

# **Final Report**

**AUGUST 29, 2008**

**BexarMet Management and Performance Review  
582-8-87740**

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Austin, Texas

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## EXECUTIVE SUMMARY

### Introduction

The Bexar Metropolitan Water District (BexarMet or District) is a retail water provider in the vicinity of San Antonio, Texas, that currently operates 21 separate Public Water Systems that primarily serves customers in Bexar County, with some additional customers in Atascosa, Comal, and Medina counties. The initial charge of the implementing 1945 legislation for the District was to “serve unserved communities in southern Bexar County.” Since that time, BexarMet has expanded its service area within Bexar County and to the noted adjoining counties.

The New Mexico Environmental Finance Center (NMEFC) project team was tasked with evaluating BexarMet’s managerial policies, practices, and procedures and providing information and recommendations for five major categories listed in the section below. The evaluation began by conducting in-depth interviews with the District’s board members, managers, supervisors and representative line staff plus some former staff and managers. In all, 57 interviews were conducted. Additionally, compliance documents, policies and procedures, minutes and transcripts from board of directors meetings, consultant reports, financial audit reports, and other relevant documentation was examined and analyzed by the project team. Information in these documents was compared against standard water industry management practices, peer group practices and regulatory standards with the results being presented in this report.

This evaluation describes the managerial condition of BexarMet in terms of its management structure, decision-making procedures, regulatory compliance, and financial practices. The primary objectives of this evaluation are based upon the benchmarks set forth by Texas House Bill (HB) 1565, Section 27 G (a), (1) through (5). The evaluation presented in this report was conducted from May to August of 2008. BexarMet was and continues to be in a state of transition and some management conditions have radically changed. However, this report presents the managerial conditions at the time of the evaluation.

### Management Structure

*“A description and analysis of the District’s management structure, policies, practices and procedures, and recommendations for improving them.” (HB 1565)*

**Conclusion:** BexarMet has a poorly defined management structure. Departmental reporting lines are frequently changing and poorly communicated to and not well understood by employees. With few organizational performance measures there is little accountability for managers and staff. BexarMet has neither a long-range strategic plan nor an asset management plan and lacks stated goals, objectives and performance measures. Hence, BexarMet operates almost entirely in a reactive mode; day-to-day issues are elevated to crisis status instead of being addressed in a systematic, prioritized manner.

**Recommendation:** BexarMet needs to develop a clear organizational structure based on water utility functions and communicate it to all employees. BexarMet should develop a long-range strategic plan and an asset management plan. The asset management plan should be used to make informed decisions regarding maintenance, and repair and replacement of facilities, and to prioritize upgrades and additions to the system, considering multiple alternatives in order to select functional and cost-effective options. BexarMet needs to develop performance measures and standard operating procedures for all departments. For any vacancies in upper and middle management positions, a thorough search for qualified candidates should be conducted and all appropriate candidates, both internal and external, should be considered.

### Decision Making

*“A description and analysis of the decision-making policies and procedures of the board of directors of the District, and recommendations for improving the policies and procedures.” (HB 1565)*

**Conclusion:** The failure of the board of directors of BexarMet to have a common understanding of their individual and collective roles and responsibilities has created a climate of friction and distrust which has led to an internal atmosphere of low morale and an external impression that BexarMet is, at best, poorly managed and, at worst, corrupt. Staff presentations to the board often do not adequately and completely articulate the complete range of viable alternatives and the consequences of “no action.” This combination of lack of understanding of responsibilities, climate of distrust, and poorly presented information leads to ineffective or inappropriate decisions and decreases the public confidence in and public accountability of the board of directors.

**Recommendation:** Roles and responsibilities for the board of directors should be clearly defined and agreed upon by all board members and BexarMet management. Training for the members of the board of directors should be instituted for topics including roles and responsibilities, ethics, conflicts of interest, financial management, and water system operation. The process for presenting information to the board should be revised to ensure that implications of decisions are clearly understood and that viable alternatives have been evaluated. Training on staff presentations should be implemented.

### Regulatory Compliance

*“A narrative summary of the District's record of compliance with applicable state laws and commission rules, and recommendations for improving the District's record of compliance.” (HB 1565)*

**Conclusion:** The District has good communication with TCEQ and the overall health-based water quality of the District is acceptable in most of its component systems, with three notable exceptions: 1) individual positive coliform results occur sporadically in six systems (although these results were such that there were no

health-based violations of the Total Coliform Rule), 2) chronic total trihalomethane (TTHM) violations occur in Bulverde Hills, and 3) a sole source well in Canyon Park has been designated as “groundwater under the influence of surface water” (GUI), which represents an acute health risk with the real potential to initiate a waterborne disease outbreak. Also there have been several instances over the past 5 years in which systems were not able to maintain compliant distribution pressures of greater than 34 psi.

**Recommendation:** BexarMet should develop and implement a preventative maintenance program as part of its overall asset management plan. In addition, BexarMet should be proactive in addressing areas of concern that could potentially lead to health-based violations, regardless of whether the information is obtained from the TCEQ, the testing laboratories or from their employees in the field.

### **Financial Policies and Debt Comparison**

*“A narrative summary and analysis of the financial policies and practices of the District, including the District's bonded indebtedness and other forms of debt, and a comparison of the District's debt to other water purveyors in the area.” (HB 1565)*

**Conclusion:** BexarMet's financial policies and practices lack sufficient internal controls in the areas of budgeting, purchasing and contract management. The budget is not used as an internal control mechanism and individual line items are frequently exceeded. Departments are not held accountable for budget overruns. BexarMet's debt coverage ratio (a measure of capacity to cover debt service from current operations) is much lower than comparable entities examined by the project team. This may affect the District's ability to meet future debt payments. The District's debt to equity ratio (a measure of liquidity) is much higher than all four of the entities compared. This may affect the District's ability to issue additional bonds and maintain its financial integrity and bond ratings.

**Recommendation:** The annual operating budget should be used as a tool for monitoring and controlling expenses and for meeting BexarMet's overall goals. Standard Operating Procedures should be updated to reflect industry best practices. Corrective actions should be initiated immediately to address deficiencies in internal controls as indicated in annual financial audit reports. These actions should have a definite deadline prior to the next audit. Careful consideration should be given to whether more debt should be incurred to fund improvements and the possible impacts of increased debt on cash flows and rates.

### **Rate Setting**

*“A description and analysis of the water rate-setting policies and practices of the District, and recommendations for improving the policies and practices.” (HB 1565)*

**Conclusion:** BexarMet implemented a new rate structure in 2007 based on the recommendation of its consultant, but failed to institute practices that could

minimize the risk to revenue stability and BexarMet's bond rating. BexarMet has begun the process of increasing its reserve funds including a rate stabilization fund that would benefit its cash flow during periods of low usage or other variables in revenue. BexarMet's impact fees have been and continue to be insufficient and not representative of cost recovery.

**Recommendation:** BexarMet should fully fund its reserve cash accounts and implement strategies to minimize risks to revenue stability and bond rating in future rate adjustments. The process to evaluate and revise impact fees should be completed.

## **SUBSEQUENT EVENTS**

The evaluations and analyses contained in this report were conducted in May through mid-August of 2008. Since the conclusion of the evaluation and during the writing of this report, conditions at BexarMet have changed significantly, and the District is currently in a state of major transition. On Aug. 15, 2008, the general manager was indicted by a grand jury on five counts. He was suspended by the board on Aug. 16, 2008 and terminated on Aug. 21, 2008. BexarMet is now operating under an interim general manager

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## **1.0 PROJECT BACKGROUND AND PROJECT METHODOLOGY**

### **1.1 Project Background**

This evaluation of Bexar Metropolitan Water District (BexarMet) describes the state of BexarMet in terms of its management structure, decision-making procedures, regulatory compliance and financial policies and practices. The primary objectives of this evaluation are based upon the benchmarks set forth by Texas House Bill (HB) 1565. According to Section 27 G (a), (1) through (5) of the Bill, there are five major categories to be addressed by the managerial review of BexarMet. These categories included the following, along with a general charge of the type of review being requested by HB 1565.

- **Management Structure:** “A description and analysis of the District's management structure, policies, practices and procedures, and recommendations for improving them.”
- **Decision Making:** “A description and analysis of the decision-making policies and procedures of the board of directors of the District, and recommendations for improving the policies and procedures.”
- **Regulatory Compliance:** “A narrative summary of the District's record of compliance with applicable state laws and commission rules, and recommendations for improving the District's record of compliance.”
- **Financial Policies and Debt Comparison:** “A narrative summary and analysis of the financial policies and practices of the District, including the District's bonded indebtedness and other forms of debt, and a comparison of the District's debt to other water purveyors in the area.”
- **Rate Setting:** “A description and analysis of the water rate-setting policies and practices of the District, and recommendations for improving the policies and practices.”

### **1.2 Project Methodology**

The New Mexico Environmental Finance Center (NMEFC) project team was tasked with evaluating the District's managerial and financial policies, practices, and procedures and providing information and recommendations for the five major categories listed in the section above. The NMEFC project team met several times with the TCEQ Water Supply Division staff in Austin as well as with the TCEQ Region 13 staff in San Antonio. In addition, there were numerous telephone conferences to collect and clarify data. The Region 13 staff has first-hand knowledge of BexarMet and its operational and compliance history. The NMEFC project team reviewed pertinent data from TCEQ including but not limited to investigation reports, capacity assessments, annual reports,

compliance history, violation notices, and correspondence. Some of these documents were collected by URS and shared with the NMEFC project team and other documents were provided directly by the Region 13 office.

The project team developed questionnaires based on previous experience with evaluating managerial and financial capabilities of water systems. A copy of the questionnaires is included in Appendix A-1. The interview questions were not provided to the interviewee before the interview and all interviews, to the extent possible, were done individually. Because the answers cannot be rehearsed, the validity of answers is more assured. The project team felt that this approach is an excellent way to evaluate overall communication within the organization and the management style of the organization. The NMEFC project team conducted in-depth interviews using these questionnaires. The interviews included: management staff, production and operations staff, financial staff, engineering staff, as well as board Members, and several former employees. In all, 57 interviews were conducted. Appendix A-2 contains a list of people interviewed.

In addition, the project team attempted to contact customers through a telephone interview. While the results of this informal survey are not statistically significant, the information collected is included in this evaluation. Appendix A-1 includes a copy of the interview form used, and Appendix A-3 contains a table summarizing the results. The project team made a total of approximately 250 calls, but only 24 people were willing to be interviewed. Given this limited number of interviews, no further analysis was done.

As a supplement to the interview process, the NMEFC project team spent time at the BexarMet offices reviewing files and records to obtain information. The information gathered was reviewed and analyzed, and was used to verify some answers during the interview process. The types of documents reviewed included organizational charts, job descriptions, personnel policies, operating procedures, budgets, rates, customer service policies, board minutes and transcripts, and purchasing policies. In addition, the project team reviewed documents that were requested by the Oversight Committee. The NMEFC project team also shared documents with URS and the State Auditors Office to prevent duplication of efforts and maximize project efficiency.

The NMEFC project team attended the BexarMet board meeting held on June 30, 2008 to observe the board in action. The team attempted to attend the July 30, 2008 board meeting as well, but after the team arrived in San Antonio, it was discovered that the meeting was postponed.

The project team coordinated with other reviews of BexarMet to the extent possible. These reviews included the Engineering Review and the Financial Review. Information gathered from these other efforts assisted with the reviews and analysis in this Scope of Work. However, the NMEFC project team came to independent conclusions.

### **1.3 Overview of Interview Feedback**

The interview process informed the project team regarding many areas of management practices for further investigation. These areas are thoroughly documented in Sections 3 through 9. Each interviewee was also asked to discuss the strengths and challenges of BexarMet from his or her perspective. The responses were evaluated to determine areas of commonality. The areas most cited regarding strengths and challenges are included in this section.

The item most often cited by interview respondents as a strength of BexarMet was its employees. Most respondents strongly believe the District's employees are dedicated and hard working. Since 35-40% of staff live within the service area they have are perceived to have personal as well as a professional interest in the water system. Repeatedly the respondents stated that BexarMet's strength lies in its employees' desire to provide excellent service to the public at a reasonable cost even in the midst of tumultuous management. Employees also commented on good benefits offered by the organization as well as the willingness of the District to be flexible with employees on family issues as factors behind their loyalty and dedication to BexarMet. Employees exhibited varying degrees of job satisfaction. In general, lower level employees tended to exhibit a higher job satisfaction than higher level employees.

The project team was told many times during the interviews that employees work well under adverse conditions and reacting to a crisis. Given the District's pervasive lack of planning and procedures it is understandable and laudable that staff have developed excellent responding and reacting skills. Staff also frequently commented that follow-through on problem resolution is often lacking due to management shifts in focus to another emergency. Many employees also commented that BexarMet has lost much of their staff strength due to the firing of employees with significant experience and the exodus of key employees due to perceived pressure, stress, overwork, and lack of respect from management.

The project team was also frequently told in interviews that hiring Mike Thuss as Director of Operations was a step in the right direction. Within his department he has implemented business planning along with setting goals and objectives to improve accountability. BexarMet could use this model across the entire organization.

Another strength mentioned often in the interviews was the diversity of water resources, due to a concerted effort in past years to obtain water rights. A number of interviewees also recognized this diversity as a challenge because of the use of capital resources that might have been put to use elsewhere to obtain these resources and the potential expense of bringing water from remote sources to areas of need.

