and investment-grade U.S. corporate bonds; and mortgage-backed and asset-backed securities. The Strategy also holds currency-hedged international bonds.

Fees

The fees for managing the strategy consists of the expense ratios of the individual funds and the advisor fee. Both of these fees are dependent on the assets under management. Currently the average expense ratio is **0.08%** which consists of averaging the expense ratio of the individual funds which are outlined above. The average advisory fee is **0.02%** based on the current assets under management.

Plan Distributions and Benefits

- Elected not to request plan distributions in FY2023
- Will begin requesting quarterly plan distributions in FY2024
 - Retiree health costs for first quarter ending December 31, 2023 total approximately \$200,000
 - BPUB will file first plan distribution request in February 2023
 - Plan distribution funds will be deposited into BPUB's self-funded Health Insurance Fund
 - Premiums paid into the self-funded Health Insurance Fund by BPUB for the retirees will be reimbursed to BPUB's Plant Fund
- Benefits of OPEB Trust
 - Assurance that funds will be available and investment of funds helps offset costs
 - Increase in discount rate reduces financial statement liability
 - Positive effect on bond rating
 - Retiree benefits paid from the Trust

Questions

Closed Meeting

1. Discussion of the Brownsville Public Utilities Board's Progress on Natural Gas Hedging Strategies and Power Supply (Sec. 551.086).
2. Presentation, Discussion, and Possible Recommendation of Information Upon Pricing of Purchased Power. Generation, and Fuel and Their Impact Upon the Fuel, Purchased Energy, and Marketing Charge (Sec. 551.086).



Reconvene Open Meeting



Discussion and Possible Recommendation on Closed Meeting Items



B R O W N S V I L L E
P U B L I C U T I L I T I E S B O A R D

Discussion and/or Requests for Future Agenda Items



Adjournment