## **2.0 DESCRIPTION OF BEXARMET AND ITS BOARD OF DIRECTORS**

### **2.1 Description of BexarMet**

The Bexar Metropolitan Water District (BexarMet or District) is a retail water provider in the vicinity of San Antonio, Texas, that currently operates 21 separate Public Water Systems that primarily serves customers in Bexar, County with some additional customers in Atascosa, Comal, and Medina counties. The initial charge of the implementing 1945 legislation for the District was to “serve un-served communities in southern Bexar County.” Since that time, the District has expanded its service area within Bexar County and to the noted adjoining counties.

Established as a governmental agency with the power to “control, conserve, protect, preserve, distribute and utilize” water within its service area, the District is governed by a board of seven directors, elected by the citizens in each of their respective districts. The District functions as a self-governed agency independent of municipal and county governments.

### **2.2 BexarMet Board of Directors**

The current board has seven members who have been elected to represent a specific district of customers. The board meets every month on the last Monday of the month and holds special meetings, as needed, between these meetings. The board has a President, Vice-President, Secretary and Treasurer who are elected by the sitting board members.

The board meeting agendas and minutes are posted on BexarMet’s web site. The meetings are also transcribed by a court reporter and the meetings are videotaped. The meeting minutes are prepared by the executive assistant to the board and are available, generally, before the next board meeting.

The board meets in executive session at 4:00 pm and then meets in open session at 6:00 pm. The executive session includes the board members, the legal counsel, and the general manager. Others may be invited if a specific issue warrants information from another person.

Board members are compensated at a rate of \$150 per meeting for a maximum of \$7,000 per year. Board members can be compensated for any type of meeting – regular, special, and committee meetings.

The current board Members are listed below along with the district they represent, the date they were elected to the board and the date their term will expire.

**Table 2-1 List of BexarMet Board of Directors**

<b>Board Member</b>	<b>District</b>	<b>Date Elected</b>	<b>Date Term Expires</b>
Victor Villarrael, President	4	November 2003	November 2008
Jim Clement, Vice- President	5	February 2005	November 2008
Blanche Atkinson, Secretary	3	May 2007	November 2010
Debra Eaton, Treasurer	7	May 2007	November 2010
Jose Gallegos	1	November 2003	November 2008
Lesley Wenger	6	February 2005	November 2008
Andy Carr	2	November 2007	November 2010

### **3.0 DESCRIPTION AND ANALYSIS OF MANAGEMENT STRUCTURE, POLICIES AND PROCEDURES, AND DECISION MAKING**

This section is a description and analysis of the management structure and decision-making process of BexarMet from the General Manager level and down. The description and analysis of the board of directors and its decision-making process is described in Section 4. The information in this section is presented in no particular order and is not prioritized in any way.

#### **3.1 Lack of Clearly Defined Organizational Structure**

There is no single organizational chart that shows all of the positions within BexarMet and how they relate to one another. Some employees are unclear about who they actually report to and stated during the interviews that an organization chart is not available to employees. There are positions such as "Assistant Director," but there does not appear to be a "Director." In addition, the structure changes frequently with departments moving from one place to another within the organization. Some of the organizational structure is related to happenstance rather than what makes the most sense structurally. For example, the Building Maintenance Department is located within the Administration Department rather than with Engineering and Operations. Therefore, different departments need to be contacted to make a repair to a well if it includes the building and equipment. The placement of the Building Maintenance Department within the Administration Department was not done because it made the most sense structurally but because there were personnel issues (a lack of a senior engineer or Chief of Operations who could handle another department.) Now that there is a Director of the Engineering and Operations Department, the Building Maintenance Department could be moved but there are no current discussions within the organization to do that.

Establishing a department is often seen as the way to resolve a problem, rather than examining other ways that the problem might be addressed. As an example, BexarMet formed a department called "Regulatory Compliance." Regulatory compliance is a very important issue and clearly there were concerns regarding whether or not BexarMet was achieving and maintaining adequate compliance. However, there may have been other ways to address the need for greater coordination with TCEQ and within BexarMet than establishing a new department.

See Appendix B-1 for a copy of the organization chart received at the time of the review.

#### **3.2 Policy of Promoting From Within**

BexarMet has had a long history of promoting from within and this policy may result in cases of insufficiently qualified individuals in middle or upper management positions. Such an approach can have both positive and negative consequences for the organization. Promotion from within provides a career path for employees and can build

a base of long-term middle and upper management employees who have considerable knowledge regarding many aspects of BexarMet's operation. On the other hand, promoting from within may lead to a restricted range of experience and prevent the introduction of new or innovative ways of managing and operating the water system. In addition, some positions within the organization may require higher levels of education or experience than current employees have. Promoting from within may result in employees being promoted to positions for which they are not sufficiently qualified. Because so many long-term employees have left the organization, there is also limited opportunity for the employees to be mentored by more experienced employees.

### **3.3 Lack of Expertise in Upper Management**

The current general manager has limited managerial and technical expertise and upper management experience. Prior to his employment with BexarMet, he worked as an attorney and financial advisor. He previously served BexarMet as outside counsel and Chief Financial Officer. Managing a water utility is a very complex position and requires expertise in three main areas: technical, managerial, and financial. In the technical area, the manager must understand the physical infrastructure required to obtain, treat, and deliver water to customers; the state and federal regulations that govern water service and delivery; the treatment methods needed to deliver safe water; and the need for training, certification and expertise in operational personnel. In the managerial area, the manager must set a clear vision and direction for the utility and must establish a customer-centered focus. The manager must ensure that all employees understand their roles and responsibilities as well as the organization's goals and hold employees accountable for meeting the established goals. The manager needs to set overall priorities for the utility and ensure that employees are aware of these priorities. The manager needs to hire qualified people for positions and ensure that those employees receive proper training and continuing education to maintain job skills. The manager must also ensure that there is a process to look at long-term capital needs and develop a program to validate and prioritize those needs. In the financial area, the general manager must ensure the development of realistic budgets that reflect the true needs of the water systems. The manager must work with his employees to ensure that proper reserves are established to cover emergencies, unanticipated repairs or replacements, debt service, and others. The manager must work with staff and the board to ensure that a rate is set that will adequately fund the utility. The manager must ensure that proper procedures are put in place to ensure that financial practices, such as procurement, are done according to rules, regulations, and internal policies. In the case of BexarMet, the general manager lacks many of the necessary skills to understand the utility from a technical, managerial, and financial perspective.

The current general manager did not have any prior experience running a large water utility before becoming the general manager of BexarMet nor does he have experience in water operations. Although lack of experience in and of itself should not automatically disqualify someone from the position, prior experience in the management of a water utility would be greatly beneficial. Lack of experience in this type of work

makes it more difficult to handle emergencies as they come up or to implement state of the art management practices. In addition, there is clearly an adversarial relationship between the general manager and the board of directors.

### **3.4 Inadequate Alternative Analyses and Use of Consultants**

Whenever an action is recommended, there are always alternatives to the proposed recommendation. However, in some cases, the alternatives are inadequately examined and presented to the board. The standard procedure regarding presenting materials to the board includes a discussion of recommended alternatives. However, if the information contained in the board notebooks and meeting transcripts is examined, it is clear that there is often a lack of a thorough review of alternatives. When alternatives are presented it is seldom a factual presentation, but rather is often an opinion-based presentation. The alternatives often list items such as “none” or simply “status quo”. There are often no detailed costs included with the alternatives or life spans of alternatives or positive and negative aspects of each alternative. Without this information, the board cannot make effective decisions that are in the best interests of the District and its customers.

It appears that BexarMet does not adequately manage its external consultants so that a full analysis of all alternatives is properly provided and so that recommendations are presented clearly with costs (operational and capital), pros and cons, long-term consequences and other pertinent information. Within the process of evaluating alternatives, the consultants should seek staff feedback, provided the feedback can be obtained in a timely manner. The consultant should be required to present their recommendations to the management of BexarMet. BexarMet management should give considerable weight to these consultant recommendations and provide a clear explanation of their rationale for choosing or not choosing to implement the recommendation.

### **3.5 Problems with Communications.**

Internal communication is inconsistent. Some departments communicate well, while others do not. Between departments there is sometimes good communication and often poor communication.

The upper management does a poor job communicating its priorities and goals and objectives to the middle management and rank and file employees. In addition, upper management does not follow-up on initiatives, and priorities are constantly changing due to a reactive management style.

There have been instances in which management or board members make public statements without a clear understanding of how the situation relates to liability for BexarMet. Divisiveness of the board is communicated to BexarMet staff and customers



by board members continuing to argue their point of view in public even after a vote was taken.

The public is rarely presented with positive information on BexarMet. One example is the latest rate structure change. The board voted on 4/24/08 to adopt a rate change to a new rate structure as recommended by Brown and Caldwell. The vote was 4 to 3, indicating that there was opposition to the rate increase. However, once the board adopted the rate change, it was the responsibility of all board members to explain the new rate structure and the reason for its adoption to their constituents. One board member elected not to hold a public meeting or forum to discuss the rate and another board member wrote editorials to the local paper opposing the rate increase. The rate increase was adopted and implemented, so it was not helpful to the overall organization to deliver mixed messages on the rate increase. Once adopted, all management, staff, and board members should have been consistent in their message regarding what the new rate structure was.

### **3.6 Lack of Clear Strategic Direction**

BexarMet lacks a clear strategic directive. When asked what the mission of the water system is, the most frequent answer is "to deliver water to the customers at all times." This focus is much more on water resources than the concurrent need to protect public health and safety. Further, the District has no goals and objectives to create consensus priorities across the organization and link to employee performance. There is little direction provided within BexarMet to indicate how the water system management and staff are supposed to carry out its mission. This lack of strategic direction has allowed a reactive management style to persist.

### **3.7 Reactive Rather than Proactive Management Style**

BexarMet's operational and management style is very much reactive rather than proactive or preventative. Day-to-day issues are elevated to "crisis status" because they are not addressed in a systematic, prioritized manner. The only area of proactivity has been developing large and relatively diverse water resources. Under the previous general manager, BexarMet began a very aggressive program of gathering water resources from a variety of sources and areas. Many pieces of land were purchased to obtain water rights. This accrual of water resources has become a double-edged sword for BexarMet. On the one hand, the water system is in a good position to provide water resources to its customers over the long term, even if limitations or restrictions are put on the use of the Edwards Aquifer. On the other hand, large amounts of capital resources were expended in the process of gaining these extensive resources. In addition, some water resources that were purchased are geographically distant from the existing service areas, so it may be many years before these can be used or it may be very expensive to install the needed infrastructure to make use of these resources.

The opportunity cost of using the capital on water resources was that the monies could not be spent on other needed capital improvements or other operational items. Therefore, BexarMet needs to achieve a balance between proactively obtaining future water resources and paying for other needed infrastructure and operational expenses.

Currently, BexarMet operates almost exclusively in reactive mode, responding to problems as they arise rather than instituting proactive measures to prevent crises and implement procedures to quickly resolve issues that do arise. Examples of the District's failure to act proactively are listed below.

- **Lack of a Source Water Protection Plan:** Implementing a source water protection plan to protect water resources from potential sources of contamination is not mandatory. However, developing and implementing such a plan can be a powerful tool to prevent costly treatment later and to ensure that the customers continue to receive high quality source water that needs only basic treatment. BexarMet could proactively decide to develop a source water program, but to date does not have a comprehensive source water protection plan for its water systems. Instead, BexarMet continues to react to source water issues as they arise.
- **Lack of Preventative Maintenance:** A utility that is following industry best practice does approximately 80 percent planned, preventative maintenance (proactive maintenance) and 20% unplanned, corrective maintenance or reactive maintenance. (*Advancing Asset Management in Your Utility*, EPA 2007) BexarMet does almost exclusively unplanned, corrective maintenance and has very little planned (or preventative) maintenance. This type of operation is much less efficient, in terms of both personnel hours and operation and maintenance expenses, and leads to increased overtime, more equipment down time, more serious and costly repairs, and a crisis style of operation in which an employee's day is dictated by events rather than scheduled action.
- **Emergency Expenditures:** BexarMet's management frequently has expenditures that are classified as "emergency" expenditures that routinely require approval of the board after the fact. If BexarMet operated in a proactive rather than reactive mode, many of these emergency expenditures could be avoided and expenses could be predicted and budgeted in advance.
- **Lack of Asset Management Plan:** BexarMet does not have an asset management plan that considers risk and alternatives, a key component to strategic capital improvement planning and budgeting. The goal of asset management is defined by the *International Infrastructure Management Manual* as "meeting a required level of service in the most cost-effective way through the creation, acquisition, operation, maintenance, rehabilitation, and disposal of assets to provide for present and future customers." Asset management promotes efficiency and innovation in the operation of the system. It also helps a

utility manager make more effective decisions for timing of repairs, replacements, or rehabilitating of assets as well as developing a long-term funding strategy and to replace or rehabilitate assets. The lack of a good, well-validated plan means that BexarMet reacts to needs rather than predicting needs over the long term. This mode of operation often leads to inefficient replacement of assets (assets that are replaced too late in their life-cycle, thus wasting maintenance dollars, as well as assets that are replaced too soon in their life-cycle, wasting capital improvement monies). Additionally, the lack of an asset management plan limits the District's ability to examine alternatives in the context of a long-range plan for the utility. In some cases, there may be non-asset solutions that could be used to address the need, but without an asset management plan the District has no effective tools to examine these alternatives. As an example, there may be a well that is contaminated or old and needs refurbishing. Assume the well is one of 4 wells that supply the area and that the current demands are such that all wells are needed. A non-asset solution to this situation could be to institute conservation measures to reduce usage to the point that the well can be abandoned and does not require treatment or refurbishing.

BexarMet is currently in the process of adopting a more extensive capital improvements plan (CIP) for both the current fiscal year and a five-year planning horizon and has established a project list for FY08 with approximately \$42 million of improvements prioritized by the reason for the improvement (e.g. regulation, growth, or relocation) By further refining this CIP with a full asset management plan, they can identify ways to more efficiently identify priorities and balance needs.

### **3.8 Failure To Prioritize Issues**

Management of BexarMet does not clearly prioritize issues. As part of HB 1565, specific information requests have been made of BexarMet. BexarMet routinely fails to meet deadlines or provide information in a timely manner. For example, a letter dated June 30, 2008 from the Legislative Oversight Committee indicates that requested mapping allowing residents to see clearly which board district they reside in was not completed in a timely manner as requested. (See Appendix B-2) It appears that the mapping is now posted on the District's web site. Another example is related to the financial audit being conducted by the State Auditor's office. At the June 30<sup>th</sup>, 2008 board meeting, there was a discussion regarding the need to have additional staff to address all of the financial auditing requests from the State Auditor's office. It was clear that the BexarMet employees were not able to address all of the information needs due to the demands of day-to-day operations. The board voted to disallow additional temporary staff to address the Auditor's requests. As a result, these requests have not been met in a timely manner.

### 3.9 Lack of Customer Service Focus

Asset management is quickly becoming the world-wide standard for management of water systems. Asset management is delivering an agreed upon level of service to customers at the lowest life cycle cost. Asset management principals indicate that a water system should center all of its managerial efforts on customer service. The water system should define the level of service it wishes to provide its customers – this level of service needs to meet the needs of the customers, be physically possible to provide, and fit within the financial means of the system – and then focus its efforts on meeting this level of service.

The efforts of BexarMet regarding making customer service a focus of overall management are mixed. There are some positive aspects of customer service and some weaknesses related to customer service. On the positive side, BexarMet has instituted a new customer service department that is intended to handle customer's complaints, comments, and suggestions. This department is on the right track, but based on employee interviews and customer comments, it does not appear to be achieving all of its intended purposes. In addition, the dispatch department provides back-up to the customer service department after hours. The staff in this department are not adequately trained to respond to customers' calls in an efficient manner. Additional training for all front-line staff will be required and goal setting and metrics for measuring goal achievement will need to be completed in order to improve customer satisfaction.

A strength in BexarMet's Customer Service is the area of customer notification in the event of an outage. In the event of a water main repair, the customers are typically given at least 2 hours notice that the water will be out for a short period of time while a repair is being made. BexarMet employees notify customers by going door-to-door in the areas that will be affected. If no one is at the home at the time of notification, a door hanger advising of the outage is left at the home.

Improvement is needed in the area of decisions regarding infrastructure and capital improvements. When these decisions are made from a customer service focus, resources are used more efficiently and customer buy-in on changes and possible rate increases is much greater. Several specific examples are presented below.

- **GUI Well in Canyon Park Estates:** In April of 2007, BexarMet was informed by TCEQ that one of their public supply wells for the Canyon Park Estates water system was considered a potential risk for a groundwater under the influence of surface water (GUI). A well that is a GUI well has a much greater potential for public health impacts because surface water contaminants may enter a GUI groundwater well and these contaminants will not be removed by traditional groundwater treatment methods (i.e., chlorination). Therefore, a GUI determination means that a well has a much greater potential health risk to the public than a typical groundwater well.

The biggest issue regarding this situation is not regulatory compliance, but rather the potential for public health impacts. The BexarMet management was made aware of the situation with this well and chose not to take interim action to protect public health. To date, there is no evidence that anything has been done to this well. The project team made repeated inquiries into whether or not action was taken to address the GUI situation at this well and as of the end of July 2008 was given no indication that anything was done. In early August 2008, possibly as a result of repeated inquiries into this situation, BexarMet developed a plan of action that involves merging this system with another system.

Furthermore, the project team has investigated whether or not this issue was discussed with the BexarMet board in open session. As of July 2008, the project team has been unable to find direct evidence that this issue was discussed with the board in open session, although there are letters from TCEQ to Victor Villareal, the board President, describing the GUI situation. There is direct evidence that middle management of BexarMet had information regarding the GUI situation and indirect evidence that the upper management knew about this well and the potential for public health impacts. The fact that there is no evidence that either the board or the management of BexarMet took specific steps to discuss the problem and address it in the interim to protect the public health of its customers while a long-term solution is sought, is indicative of a system that is not focused on customer service as a main goal. See Appendices B-3 and D-1 for documents related to this issue.

- **Temporary Power to Water Supply Wells:** BexarMet has installed public water supply wells without providing a permanent power source to these wells. The wells are still powered by an emergency generator, which is not as reliable as a permanent power source.
- **Drought:** During times of drought, BexarMet implements a drought management plan which includes tiered irrigation restrictions for all customers. This is typically a good way to conserve water during times of drought. However, the drought restrictions don't seem to be planned specifically for BexarMet customers or for BexarMet's infrastructure. The current plan mimics SAWS plan in order to avoid confusing customers who may be aware of the SAWS restrictions. The intent of implementing drought restrictions that mimic SAWS was to provide improved customer clarity and compliance. However, it appears no follow-up was completed to verify that it worked as intended. In the areas where BexarMet's infrastructure limits water pressure during high use, the existing drought restrictions compound the problems. Customers are required to water during specific times of specific days. When all the customers irrigate at once, pressure drop issues are escalated. This not only causes unhappy customers, but unhappy staff. The restrictions should be revised for areas where low pressure has historically proven to be an issue, to

allow fewer homes to irrigate at any one time. It is important to note the restrictions should not be removed, but revised.

### 3.10 Few Metrics or Performance Measures for Accountability

BexarMet management has not instituted performance measures or metrics to measure performance or hold management or staff employees accountable. There are some efforts in this area now in the Engineering and Operations Department, but more work is needed in this area to continue to develop the performance measures and metrics.

### 3.11 No Minimization of Overall Risks

The District has not implemented processes to minimize its overall risks. These risks include the risks to employee health and safety, the risk of lawsuits from employees or customers, risks to source water related to contamination, risks to public health, and the risks related to emergency preparedness and response. Insufficiently managing these risks can lead to higher insurance costs, disease outbreaks, and loss of employee work time.

- **Safety:** The safety program at BexarMet is, at best, inconsistent. There does not appear to be a well-developed and implemented safety program. It appears that the program has been copied from another entity instead of developed specifically for BexarMet. Employees have frequent accidents, including vehicle accidents that result in insurance claims, workers compensation claims or time spent out of work. There is no process for analyzing accidents and recommending methods of preventing or reducing future accidents of a similar type, even though the insurance carrier, Texas Municipal League, has provided recommendations.
- **Source Water Protection:** As stated previously, BexarMet has not yet implemented a source water protection program to minimize the potential of sources of contamination entering the source water.
- **Emergency Preparedness:** BexarMet has inadequate emergency response planning. The employees are not aware of a plan that describes the various types of emergency situations and the BexarMet response to these emergencies. There are many different types of emergencies that can arise, such as vandalism, sabotage, heavy rain events, severe droughts, electrical outages, lightning strikes, major water main breaks, and key water pump failures. BexarMet must be able to respond to each of these events in a proactive, timely manner to minimize impacts to customers, both from a public health and customer service perspective.
- **Human Resources:** BexarMet has recently been the focus several lawsuits or complaints filed by former employees. Much of the basis of these lawsuits and

complaints is human resource practices, such as hiring, termination, promotions, and sexual harassment. More attention to proper hiring, firing, and promotion procedures could reduce legal risks associated with these practices.

Because BexarMet has insufficiently managed its overall risk, the cost of insurance has risen steadily. Insurance is obtained from the Texas Municipal League (TML). The premiums have increased substantially over the past few years from \$647,000 to approximately \$800,000 per year. The insurance rates are not likely to stabilize or decrease until BexarMet is able to more effectively manage its risk.

## 4.0 DESCRIPTION AND ANALYSIS OF DECISION-MAKING POLICIES AND PROCEDURES

This section is a description and analysis of the management structure and decision-making process of the board of directors of BexarMet. The decision-making policies and procedures of the management are presented in Section 3.

### 4.1 Misperceptions of Board and Its Actions

There are many misperceptions about the board and its actions and voting record within the organization and even among board members themselves. There seems to be a general impression among staff and board members that “most votes are 4 to 3” and that the board is divided. In addition, there are instances in which individuals – both staff and board members – have a perception that a particular item had come before the board and a vote taken. There is even one case where an individual left BexarMet based on the employee’s perception that the board failed to take appropriate action on a serious matter. However, when the actual minutes and transcripts of the meetings in question are reviewed, there is either no record of the event or the event was different from the perception of the individual. In the case of the employee who left the employ of BexarMet, no record of that actual event/vote can be found in the minutes for the time period in question.

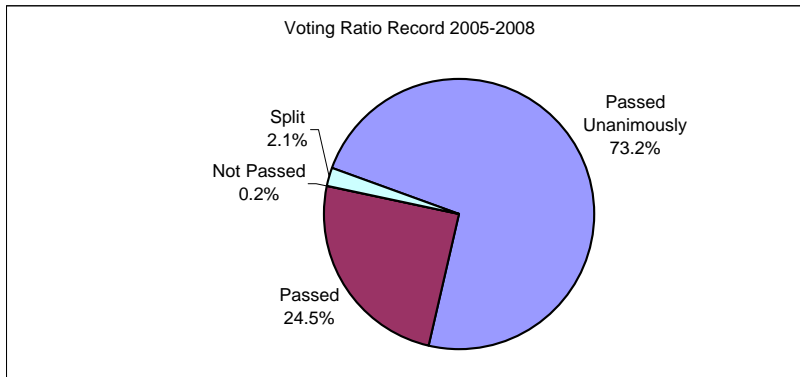
This type of misperception about the board, its votes, and its actions, is detrimental to the District because it breeds distrust and dissatisfaction with the way the District is managed, and can lead to disgruntled employees, or loss of employees. It also leads to the belief that it is not worth trying to present better information to the board because the vote will “just be 4 to 3 anyway.”

To further evaluate this particular issue, the project team developed an extensive database of three years of all the board actions and votes. This database was developed from the board meeting minutes, and supplemented where necessary with available transcripts. The database was then queried to provide basic factual information regarding the board of directors.

- **Board Member Attendance:** Only 2 absences from meetings were noted among the current board members in a 3-year period. During this time, there were occasional late arrivals and a few early departures. A few of these departures warranted special note because they came very early in the meeting, were very abrupt (e.g. during a vote) or created a situation in which there was no longer a quorum after the board member departed. There were also several occurrences of board members being in attendance at the meeting, but not in the room when a vote was taken. A summary table including board member attendance and voting records is presented below.



- Voting Record:** In the 3-year period examined, 73% of votes were unanimous, with only 2.1% of the votes being recorded as 4-3. In the past year (current board), 61% of the votes were unanimous, with 5.3% of the votes being recorded as 4-3. Clearly, there has been an increase in 4 to 3 votes overall, and a decrease in unanimous votes in the past year. However, the majority of the votes are unanimous and there are a relatively small number of 4 to 3 votes. In the past 3 years, less than 1% of all items brought before the board have been defeated.



**Table 4-1: Summary of Board Member Attendance and Voting Records**

Board Member	Yes Votes	No Votes	Abstentions	Absences	Late Arrivals	Early Departures
Villarreal	753	33	4	2	0	0
Wenger	686	97	21	0	0	2
Clement	771	21	4	0	0	1
Gallegos, Jr.	616	114	43	0	2	4
Atkinson	288	37	10	0	0	0
Eaton	308	20	4	0	1	0
Carr	196	19	3	0	0	0

It is probable that the impression of extreme dividedness results from the contentious nature of board discussions and the previously-mentioned failure of the board to present a united public front once issues are decided (see Section 3.5). However, the fact that most votes are in reality, unanimous points to a foundation of commonality and shared purpose that could be built upon to achieve more organizational unity and greater customer confidence.

## 4.2 Inefficient, Ineffective Decision-Making Process

Overall, the current decision-making process used by the board of directors is inefficient, ineffective, and detrimental to the organization. The current process results in long meetings, disrespectful communications, and distrust between many parties. Specific issues are presented below.

- **Emotional & Disrespectful Interaction with One Another & with Management:** During the meetings, the board members often do not maintain a professional, respectful demeanor in their interactions with each other and with the staff and management of BexarMet. Board members have used inappropriate language during the meetings, engaged in personal attacks, and brought up issues that would be better addressed in executive session. The project team also observed disrespectful body language and personal demeanor during a board meeting that the team attended. This type of emotional and disrespectful interaction is not conducive to moving BexarMet forward in a positive direction or in solving problems within the organization.
- **Inadequate Presentations and Information from BexarMet Staff:** To evaluate information presented to board members prior to asking for their vote on a specific issue, the project team reviewed transcripts, notebooks prepared by staff for the board prior to meetings, and observed a board meeting. The analysis showed that the information presented to board members is extremely inadequate. The issues are not framed in a clear and objective manner and visual aids are not adequately used to help both the board and the public understand the issue being presented. The information presented does not include options that were evaluated by staff or the consequences of particular actions. Nor does it provide a sense to the public of what a “reasonable” or “customer-service” oriented vote on that issue might be. This makes it difficult for the customers to hold the board accountable for their actions.
- **Inadequate Understanding of the Roles and Responsibilities:** The board members do not have a universal understanding of their specific roles and responsibilities as board members. In fact, there is very little agreement on this issue. This disparity in understanding of the roles and responsibilities can lead to conflict and misunderstanding between board members and board members and management of BexarMet. Some board members feel that it is the board’s responsibility to essentially make all decisions, while others see the role as setting policy while letting staff run the system. As it stands, the board currently is operating as a hybrid of these two approaches. For example, the board grants purchasing power of \$5,000 to the General Manager. Given that most expenses of a water system pass the threshold of \$5,000, including most construction, engineering, outside consulting, equipment, vehicles, etc., this requirement in effect involves the board much more closely in operations than merely setting policy. In addition, board members sometimes intervene on behalf

of customers in situations such as potential disconnections, payment plans, and customer complaints. Some board members feel it is their responsibility to assist their constituents in these matters. However, this intervention can undercut BexarMet policies and procedures and create a situation where customers are not treated equally. This also creates a sense that the board does not trust the BexarMet staff to adequately perform the operations of the District. There is no general consensus or agreement among board members regarding where the board's role ends and staff's begins.

- **Inadequate Training:** New board members are given the responsibility of making decisions regarding millions of dollars of infrastructure and thousands of customers. Board members do not necessarily have any previous background in the water industry or in participation in a board position. There is some training provided to board members when they are initially elected but it appears to be insufficient. This training does not appear to include a tour of the actual infrastructure of BexarMet (wells, treatment facilities, meters, valves, hydrants, etc.) or an explanation of the specifics of water treatment and delivery within the BexarMet service area. In fact, some board members do not believe it is their responsibility to understand any of these issues. Without a basic understanding of the water infrastructure and the service and delivery system, the board is unlikely to make consistent and effective decisions regarding operations and funding of infrastructure.
- **Ineffective Use of Subcommittees:** The board of directors has subcommittees for some issues, such as personnel, real estate, and finance. Three board members serve on each of the subcommittees and one board member serves as chair of the subcommittee. The subcommittees meet regularly with staff. These subcommittees should be a structure for the board to receive in-depth information on particular topics and spend time analyzing particular issues. However, the lack of trust between board members and the failure to appoint some board members to subcommittees results in the board as a whole not trusting the information from the subcommittees. The board generally does not act on recommendations from subcommittees. The subcommittee members sometimes introduce topics from their meetings, but the subcommittee chair does not generally make a presentation about the topic being discussed. Given the current structure, these subcommittees do not have much impact on board operations or decision-making and do not facilitate shorter board meetings or more informed decisions.

#### **4.3 Inadequate Public Accountability of Board**

The board members are elected by the constituents in their district. Therefore, it is important that there be adequate public accountability of the board. Given the current situation described above in 4.1 and 4.2, the public is not adequately informed of how particular votes impact their customer service. If the presentations to the board in the

public meetings do not adequately describe the issue, including the impacts positively and negatively to the customers, it is difficult for the public to understand whether the actions of particular board members, or the board as a whole, are reasonable. Without this understanding, there is a decreased ability of the public to hold the elected board accountable.

Many votes include a board member abstaining from the vote. Board members seldom make clear why they have chosen to abstain rather than vote yes or no on the issue. To improve public accountability, it would be worthwhile for board members to generally vote yes or no on all issues or to publicly state their reason for feeling they need to abstain.

#### **4.4 Inconsistencies with Regard to Board Administration Policies and Some Unorthodox Practices**

The board administrative policies indicate that tabled items are to be brought back to the board the next month following the month in which they were tabled. This process is not always followed. In the three year period examined, there were 63 tabled items. Ten items appear never to have been brought back to the board at all. Seven items were brought back 2 or more months later, with 3 being brought 4 months later. Thirteen were re-tabled, several more than once.

During the meeting the project team observed, there were members who changed their votes after the vote was taken, despite the fact that the counsel indicated that it was not appropriate for a vote change. The President overruled this and agreed to the vote change. In addition, at one point, one board member indicated how another board member was voting rather than the board member casting his own vote.

A review of board meeting transcripts reveals some instances of chaotic or unusual voting practices. Two examples are presented here.

One of these chaotic voting situations can be seen in the transcript of the board meeting dated February 25, 2008. During item 13 of this meeting, a call for a vote was made before debate occurred. A discussion ensued in which the chair of the board indicated that a vote had to be taken. Counsel agreed with this opinion, but one of the board members indicated that debate should occur before voting. The final outcome was that a vote was taken on the original issue and then another vote was taken to overrule the chair's decision that the vote should be taken without debate. This motion did not carry. (See Appendix C-1 for a copy of this section of the transcript.)

Another example occurred during the January 28, 2008 meeting regarding Agenda Item #9. The agenda item was written to approve a contract for a consulting firm. However, a few board members wished to change the motion to reject the contract. A discussion ensued and the motion ended up being to reject the contract, meaning that a "yes" vote would be to reject the contract and a "no" vote was interpreted as "not rejecting" the

contract, rather than “accepting the contract.” The vote seemed to confuse many of the board members, so it is not clear that the board members were even sure what they were actually voting to do. One member abstained which was then discussed as a possible yes vote to the motion rather than a lack of a vote. By the end, the motion failed and the chair interpreted that vote as taking no action at all, rather than interpreting it as a vote to approve the contract. This type of chaotic voting makes it difficult for the board members to have a clear understanding of the decision they are making and for the public to interpret votes properly. It would be very difficult for a member of the general public to clearly understand which board member voted for or against the contract. (See Appendix C-2 for a copy of the section of the transcript for this agenda item. The entire item is 53 pages long. The vote is discussed in the final 5 pages.)

#### **4.5 Inadequate Board Meeting Minutes**

The board meeting minutes are a crucial record of the actions of the board and a key component of overall public accountability. As such they should be as accurate as possible. There were several problems observed with the minutes:

- There is inconsistency in noting which board members are absent.
- There is inconsistency in re-scheduling tabled items on the agenda.
- There is inconsistency in noting that agenda items were tabled items from a previous meeting. Sometimes, this is noted on the agenda, sometimes within the minutes, sometimes neither.
- A number of times the minutes have not been ready for approval at the next board meeting.
- Minutes of some meetings are not posted on the website.
- Some minutes have missing pages.
- Minutes were signed and dated with a date before the meeting. (12/18/06)
- Minutes are inconsistent in the use of first person/third person in describing discussions. Comments in the first person should be designated in quotes.
- It is not always clear in the minutes what the motion was or what was being voted on.

## **5.0 DESCRIPTION AND ANALYSIS OF COMPLIANCE WITH REGULATIONS**

### **5.1 Background**

The Texas Commission on Environmental Quality (TCEQ) has standards related to water quality, as well as monitoring and reporting, water system pressure, public notices, consumer confidence reports and many others. These regulations are contained in the Texas Administrative Code (TAC), Title 30, Part 1, Chapter 290 "Public Drinking Water", Subchapters D, F and H. According to TAC §290.101 "The purpose of these standards is to assure the safety of public water supplies with respect to microbiological, chemical, and radiological quality and to further efficient processing through control tests, laboratory checks, operating records and reports of public water supply systems." These standards are written to comply with the requirements of the Federal "Safe Drinking Water Act," 42 USC §300f et seq., and the "Primary Drinking Water Regulations" which have been promulgated by the United States Environmental Protection Agency.

### **5.2 Summary of Compliance with TAC – Chapter 290 Regulations**

The Department of Regulatory Compliance was created by BexarMet in March 2008 to ensure that BexarMet's 21 public water systems are in compliance with the TAC. This Department is staffed by the Assistant Director of Regulatory Compliance who supervises an average of 35 people.

Based on a comprehensive review of regulatory related records obtained from TCEQ and BexarMet, as well as conversations with TCEQ staff at both the TCEQ Headquarters and Region 13 Office in San Antonio, it has been surmised that BexarMet is conscientious regarding compliance with TCEQ regulations and responsive to violations when they occur. The information obtained is summarized in the following sections.

Between the years of 2005 and 2007, BexarMet incurred a total of 35 violations of TCEQ's Public Drinking Water Regulations (TAC 290), 34 as the result of the Comprehensive Compliance Investigations. One is a health-based violation. Efforts were made to obtain data from TCEQ's CCEDS database in order to cross check violation data.

#### **5.2.1 Compliance with Subchapter D – Rules and Regulations for Public Water Systems**

##### ***Compliance with Comprehensive Compliance Investigations (CCI)***

In order to determine if BexarMet has been in compliance with Subchapter D of the TAC, the Comprehensive Compliance Investigations and all associated correspondence between BexarMet and TCEQ were analyzed.

TCEQ Investigators complete Comprehensive Compliance Investigations (CCI) of water systems periodically (at least once every three or five years depending on water system type). The TCEQ Investigators evaluate the water system and determine whether the water system is in violation of any of the regulations contained in the Texas Administrative Code. The Investigator reviews records, equipment calibration, storage tanks, disinfection, capacity, public water supply wells, and surface water treatment plants. Upon completing the investigation the Investigator conducts an exit interview with the water system. TCEQ then notifies the water system of any violations documented and requires the water system to show corrective actions have been taken to bring the system into compliance, typically within a specified amount of time.

According to records obtained from BexarMet and TCEQ, TCEQ completed 31 Investigations of 22 of BexarMet's Water Systems between the years of 2005 and 2007. Of those 31 completed investigations, 16 resulted in violations, representing 13 of the water systems investigated. Nine systems had no violations in the last 3 years. For the 16 CCIs where violations were found, a total of 34 violations were documented. Some CCIs resulted in multiple violations.

Table 5-1 below shows the systems that have incurred violations in the last 3 years.

**TABLE 5-1**  
**Summary of CCI Violations**



PWS	Violation	Date TCEQ Completed CCI	Date TCEQ Notified BMWD of Violations	Date TCEQ Required Response	Date BMWD Responded	Date TCEQ Acknowledged Response	Date TCEQ Approved Corrective Actions
Anaqua Springs PWS# 0150549	Failure to get plans approved before providing water; failure to provide distribution map	8/17/06	8/25/06	10/24/06	10/26/06	12/4/06	12/4/06
Bulverde Hills PWS# 0460013	Not in compliance with laws and regs; exceeding MCL for TTHM; proposed Compliance Agreement	1/21/07	6/28/07	7/28/07	7/30/07	7/30/07	No Data Available
Castle Hills PWS# 0150045	Install treated water sampling tap; install flow meter at each well discharge	11/15/05	12/13/05	2/13/06	12/20/05 1/4/06	1/6/06	1/6/06
Chaparral PWS# 0150053	Document monthly flushing; repair fencing gate; provide fresh ammonia solution for Cl gas leak detection	10/11/07 10/15/07	11/2/07	1/7/08	10/18/07 1/3/08	2/14/08	2/29/08
Elm Valley Park PWS# 0150265	Document monthly flushing; replace screen on overflow with hinged flap	10/11/07 10/15/07	11/7/07	1/7/08	10/18/07 1/3/2008 1/7/2008	2/14/08	2/29/08
Geronimo Forest PWS# 0150052	Document monthly flushing	10/11/07 10/15/07	11/2/07	1/7/08	1/3/07	2/15/08	2/29/08
HEB PWS# 0460228	Document monthly flushing; document usage of alternate source	10/15/07	11/7/07	1/7/08	1/3/08	No Data Available	No Data Available
Meadow Wood Acres PWS# 0150072	Failure to meet minimum well capacity	5/24/05	6/9/05	7/13/05	8/3/05	9/1/05	Monitoring continued
Mountain Laurel PWS# 0150545	Failure to adopt service agreement; failure to complete CSI	5/24/05	6/9/05	7/13/05	10/6/05	No Data Available	No Data Available
Oakland Estates PWS# 0460166	Provide water tight conditions at storage tank; document monthly flushing	10/11/07	11/7/07	1/7/08	10/17/07 1/3/08 1/7/2008	2/14/08	2/29/08

PWS	Violation	Date TCEQ Completed CCI	Date TCEQ Notified BMWD of Violations	Date TCEQ Required Response	Date BMWD Responded	Date TCEQ Acknowledged Response	Date TCEQ Approved Corrective Actions
Southside PWS# 0150249	Submit tank design plans; provide hatch cover with proper overlap; use approved hoses; record dates of tank disinfection	1/8/05	1/20/05	3/1/05	2/23/05 3/17/05	4/19/05	8/1/05
Southside PWS# 0150249	Install flow meters on discharge lines; label hoses on trailers	7/19/05	8/15/05	11/18/05	No Data Available	No Data Available	No Data Available
Southside PWS# 0150249	Failure to maintain water tight conditions (leaks); calibrate well meters, various violations with tank maintenance; fence needs vegetation removed; weekly calibration of turbidimeters	4/10/06 4/24/06	5/30/06	7/31/06	9/21/06 4/2/07 4/3/07	12/8/06	No Data Available
Southside PWS# 0150249	Continued violations from 2006 – install flow meters on discharge lines; various violations with tank maintenance	5/22/07	6/21/07	8/1/07	9/21/06 7/18/07 7/31/07 8/6/07	8/27/02	Bi-annual reports required
Texas Research Park PWS# 0150497	Storage tank overflow flap needs maintenance; yard needs mowed	5/22/07	No Data Available	No Data Available	6/13/07	6/21/07	6/29/07
West View PWS# 1630039	Document monthly flushing; provide maintenance to fencing; remove shrubs from barbed wire fencing	10/11/07	11/2/07	1/7/08	10/31/07 1/3/07	10/31/07 2/14/08	No Data Available

The data above shows that BexarMet is responsive when a violation is found during an inspection. When reviewing the violations cited, many of the violations are related to system maintenance and documentation. If BexarMet took a proactive approach, by implementing a preventative maintenance program and a comprehensive capital improvement plan, most of these violations would be avoided. This would eliminate the large administrative burden that follows a CCI where violations are issued.

## 5.2.2 Compliance with Water Treatment

### ***Canyon Park Estates – Groundwater Under the Influence of Surface Water (GUI) Designation***

**Background:** In late 2006, raw water samples collected from the sole well supplying the Canyon Park Estates water system tested positive for total coliform bacteria. After numerous attempts to disinfect the well, coliform positive samples continued to be found. In response, BexarMet staff, in cooperation with TCEQ, developed and implemented an additional microbiological testing program that required daily microbiological samples to be collected from the well, ground storage tank, and four distribution sample sites. These tests continued to show total coliform and some fecal coliform in the raw well water.

This prompted TCEQ to schedule a GUI evaluation of the water source. This GUI designation is of concern because a well designated as a GUI well must be treated to surface water standards. TAC Subchapter F 290.111 states, “A system that treats surface water or groundwater under the direct influence of surface water must meet minimum treatment technique requirements before the water reaches the entry point to the distribution system.” The combination of filtration and disinfection processes must provide the removal/inactivation of viruses, Giardia and Cryptosporidium according to Table 30 TAC §290.111 (d)(1) (Microbial Inactivation Requirements) and Table 30 TAC §290.111 ©(3)(B) (Treatment Technique Requirements for Cryptosporidium).

On April 9<sup>th</sup>, 2007, TCEQ sent a letter to Mr. Victor Villareal, the BexarMet board President, stating that the sole well at Canyon Park Estates “has met certain criteria that indicate it is potentially a GUI source.” The letter indicated that the source had been scheduled for an evaluation by the U.S. Geological Survey.

The Microscopic Particulate Analysis (MPA) was conducted on May 16, 2007 and showed the “presence of chlorophyll-containing organisms and other microbes commonly associated with surface water”. This designation requires that BexarMet either replace the water source, or implement additional treatment of the water from the existing source.

According to e-mails to the District provided by BexarMet, the MPA results, which clearly showed moderate to high levels of surface water particulates were received on or around June 19, 2007.

BexarMet's response emails discussed possible corrective actions, such as installing a 1-micron filter on the well as an interim solution. However, no corrective action was initiated.

TCEQ completed a CCI on August 10, 2007 and reported the results to Mr. Villareal in a letter dated August 28, 2007. Based on the comments made in this report, the TCEQ Investigator was not aware of the results of the GUI evaluation. The report indicated that, depending on the results of the recent GUI filtration test, the system could receive notification from TCEQ directing them to submit plans for additional treatment of this water source.

**Public health implications:** Surface water that is untreated may include pathogenic organisms that cannot be eliminated by the chlorine disinfection process alone (i.e. Giardia, Cryptosporidium). Therefore, a GUI that is not being treated to surface water standards represents an acute health risk with the potential to initiate a waterborne disease outbreak.

**Response:** In response to the designation of the Canyon Park Estates well as GUI, BexarMet's production staff has increased the disinfectant dosage for Canyon Park Estates, and the District's water quality staff continues to collect "special" bacteriological water samples from the raw water source, entry point and distribution system daily. These actions are only partially protective of public health. Significant health risk remains for consumers since chlorination alone is generally not considered adequate treatment for surface water contaminants. Surface water particulates such as algae, clay and nematodes can shield microbiological pathogens (i.e. viruses, bacteria and protozoa) from disinfection. Additionally, many surface water contaminants are disinfection resistant. Thus, they must be filtered out prior to distribution of this water to customers.

**Compliance Status:** The classification of the Canyon Park Estates water system was officially changed from groundwater to GUI by TCEQ in a letter dated May 28, 2008. According to the letter, BexarMet has 18 months to comply with TCEQ's surface water treatment rules (TAC 290.111). In the meantime, they are required to continue to comply with TCEQ requirements for disinfection levels, which require systems that disinfect using free chlorine to maintain at least 0.2 mg/L in the distribution system. Representatives of TCEQ confirmed that BexarMet is reporting free chlorine residuals quarterly for Canyon Park Estates, and is maintaining free residual chlorine levels throughout the distribution system that exceed these requirements.

Recently, BexarMet has submitted a plan to TCEQ to consolidate Canyon Park Estates with a nearby and compliant BexarMet water source (Chaparral – PWS ID # 0150053). Design plans have been completed by engineering staff and the work is scheduled to be completed by September 2008. (Appendix D-1 contains information related to the requirements for GUI systems and the Compliance Investigation report. Further

information regarding the GUI situation and BexarMet's response is contained in Appendix B-3)

### 5.2.3 Compliance with Subchapter F

The purpose of the standards in Subchapter F is to assure the safety of public water supplies with respect to microbiological, chemical and radiological quality and to further efficient processing through control tests, laboratory checks, operating records and reports of public water supply systems. These standards are written to comply with the requirements of the Federal "Safe Drinking Water Act," 42 USC §300f et seq., and the "Primary Drinking Water Regulations" which have been promulgated by the United States Environmental Protection Agency.

National Primary Drinking Water Regulations (NPDWRs or primary standards) are legally enforceable standards that apply to public water systems. Primary standards protect drinking water quality by limiting the levels of specific contaminants that can adversely affect public health and are known or anticipated to occur in water. They take the form of Maximum Contaminant Levels (MCLs) or Treatment Techniques. MCLs are the maximum concentration of a regulated contaminant that is allowed in drinking water before the water system is cited for a violation. A treatment technique is a required process intended to reduce the level of a contaminant in drinking water.

According to the TCEQ Safe Drinking Water Information System (SDWIS) database, the 21 water systems of BexarMet are in compliance with the regulations listed below, with only one exception. (See Violations of National Primary Drinking Water Regulations.) In addition, it should be noted that only 6 of BexarMet's water systems have detected coliform bacteria in the distribution system during the past three years. (See Compliance with National Primary Drinking Water Regulations.)

- Rule §290.106 Inorganic Contaminants
- Rule §290.107 Organic Contaminants
- Rule §290.108 Radionuclides Other Than Radon
- Rule §290.109 Microbial Contaminants
- Rule §290.111 Surface Water Treatment (Southside system only)
- Rule §290.113 Stage 1 Disinfection By-products
- Rule §290.117 Regulation of Lead and Copper

#### **Compliance with National Primary Drinking Water Regulations – Microbial Contaminants**

**Background:** There are a variety of microbial contaminants (bacteria, parasites, and viruses) that can cause health problems when humans ingest them in drinking water. Testing water for each of these microorganisms is difficult and expensive, so instead, water quality and public health workers are required to test for coliform levels.

**Total Coliform:** Coliforms are a broad class of bacteria that live in the digestive tracts of humans and many animals, and are (with few exceptions) not harmful to humans. Because total coliforms are common inhabitants of ambient water and may be injured by environmental stresses (e.g., lack of nutrients) and water treatment (e.g., chlorine disinfection) in a manner similar to most bacterial pathogens and many viral enteric pathogens, EPA considers them a useful indicator of these pathogens. More important for drinking water, total coliforms are used to determine the adequacy of water treatment and the integrity of the distribution system. The absence of total coliforms in the distribution system minimizes the likelihood that fecal pathogens are present. Conversely, the presence of any coliforms in drinking water suggests that disease-causing agents may be present.

**Fecal Coliform:** fecal coliforms, or *E. coli*, are a type of coliform bacteria that are directly associated with fresh feces. The presence of fecal coliforms can potentially result in an acute MCL violation, which necessitates rapid state and public notification because it represents a direct health risk.

To avoid or eliminate microbial contamination, systems may need to take a number of actions, including repairing the disinfection/filtration equipment, flushing or upgrading the distribution system, and enacting source water protection programs to prevent contamination.

**Total Coliform Rule:** The Total Coliform Rule (TCR) was implemented December 31, 1990 and requires all public water systems to monitor for the presence of total coliform in the distribution system. The purpose of the TCR is to improve public health protection by reducing fecal pathogens to minimal levels through control of total coliform (TC) bacteria, including fecal coliform (FC) and *Escherichia coli* (*E. coli*).

The TCR requires systems to monitor for total coliforms at a frequency proportional to the number of people served (TAC §290.109(c)(2)(A)(iii)). If any Routine sample tests positive for total coliforms, the system must perform the following additional tests:

- Further test that culture for the presence of either fecal coliforms or *E. coli*;
- Take one set of 3-4 Repeat samples at sites located within 5 or fewer sampling sites adjacent to the location of the routine positive sample within 24 hours; and
- Take at least 5 Routine samples the next month of operation

Compliance with the TCR is determined on a monthly basis. Both Routine and Repeat samples are used to determine if the MCL for total coliform has been exceeded. The MCL for total coliform for systems collecting less than 40 samples per month is 1. The MCL for total coliform for systems collecting greater than 40 samples per month is greater than 5% of the samples collected. If an MCL is exceeded, water system must report this violation to the state and the public.

**Compliance Status:** Table 5-2 provides a summary of BexarMet’s water systems that detected total coliform in their systems between 2005 and 2007. As noted in the table, none of the detections resulted in violations of the TCR.

**Table 5-2 Positive Total & Fecal Coliform Samples  
(TCEQ SDWIS database – 2005-2007)**

PWS Name	Year	# of Routine TC samples required per month <sup>1</sup>	# of months with TC positive samples	Total # Routine TC positive samples	Total # of Routine FC positive samples	Total # of Repeat TC positive samples	Violation of TCR?
Castle Hills PWS# 0150045	2006	9	1	1	0	0	No
Chaparral PWS# 0150053	2006	2	1	1	0	0	No
Hill Country PWS# 0150054	2006	40	2	2	0	0	No
Hill Country PWS# 0150054	2007	40	3	3	0	0	No
Hill Country PWS# 0150054	2008	40	1	1	0	0	No
Northeast PWS# 0150084	2006	50	4	5	0	0	No
Northeast PWS# 0150084	2007	50	4	6	0	1	No
Northwest PWS# 0150171	2005	50	1	1	1	0	No
Northwest PWS# 0150171	2006	50	1	1	0	0	No
Northwest PWS# 0150171	2007	50	3	4	1	0	No
Southside PWS#	2005	100	3	4	2	0	No
Southside PWS# 0150249	2006	100	4	8	0	0	No
Southside PWS# 0150249	2007	100	7	13	1	0	No
Southside PWS# 0150249	2008	100	2	3	0	1	No

<sup>1</sup> Based on population

For supporting documents related to this section, please reference Appendix D-2.

**Violations of National Primary Drinking Water Regulations – Stage 1 Disinfection By-Products Rule (DBPR)**

**Background:** The purpose of the DBPR is to improve public health protection by reducing exposure to disinfection byproducts. Some Disinfectant By-Products have been shown to cause cancer and reproductive effects in lab animals and suggested bladder cancer and reproductive effects in humans. The Stage 1 DBPR applies to all sizes of community water systems and non-transient non-community water systems that add a disinfectant to the drinking water.

**Disinfection By-products (DBPs):** DBPs are chemical compounds formed by the reaction of a disinfectant with the natural organic matter present in water. Two groups of contaminants are evaluated to determine compliance with the DBPR. They are Total Trihalomethanes (TTHMs) and Haloacetic Acids (HAA5s).

**Total Trihalomethanes (TTHMs):** TTHMs are a group of volatile organic compounds that are formed when chlorine, added to the water during the treatment process for disinfection, reacts with naturally-occurring organic matter in the water. The MCL for TTHMs is 0.080 mg/L as set by TCEQ's standards and compliance with this level is based on a running annual average (RAA) of quarterly sample results. TTHMs are a chronic contaminant. This means that they can cause health effects after continuous long-term exposure at levels greater than the MCL. Chronic effects occur after people consume a contaminant at levels over EPA's safety standards for many years. Examples of the chronic effects of drinking water contaminants are cancer, liver or kidney problems, or reproductive difficulties. The drinking water contaminants that can have chronic effects are organics (such as disinfection by-products, pesticides and industrial chemicals), radionuclides (such as radium), and inorganics (such as arsenic and copper). In contrast, "acute" contaminants can cause short-term health effects within hours.

**Compliance Status:** According to TCEQ's SDWIS database, Bulverde Hills is currently in violation of Rule 290.113 – Stage 1 Disinfection By-products, because the Running Annual Average (RAA) for Total Trihalomethanes (TTHMs) exceeded the MCL of 0.080 mg/L. BexarMet was first notified in a letter from TCEQ's letter dated 10/20/2005. Table 5-3 provides the history of this violation.

**Table 5-3  
TTHM MCL Violations – Bulverde Hills (PWS ID# 0460013)**

Quarter of violation	Running Annual Average	Date of Public Notice
3 <sup>rd</sup> quarter 2005	0.094 mg/L	11/28/05
1 <sup>st</sup> quarter 2006	0.082 mg/L	3/6/06
3 <sup>rd</sup> quarter 2006	0.081 mg/L	12/8/06



Quarter of violation	Running Annual Average	Date of Public Notice
4 <sup>th</sup> quarter 2006	0.088 mg/L	3/26/07
1 <sup>st</sup> quarter 2007	0.086 mg/L	6/26/07
3 <sup>rd</sup> quarter 2007	0.103 mg/L	12/27/07
4 <sup>th</sup> quarter 2007	0.095 mg/L	3/28/08
1 <sup>st</sup> quarter 2008	0.099 mg/L	6/27/08

**Response to Bulverde Hills – TTHMs Violation:** Water supplied to the Bulverde Hills system is purchased by BexarMet from the Canyon Lake Water Supply Corporation (CLWSC) - Park Shores Water Treatment Plant. CLWSC is aware that their treated water has exceeded the TTHM standard in some areas.

Several different entities have been involved in responding to this violation, including, BexarMet, CLWSC and TCEQ. To assist in the reductions of TTHMs, the following actions have been taken:

**BexarMet**

- Issued first Public Notice on 11/28/05 and every quarter the RAA exceeded the MCL as required by TAC – Subchapter F - Rule 290.122.
- Blended groundwater from Trinity wells with CLWSC surface water.
- Initiated process for the introduction of Triple Peak Treatment Plant source.
- Implemented aggressive flushing program within the Bulverde Hills distribution system.
- Granular Activated Carbon Filtration will be installed.
- Disinfection treatment process will be changed from gas chlorination to MIOX (Mixed Oxidants).
- Preliminary design work is in process for both treatment and main extension.

**CLWSC**

- Introduced an alternate disinfectant (chlorine dioxide ) in its pre-treatment process.
- Upgraded Park Shores Water Treatment Plant operations.
- Implemented Granular Activated Carbon Adsorption treatment.

**TCEQ**

- Collected samples for TTHMs every quarter at the Maximum Residence Time in the Bulverde Hills distribution system.

Despite these actions, Bulverde Hills remains in violation of TTHMs, and on July 30, 2007, BexarMet entered into a Compliance Agreement (CA) with TCEQ. For a summary of action items related to this CA, refer to the section on Enforcement Actions.

A copy of the most recent documentation of the violation from TCEQ is included in Appendix D-3.

### ***Monitoring and Reporting Violations***

Monitoring and Reporting Violations are incurred by a water system when they either fail to collect samples and/or report results during the time-frame established by TCEQ. These types of violations are not health-based. See TAC subchapter F - Rules §290.106 -113 and §290.117.

In the years reviewed 2005-2007, there were no Monitoring and Reporting violations according to the TCEQ's SDWIS database.

### **5.2.4 Compliance with Subchapter H - Consumer Confidence Reports (CCRs)**

The purpose of the sections in subchapter H are to establish the minimum requirements for the content of annual reports that community water systems must deliver to their customers. These reports must contain information on the quality of the water delivered by the systems and characterize any risk from exposure to contaminants detected in the drinking water in an accurate and understandable manner. This subchapter applies only to community water systems.

TAC §290.271(b) states, "Each community water system must provide to its customers an annual report that contains the information specified in this subchapter." According to the TCEQ, and based on records obtained and reviewed, BexarMet has not incurred any reporting violations for CCRs. The CCRs from 2003 to 2007 were reviewed, and matched the compliance data obtained from TCEQ for each water system.

### **5.3 Enforcement Actions**

#### ***Types of Enforcement Actions***

There are two types of enforcement actions, as described below:

***Compliance Agreement:*** According to TCEQ, a Compliance Agreement is a voluntary, informal agreement between the Enforcement Division of the TCEQ and the regulated entity and is not enforceable in court, should the regulated entity not adhere to its terms. Because it is an informal document, penalties cannot be assessed. Most importantly, it establishes a time-line for correcting any unresolved violations and achieving full compliance with the rules and regulations.

***Agreed Order:*** According to TCEQ, an Agreed Order is a settlement agreement between the regulated entity and the TCEQ that is enforceable in a court of law, and always contains administrative penalties. It must be reviewed and approved by the Commission before it can become effective. Like a CA, it establishes a time line for

correcting any unresolved violations and achieving full compliance with the rules and regulations. Table 5-4 provides a summary of the enforcement actions that have been issued to BexarMet by TCEQ during the past 6 years.

**Table 5-4  
Enforcement Actions**

Type of Enforcement Action	Identification Number	PWS involved	Effective Date	Current Status	Comments
Compliance Agreement	Case # 32722	Bulverde Hills	7/30/07	Open	On track with compliance related activities
Compliance Agreement	Case # 5866	Meadow Wood Acres	9/17/02	Closed 7/1/06	Action items were completed
Agreed Order	Docket No. 2001-0711-PWS-E	17 PWS	9/23/02	Open	One outstanding violation

### 5.3.1 Status of Enforcement Actions

#### **Compliance Agreement – Bulverde Hills**

**Background:** As noted in Section 5.2.3 BexarMet entered into a Compliance Agreement with TCEQ on July 30, 2007. The referral was made by the Public Drinking Water section in TCEQ’s Central Office after Bulverde Hills reported MCL violations for TTHMs.

TCEQ’s agreement with the EPA mandates that they take enforcement for chemical violations (other than lead) if there are two major monitoring violations (i.e. exceedances) consecutively, if the monitoring period is less than annual. Therefore, when Bulverde Hills had TTHM exceedances for two quarters in a row, they met the enforcement initiation criteria and an enforcement action was initiated. According to TCEQ, the reason Bulverde Hills received a Compliance Agreement rather than an Agreed Order is because it is partially purchased water and doesn't have complete control over the disinfectant method used.

Following is a summary of BexarMet’s response to each of the provisions outlined in the CA:

**Provision #1** – *Immediately upon the effective date of this CA, and on a quarterly basis thereafter, BexarMet shall notify each customer in writing of the existing water quality violations and provide a copy of this notice to the Commission. Using provided mandatory notification language, this notification requirement shall continue until BexarMet can provide water that meets the Commission’s Drinking Water Standards. The required notice is included with this CA.*

*Where appropriate, the notice should be multilingual. This notification must include a statement that the alternative source of water is available as well as where and how it can be obtained.*

- BexarMet has issued public notices on a quarterly basis of the existing water quality violations and provided copies to the TCEQ, according to the requirements of Subchapter F TAC - 290.122. A copy of the most recent public notice is contained in Appendix D-4.

**Provision #2** – *Within 90 days after the effective date of this CA, BexarMet shall conduct a feasibility investigation, which will evaluate all alternate water sources and viable treatment technologies to correct the violations. The investigation must be repeated at three-year intervals as long as the violation exists.*

- BexarMet contracted with “Water Resources Company” to conduct a feasibility investigation. The results of the pilot study were presented to BexarMet on July 30, 2007.

**Provision #3** – *Within 120 days after the effective date of this CA, BexarMet shall submit a written report outlining the results of the first feasibility investigation to the TCEQ.*

- Jacobs Carter Burgess submitted a written report outlining the results of the feasibility investigation to the TCEQ on February 28, 2008.

**Provision #4** – *Every six months starting from the effective date of this CA, BexarMet shall submit a progress report to the TCEQ. These reports shall include information regarding actions taken by BexarMet to provide water to its customers which meets the Commission's Drinking Water Standards.*

- The TCEQ does not have any documentation of progress reports submitted by BexarMet or its' contractors.

**Provision #5** – *Within two years of determination by either the TCEQ or BexarMet of a viable treatment option or the availability of an alternate source of water that meets the Commission's Drinking Water Standards, BexarMet shall provide water to its customers which meets the Commission's chemical quality standards. Engineering plans and specifications regarding the treatment or use of an alternate source of drinking water must be submitted for approval prior to commencing construction, as required by 30 TEX. ADMIN.CODE § 290.39 to the TCEQ Technical Review Team.*

- **February 28 and April 24, 2008:** Jacobs Carter Burgess submitted the TCEQ Public Water System Plan Review Submittal Form and a “request for exception for MIOX disinfection system” for the Bulverde Hills public water system to the TCEQ Utilities Technical Review Team.
- **July 3, 2008:** The TCEQ Technical Review and Oversight Team approved the request for an exception to replace a chlorine gas injection system with a mixed oxidant (MIOX) system.

- **July 21, 2008:** The TCEQ Utilities Technical Review Team conditionally approved the construction of the project as specified in BexarMet's previous requests.

**Current status:** BexarMet is in the process of preparing final designs and specifications for advertising a construction invitation for bid package. The TCEQ is satisfied with BexarMet's response to the CA, and believes that they are on track to achieve compliance within the time-frame established by the CA. TCEQ's primary concern is that the system achieves compliance within two years of plan approval. In addition, BexarMet will need to demonstrate compliance with Provisions 6 and 8 of the CA. Appendix D-5 contains information related to this Compliance Agreement.

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### **Agreed Order – 17 Public Water Systems**

In September 2002, BexarMet entered an Agreed Order with TNRCC (now TCEQ) to address a variety of deficiencies that had been documented in 17 of their water systems. In addition, an administrative penalty in the amount of \$16,327 was assessed by the TNRCC in settlement of the violations alleged in Section II of the Agreed Order ("Allegations"). The TNRCC consented to offset the full administrative penalty contingent upon BexarMet's agreement to spend approximately \$39,600 to complete a Supplemental Environmental Project (SEP).

The Agreed Order, Docket No. 2001-0711-PWS-E, between TNRCC and BexarMet ordered BexarMet to undertake 18 technical requirements. Of those 18, according to TCEQ staff, one has not been completed. Per the Agreed Order, Item 3, g, ii states, "*Within 365 days after the effective date of this Agreed Order: Design, construct and begin maintaining an elevated storage tank in the Hill Country system to ensure an adequate elevated storage capacity of 100 gallons per connection or a pressure tank capacity of 20 gallons per connection is provided, in accordance with Tex. Health and Safety Code § 341.0315 and 30 Tex. Admin. Code § 290.45(b)(1)(D)(iv) [relating to Minimum Water System Capacity Requirements]*".

It appears that BexarMet has attempted to resolve the remaining requirement of the Agreed Order, but hit stumbling blocks along the way. BexarMet reported that the elevated tank that was constructed in the Timberwood area was intended to satisfy this requirement. Apparently, the wells at this site could not meet the demand and failed to fill the tank, so this well and tank site was isolated to supply only a portion of the area. Records tracking the progress and setbacks in meeting the terms of the Agreed Order were not found. At this time, BexarMet advises that they are in the process of site acquisition and are in negotiations with the land-owner. They are also completing their own estimate of land valuation. A copy of this Agreed Order is included in Appendix D-6.

#### 5.4 Area of Concern – Low Pressure Events

When distribution system pressure drops below 34 psi due to water outages or during maintenance or repairs, or below 20 psi during emergency operations such as fire flow, it can cause backflow (from leaks and/or cross connections), which can lead to contamination of the distribution system. In order to provide increased public health protection, TCEQ has adopted the following rule to address low-pressure events:

**TCEQ Rule §290.46 *Minimal Acceptable Operating Practices for Public Drinking Water Systems* states:**

*(q) Special precautions. Special precautions must be instituted by the water system owner or responsible official in the event of low distribution pressures (below 20 pounds per square inch (psi)), water outages, microbiological samples found to contain E. coli or fecal coliform organisms, failure to maintain adequate chlorine residuals, elevated finished water turbidity levels, or other conditions which indicate that the potability of the drinking water supply has been compromised.*

*(1) Boil water notifications must be issued to the customers within 24 hours using the prescribed notification format as specified in §290.47(e) of this title. A copy of this notice shall be provided to the executive director. Bilingual notification may be appropriate based upon local demographics. Once the boil water notification is no longer in effect, the customers must be notified in a manner similar to the original notice.*

*(2) The flowchart found in §290.47(h) of this title shall be used to determine if a boil water notification must be issued in the event of a loss of distribution system pressure. If a boil water notice is issued under this section, it shall remain in effect until water distribution pressures in excess of 20 psi can consistently be maintained, a minimum of 0.2 mg/L free chlorine residual or 0.5 mg/L chloramine residual (measured as total chlorine) is present throughout the system, and water samples collected for microbiological analysis are found negative for coliform organisms.*

Based on the records reviewed, BexarMet has issued 7 boil water notices during the past 5 years. Several representatives of BexarMet indicated that they use TCEQ's flow chart to determine the need for boil orders as well as the Boil Water Notification template.

According to TCEQ, a boil water notice does not constitute a violation of their regulations unless TCEQ and the affected customers are not notified within 24 hours of the event.

BexarMet indicated that they have data loggers that are utilized when responding to customer concerns and for gathering pressure data for internal purposes. It was also

stated that they are currently working on a project to plot low pressure areas on distribution system maps.

Table 5-5 summarizes the water systems that have issued boil water notices in the past 5 years and the associated events that prompted them.

**Table 5-5 Boil Water Notices**

PWS Name	PWS ID#	Date Issued	Date Rescinded	Reason for BWN
Northeast Service Area	0150084	2/21/2003	2/25/2003	Main breaks, dewatered water mains and pressures < 20 psi.
Northeast Service Area	0150084	4/12/2006	4/14/2006	Main breaks, dewatered water mains and pressures < 20 psi.
Mobile City Estates *	0150125	11/22/2004	12/1/2004	Heavy rain falls, loss of power, dewatered water mains, and loss of chlorine residuals.
Mobile City Estates *	0150125	1/11/2005	1/16/2005	Heavy rain falls, loss of power, dewatered water mains, and loss of chlorine residuals.
The Woods at Fair Oaks	0150526	5/23/2006	5/26/2006	Low water yields from well site, loss of ground storage water levels, and pressures < 20 psi.
Timberwood Park & Lookout Canyon	0150270	6/12/2006	6/26/2006	Loss of power, dewatered water mains, pressures < 20 psi, and turbidity levels > 5 NTU.
Canyon Park Estates & Kallison Ranch	0150532	8/17/2007	8/19/2007	Pressures <20 psi within distribution system and guidance from TCEQ.

\* System was sold

psi--Pounds per square inch.

NTU – Nephelometric Turbidity Units - Turbidity is a cloudiness or haziness in water caused by individual particles (suspended solids) that are generally invisible to the naked eye. The suspended solids interfere with water disinfection with chlorine because the particles act as shields for the virus and bacteria.

The flow chart used to determine response to low pressure events is contained in Appendix D-7. In addition, one example of a boil water notice is included in this appendix.

## **6.0 DESCRIPTION AND ANALYSIS OF FINANCIAL POLICIES AND PROCEDURES**

### **6.1 Lack of Conformity with Financial Policies and Practices**

Changes in personnel, pressure from regulatory oversight and external auditors, and constant reorganizations have affected the continuity of procedures within the accounting department. The organization of the finance department at BexarMet has been modified frequently since the change in general manager in 2005.

### **6.2 Unclear Goals and Objectives**

The unsettled state of BexarMet's organization and unclear goals and objectives has induced a reactive approach of management in the accounting department, rather than a proactive or preventative approach. The result has been a "clean up the mess" mentality. Problems are solved after they become big enough that an outside entity points out the issue; prevention is not a priority. Follow-through is often lacking due to shifts in focus to another emergency. Response time to problems is hampered by lack of automation, unclear operating policies and procedures, and shifting focus from one problem to another.

Some areas of accounting have made strides to address concerns brought to light by oversight, auditors, and consultants. Other areas have been ineffective at making improvements to address concerns. Written procedures for many areas in accounting are outdated and actual procedures are undocumented.

Financial reporting, accounts payable, accounts receivable, billing, purchasing, and payroll are all integral parts of an organization's successful operation. The organization of BexarMet's accounting department is awkward and shifting. As late as July of 2008, the purchasing and payroll functions shifted from the responsibility of the Controller to the Director of Finance. SOPs and adherence to procedures have not been updated, consistent, or enforced. The out-of-date SOPs are not followed. Most SOPs are unwritten, and remain in "the employee's brain and experience." This weakness allows different interpretation by different employees, and information is often lost and unrecoverable when a key employee leaves.

### **6.3 Lack of Reliance on Recommendations of Experienced Staff**

Experienced staff recommendations are ignored or overruled in the accounting area. As an example, in 2007 BexarMet established a new rate structure that was intended to be "revenue neutral" (the total revenue should remain the same while adjusting the base fee and volume charges). The rate was also intended to more closely match the City of San Antonio's rates. The change from a higher fixed or base fee to a lower fixed fee with a higher volume charge carried a substantial risk to the revenue, which was brought to management's attention by staff and the rate experts. BexarMet's hired



investment advisors warned management that this change carried a substantial risk to BexarMet's bond rating if variable factors, such as rainfall, were higher than normal the following year. Management implemented the rate structure without any steps to minimize the risk to revenues. BexarMet suffered by being placed on a "watch" by the Bond agencies after the BexarMet area received in excess of 40 inches of rain the following summer. Had BexarMet management and the board relied upon its staff and paid consultants, the risks could have been minimized. (See Appendix E-2 for documents related to this issue.)

#### **6.4 Friction Between the Board and Management**

Friction between the board and management has caused extreme distrust and undermined the success of the BexarMet operations. A case in point is the recommendation from the audited financial statements that the dollar limit for board approval be raised from \$5,000 to a reasonable operating amount. The board appears to be micromanaging by limiting expenditures using an unreasonably low number. This requires that the majority of purchases to be subjected to board approval and hampers the operating efficiency of the organization. Management has been forced to obtain after-the-fact board approval on every operating expense above \$5,000. This has resulted in management's incorrectly classifying many items as emergency purchases.

#### **6.5 Budget is Not Enforced**

The budget is an internal tool to control spending. BexarMet's budget is not enforced and expense line items are consistently exceeded. Exceedances appear to be due to the following factors.

- Lack of appropriate and realistic planning
- Unrealistic budgeted expenses due to political pressures to keep rates competitive with SAWS
- Friction between management and the board of directors
- Vacant personnel positions resulting in the need for outside contracting
- Lack of policies to minimize risks resulting in lawsuits and legal and consulting fees.

#### **6.6 Financial Statements**

In fiscal years ended 2006 and 2007, the opinion letter in the audited financial statements indicates that financial statements are fairly presented in all material respects. However, in both sets of statements, supplemental documents indicate deficiencies in internal controls that may affect reporting if not corrected. Both 2006 and 2007 audit reports indicate that management was working hard to correct such deficiencies. At the time of this report, 2008 audited financial statements had not been issued. Many of these internal control issues remain unresolved as of this report.

During 2006 and 2007, approximately 39 minor internal control weaknesses, 18 significant internal control deficiencies, and 2 related material weaknesses were noted by Garza/Gonzalez & Associates, the external auditors. As of July 2008, 22 (56%) of the minor internal control weaknesses, 6 (33%) of the significant internal control deficiencies, and none of the material weaknesses in internal controls have been resolved.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls. The first two weaknesses are actually related and can be considered as one. This weakness includes the physical documentation of capital assets inventory, specifically a suspect asset totaling approximately \$2 million in undocumented land. As of July 2008, BexarMet indicated that at least ½ of the undocumented land had been documented, but the remainder is unresolved. A table of audit findings and unresolved audit issue is included in Appendix E.

A significant control deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entities financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. Significant deficiencies occurred in the areas of capital assets and construction in progress, payroll, accounts receivable, inventory, and vendor invoices. Although the auditors issued an unqualified report that the financial statements were fairly and accurately represented in 2007, a large portion of these deficiencies have continued into the 2008 accounting period and may affect reporting in an adverse way if not corrected. These deficiencies also affect BexarMet's ability to control and limit expenditures.

Updates to billing software, have not been made as indicated in response to comments on audited financial reports. The current billing software does not have the capability to interconnect to the general ledger. This has resulted in inefficient use of personnel time by requiring manual transfer of accounts receivable information to the general ledger and manual reconciliations between accounts receivable sub-ledgers and the general ledger.

It is interesting to note that the purchasing procedure deficiencies were not considered significant control deficiencies. It is the opinion of this evaluation team that these control deficiencies may not be significant for reporting purposes, but are very significant for controlling expenses. Many of the minor deficiencies also affect ability to control and minimize expenses.

## **6.7 Insufficient Financial Policies and Procedures to Protect Public Interest**

Lack of internal controls related to purchasing and procurement has created situations that could allow improper use of public funds. Contracts and commitments are not managed in such a way as to provide a clear picture of current commitments, making it difficult to adhere to budgets and meet spending goals. BexarMet is currently in process of centralizing purchasing and hiring a new purchasing manager. The previous purchasing manager had a plan to centralize purchasing, but the plan was not implemented due to decisions at the general manager level. Part of the responsibility of the new purchasing manager should be SOPs. Contract software is being reviewed to track outstanding contracts and obligations. With new, qualified management, these efforts will go far to solve the problems apparent in the BexarMet purchasing procedures.

Lack of reliance on the budget as an expenditure control tool has resulted in attempts to control expenditures after the fact, at inappropriate levels, such as board of director meetings. Such practices have caused several unhealthy results:

- Expenditures have exceeded budgeted amounts in material ways;
- the District has refused, at the board level, to pay expenditures that have been incurred, properly or improperly, resulting in potential lawsuits against the District; and
- the failure of upper management to use the budget as a control tool has resulted in a laissez faire attitude from lower level staff towards the budget.

Recently, strides in budget accountability have been made in the production department, which is communicating and cooperating with the finance department. Managers in production have begun to monitor budget overages and cooperate with finance to determine causes and solutions.

## **6.8 Budget Setting Policies and Practices**

The District's budget setting policies and practices are sufficient and appropriate. However, contracts and commitments for professional services remain outside of the control of the budget because of improper purchasing and procurement procedures. Purchasing and procurement needs a firmer relationship to budgeting, as does the legal department. Upper management is not held accountable to budgetary limits in this area.

The budgeting process is completed between January and March of each year. The fiscal year end for the District is April 30. Budget worksheets are distributed to department heads who complete them based on past experience, known increases or decreases, and department needs. The worksheets are collected and compiled for the BexarMet budget. Revenues are matched to expenditures and overages are addressed through a series of meetings between finance personnel and departments. Most

overages are resolved through these meetings. Unresolved overages go to the general manager and a final budget is prepared.

During the year, the updated budget/actual comparison is distributed to departments. Some departments generally respond and attempt to remain under budget, while others continually exceed budget amounts.

## **6.9 Financial Policies and Practices for Debt and Bonded Indebtedness**

BexarMet has utilized outside contractors for advice on indebtedness. The District has financial policies and procedures for bonded indebtedness and other debt that will protect the financial integrity of the District, including its bond ratings and ability to meet coverage requirements and debt service on an annual basis, so long as the advice from the financial advisors is relied upon for decision-making, including setting the District's rates.

A comparison of BexarMet's debt obligations to other water purveyors in the area is included in Table 6-2, Financial and Debt Comparison. This table compares the general health of BexarMet's financial condition, specifically regarding debt, to other water purveyors in the local area. The debt coverage ratio for BexarMet is much lower than any other entity used for the comparison. Debt coverage ratio is the annual net operating revenues divided by total annual debt payments. This ratio measures the capacity to cover principal and interest payments from current operations. The ratio is used in conjunction with reserve cash accounts and other ratios to help determine bond ratings. Generally, the higher the ratio, the better the entity will be able to make its annual debt payments. BexarMet' debt coverage ratio is relatively lower than all other entities compared.

The ratio of current assets to current liabilities is a measure of the liquidity of an entity. BexarMet is very comparable to the water supply corporations but has a much lower liquidity when compared to the two cities. Because cities have many means of raising funds including taxing and services, this is to be expected. BexarMet's debt to equity ratio is much higher than all four of the entities compared. This ratio measures how highly an entity is leveraged, and is an indicator of the ability to borrow in the future. Because BexarMet has a high debt to equity ratio, its ability to issue additional bonds and maintain its financial integrity and bond ratings is much lower than the other entities. BexarMet's debt to equity to ratio is 3.0 whereas all other entities surveyed have ratios of 1.09 or less.

BexarMet is not a developer district and is not bound by the rules that require TCEQ approval for developer districts to issue bonded indebtedness. BexarMet is a water purveyor district. It is bound by its primary purpose of providing water service to its customers in a way that meets TCEQ requirements for public water systems and its mandate to protect the public interest, including fiscal responsibility with customer revenues collected. Its only bonds are revenue bonds, which are rated by Moody's and

Standard and Poors. It does not issue tax bonds. Like a taxing district, BexarMet utilizes short term financing prior to a bond issuance to begin facilities construction.

Because TCEQ does not regulate this process for BexarMet, the District is able to utilize a less expensive option of obtaining short term financing. Unlike a taxing district, BexarMet has the option of utilizing commercial paper rather than a short-term note issued from a bank. Funds received through issuance of commercial paper are generally at a lower interest rate than funds received through short-term notes, or through immediate issuance of bonds. In addition, closing and issuance costs are lower. Bond issuance costs are delayed until temporary funds received are approaching the actual amount of the bond to be issued. Issuance of commercial paper is a common practice in utilities operated by municipalities. All revenue funds through the commercial paper process are considered restricted funds and can only be used for the specific purpose for which the bonds are issued. These purposes, for BexarMet, include facilities improvements and upgrades. Finance experts who advise BexarMet and numerous other municipalities and districts consider this the best way, at this point in time, to finance short term debt which will eventually be liquidated by bond issuance.

Bexar Metropolitan Water District

**Table 6-2 – Financial and Debt Comparison**

As of 8/26/08

	BexarMet	San Antonio Water System	City of Schertz – Water and Sewer System	Aqua Water Supply Corp.	North Alamo Water Supply Corp.
	Rounded to Million dollars	Rounded to Million dollars	Rounded to Million dollars	Rounded to Million Dollars	Rounded to Million Dollars
<b>Total Assets</b>	296,000,000	2,972,000,000	39,000,000	78,000,000	98,000,000
<b>Commercial Paper</b>	0	237,000,000	0	0	
<b>Bonds</b>	199,000,000	1,259,000,000	7,000,000		1,000,000
<b>Notes Payable</b>		2,000,000		25,000,000	16,000,000
<b>Total Liabilities</b>	221,000,000	1,555,000,000	8,000,000	25,000,000	17,000,000
<b>2007 Annual Debt Service</b>	9,000,000	33,582,950	1,000,000	1,000,000	700,000
<b>Debt coverage ratio</b>	1.5	5.5	5.1	2.9	8.3
<b>Liquidity-Current assets /Current liabilities)</b>	1.7	5.9	7.2	1.7	1.7
<b>Debt to Equity ratio</b>	3.0	1.09	.28	.29	.55
<b>Bond Ratings-S&amp;P</b>	A	AA-,A+	AA-	--(no bonds)	--unlisted

\*Amount of commercial paper grouped with other debt and undeterminable from CAFR; notes payable and bonds were also in aggregate.

## **7.0 DESCRIPTION AND ANALYSIS OF WATER RATE-SETTING POLICIES**

### **7.1 Rate setting History, Policies and Procedures**

According to HB 1565, Sec 27c: "The District shall maintain a rate structure that promotes and encourages conservation of water and provides for lower rates for customers using lower quantities of water."

In 2006, BexarMet retained the services of Brown and Caldwell to produce a rate study. HB 1565 was proposed approximately halfway through the execution of the rate study. The priorities of the study were adjusted to comply with the requirements of HB 1565. The resulting rates, which included a 5-year plan of instituting rate adjustments, were approved by the board and implemented with an effective date of June 1, 2007.

According to the rate study done by Brown and Caldwell, the rate structure adopted by BexarMet has "reduced monthly service charges significantly and has resulted in a projected decrease in monthly bills for all typical residences". The District shifted more revenue recovery into the amount charged for actual usage, and thereby met both the goals of HB 1565 as listed above. (see Appendix F-1 for the portion of the Brown and Caldwell study relative to rates)

The District's board of directors established four objectives related to the rate structure. Each objective was specifically addressed in the Brown and Caldwell Report, which stated that "The proposed rate structure compares favorably to the board's established objectives." (Page 3-6 of the Brown and Caldwell Rate Study Report).

Prior to the June 1, 2007 effective date, BexarMet had 4 different rate structures applied to different service areas.

BexarMet has generally used standard, industry-accepted means of setting rates with some exceptions. The District's desire to set rates comparable to those of the City of San Antonio and approving the rate change prior to completing a cost of service study for different classes of customers are examples.

The assumption by most parties appears to be that Bexar Met is in competition with SAWS, the water purveyor of the City of San Antonio. However, this assumption opposes generally accepted rate setting principals in some very important ways. First, BexarMet is a unique and distinct entity and does not compete with the City of San Antonio. BexarMet has a certificate of convenience and necessity which allows it to be the only service provider in its area.

Secondly, BexarMet is authorized to collect and utilize any funds necessary to meet its requirement to provide continuous and adequate service to its customers. BexarMet has a board of directors which is required to limit rates to the amount necessary to assure that service can be provided and debts are paid. BexarMet's revenue requirements

have little to do with the revenue requirements of SAWS. Although a comparable rate structure to that of SAWS may seem reasonable, to say that the actual rates for customers should be equal to or lower than SAWS is unreasonable and ignores significant differences between the two entities, such as total number of connections (SAWS has approximately 325,000 water connections and 350,000 sewer connections; BexarMet has approximately 86,000 water connections). Other significant factors influencing the cost of providing services are differing water sources and distance between sources and facilities.

Another factor that may confuse the general public is that the District does compete with SAWS for qualified employees. It must offer a competitive salary to select from the same workforce pool as San Antonio but it has fewer customers over which to spread these costs. Therefore it might be reasonable to assume that the District's reasonable and necessary rates should be higher than SAWS because of lesser economies of scale. Higher rates are not necessarily an indicator of poor service or inappropriate rates.

## **7.2 Subsidized Rates**

The allocation of revenue requirement after the rate study indicates that the residential customers are being subsidized by commercial customers by approximately 7% of the revenue requirement. This subsidization is within industry accepted standards and normal practice for publicly owned water purveyors.

Telephone conversations with customer service indicated that a senior discount of \$2.00 per month was available and that the information was given to new customers. If there is any information on BexarMet's website relating to this discount, it is very difficult to find. The information should be included with the rate information on the website. Subsidized rates for seniors is an industry accepted practice in the publicly owned water business.

## **7.3 Rate Comparison**

Table 7-1 below is a rate comparison between BexarMet and four other entities that provide water service in proximity to BexarMet. BexarMet's rate for residential usage of 10,000 gallons is higher than two other purveyors, including SAWS, and lower than two other purveyors. BexarMet's rates are closest to SAWS, even though SAWS has almost four times as many customers, excluding sewer customers.

It is interesting to note that LCRA's rates for residential water connections are more than double the BexarMet rate at usage of 10,000 gallons. LCRA has no debt outstanding relating to its retail water connections and infrastructure, which may lead one to believe its rates should be lower than those of a highly leveraged purveyor. However, LCRA's systems are even more geographically

dispersed than BexarMet's, thus increasing their cost to pump and service the infrastructure.

It is difficult to draw conclusions when comparing rates of one water purveyor to another. There are too many variations in cost, supply, and number of connections, and fees to say that a rate is unreasonable just because it exceeds another local purveyor's rate. However, this comparison does show that BexarMet's current rates are in line with other public water purveyors in the area.

**Table 7-1  
Rate Comparison**

As of 8/4/08

	BexarMet		San Antonio Water System			LCRA-Hill Country District		Aqua Water Supply Corp.		North Alamo Water Supply Corp.	
	Usage level – gallons	Charge per 1,000 gallons*	Standard Rate**	Seasonal Rate**	Usage level – gallons	Usage level - gallons	Standard Rate	Usage level – gallons	Standard Rate	Usage level - gallons	Standard Rate
	0-7,000	\$ 2.81	\$ 2.54	\$ 2.54	0 – 7,481	2,001 – 5,000	\$3.50	0 – 10,000	\$3.10	3,000 – 15,000	\$1.30
	7,001-10,000	\$ 3.27	\$ 2.93	\$ 3.04	7,482 – 12,767	5,001 – 15,000	\$4.50	10,001 – 20,000	\$4.30	>15,000	\$1.46
	10,000 – 17,000	\$ 5.72	\$ 3.66	\$ 3.81	12,768 – 17,205	15,001 – 25,000	\$6.50	>20,001	5.50		
	> 17,000	\$ 8.04	\$ 4.85	\$ 5.78	> 17,205	>25,001	\$7.50				
<b>Monthly Minimum 5/8" meter</b>		\$7.41	\$6.56**	\$6.56**			\$49.00 (includes 2,000 gallons)		\$22.50		\$14.70
<b>3/4" meter</b>		\$9.69	\$8.32**	\$8.32**			\$49.00 (includes 2,000 gallons)		\$22.50		\$14.70
<b>Monthly bill for 10,000 gallons*** - 5/8" meter</b>		\$36.89	\$33.13	\$33.46			\$82.00		\$53.50		\$27.70
<b>Monthly bill for 10,000 gallons*** - 3/4" meter</b>		\$39.17	\$34.89	\$35.22			\$82.00		\$53.50		\$27.70

\*BexarMet Volumetric charge combined with System Improvement fee of \$1.72 per 1,000 gallons and EAA fee of \$0.12 per 1,000 gallons.

\*\*Service availability fee and a "water supply fee" of \$1.487/1,000 gallons and an EAA fee of \$0.1769/1,000 gallons

\*\*\*SAWS Service availability charge excludes a storm water fee of \$3.92 for 2008. (EAA fees ignored).



## 7.4 Impact Fees

Under state law, governmental agencies may charge impact fees for funding or recouping the costs of utility capital improvements or facility expansions related to new service connections. To adopt an impact fee, state law requires governmental agencies, such as Bexar Metropolitan Water District, to complete an impact fee study that includes a public hearing process.

An impact fee may be imposed only on new service connections to pay certain eligible costs, which include construction or acquisition costs, related surveying and engineering fees, and costs of preparing the impact fee study. Any capital improvement plan costs not covered by the impact fee would be recovered through the monthly rates.

The impact fee generally is limited to an amount calculated by dividing the costs of the capital improvements needed to serve the new connections by the total number of projected new service units within the service area. The capital improvements and new service projections, referred to as land use assumptions, must be developed by a licensed engineer, reviewed by an advisory committee, presented at a public hearing, and approved by the District. The District has final authority to set the fee at an amount not to exceed the maximum fee as determined in the study.

These fees are applied per equivalent dwelling unit (EDU) to service areas experiencing extensive residential and/or commercial growth. An EDU is based on the national average home occupancy of 2.5 persons or typical consumption by one single family household with a  $\frac{3}{4}$ -inch or a  $\frac{5}{8}$ -inch water meter.

### 7.4.1 Existing Impact Fees

The District currently charges four separate impact fees each of the following service areas:

- Southeast-Southside, Northwest and Northeast
- Castle Hills
- Hill Country, Stone Oak and Hollywood Park
- Timberwood, Waterwood and Westview.

These fees, which range from \$300 to \$794.50 per EDU, are based on the last study approved by the Texas Commission on Environmental Quality (TCEQ) in July 1997.

In 2005, the District hired PBS&J/Rimrock Consulting Co. to revise and update their impact fee study. At that time, the District had been interested in consolidating their impact fees into one uniform fee for all service areas. The study was completed in May 2006 and submitted to TCEQ based on the Texas Local Government Code, Chapter 293. However, due to concerns about a contested case hearing, the District withdrew their application from TCEQ in the fall of 2007.

#### **7.4.2 Future Impact Fees**

Since it has been over ten years since the last update of the impact fee study, the District initiated a second attempt to update the impact fee study in early 2008. The District is following the Texas Local Government Code, Chapter 395 for this study. A Citizen Advisory Committee was formed in April 2008 and has eleven members. Representatives of the real estate, development and building industries comprise 40 percent of the committee membership.

BexarMet has contracted with five consulting firms to prepare water master plans for the service areas listed above. The scope of work for each master plan includes developing land use assumptions in five-year increments to 2030 and capital improvement plans for the necessary infrastructure to serve the projected growth. This planning activity supports the District's efforts to adopt new impact fees by the end of this year.

## **8.0 COMPARISON WITH OTHER UTILITIES**

As part of this overall evaluation of BexarMet, a list of fourteen major water purveyors was used for comparison purposes to the District. A preliminary screening matrix was developed in order to identify those entities that best fit the District's organizational model. (see Appendix G-1) Although many of the entities identified on the matrix are classified as water supply corporations, the Lower Colorado River Authority (LCRA) and Trinity River Authority (TRA) were used as primary comparative models for this evaluation process due to the size and structure of their organizations.

### **8.1 Board of Directors**

During the review of the District's management structure and decision-making process, a number of issues have been raised about the board of directors. These issues included training for newly elected members, roles and responsibilities of the board, efficiency of subcommittees, and communication between the other board members and the District's management and/or staff.

For the purpose of this report, LCRA and TRA will be used as model organizations for the District to follow. They both have sizable boards of directors and have streamlined their resource materials and board meeting procedures. Sample copies of handbooks, agenda templates and other resources are provided in the appendices of this report.

#### **8.1.2 Overview of Board Structures**

Water purveyors can operate under numerous organizational structures, according to whether they are a water district, water supply corporation, river authority or local government corporation.

Bexar Metropolitan Water District was established in 1945 by the Texas Legislature as a governmental agency with the power to "control, conserve, protect, preserve, distribute and utilize" water within its service area. The District is an agency governed by a board of seven directors, elected by the citizens in each of their respective districts. The District functions as a self-governed agency independent of municipal and county governments.

River authorities are conservation and reclamation districts created by the Texas Legislature. The Lower Colorado River Authority (LCRA) has no taxing authority and operates solely on utility revenues and fees generated from supplying water, electricity and community services. The LCRA board of directors is composed of fifteen members based on their statutory district, and appointed to six-year terms by the governor and confirmed by the Texas Senate. Their board meets every month except in July to set strategic corporate direction for the general manager and staff, to approve projects and large expenditures, and to review progress on major activities and issues.

The Trinity River Authority (TRA) is comprised of a twenty-four member board of directors appointed by the Governor with the advice and consent of the Senate. Each of the directors is appointed to a six-year term. Every two years, eight of TRA's directors are up for reappointment or replacement. According to TRA's statute, three of the board members must be appointed from Tarrant County, four from Dallas County, one each from the remaining 15 counties within the political subdivision, and the remaining two are selected to serve at-large from anywhere within the political subdivision. The TRA board has six regularly scheduled meetings and can call special meetings as required.

### **8.1.3 Orientation and Training for New Members**

For water districts, river authorities and other water purveyors, many of the new board members who are elected or appointed to serve the organization do not have a strong background in water utilities or infrastructure-related issues. As a result, it is imperative that orientation sessions and materials be provided along with additional training as necessary to properly prepare them for their new role.

Since LCRA plays a variety of roles in electricity, water supply, water and wastewater utilities and community and economic development, they offer an extensive orientation program for their new board members. The new members receive a copy of a board Orientation Handbook (reference Appendix G-2 for an example) that provides the following information:

- Organization Overview – public service mission, policy and legal information, board logistics and executive management
- Issues Briefings – electric generation, electric transmission, water supply, and public lands and services
- Additional Information – service area map, General Manager's objectives for the fiscal year, and the current business plan

Their orientation program consists of presentations and tours of LCRA facilities. To provide the District with ideas for developing an orientation program, a summary of each of LCRA's orientation days is listed below:

- **Day One – New Board Orientation and Policy Overview:**  
General overview of the organization, briefing of the role of the general manager versus a board member, ethics and conflicts of interest, financial overview, relationships with the various stakeholders, brief overview of operations, what to expect at board meetings, and discussion of future orientation sessions. (Refer to the Agenda for Day One in Appendix G-3.)
- **Day Two – Energy Day:**  
A tour of one of the power plants (usually Fayette Power Project due to its size and significance) is scheduled for the new board members. As they travel to the facility, the board members are being briefed on LCRA's operations.

- **Day Three – Water Day:**  
The new board members tour a dam and a water/wastewater facility. During the tour and travel time, issues such as water supply, flood operations, recreational use versus farming interests and the utility side of LCRA are addressed. (Reference an example agenda for a road tour in Appendix G-4.)
- **Day Four – Park, Lands and Community:**  
This orientation usually consists of touring one of LCRA’s park sites and discussing its ties with the various communities that LCRA serves. Issues addressed during the tour also include economic development and public affairs.

Since LCRA has a large service area and a variety of interests, such as electric, water, parks and lands, an orientation day is dedicated to each of these areas. After Day One of the orientation schedule, the remaining days are usually spread out over a period of time depending on board member’s availability. The tours for Days Two through Four can take as long as three months to complete.

At TRA, the general manager and staff attorney individually meet with each new appointed board member to brief them on the TRA business, as well as discuss pertinent rules, roles and responsibilities.

#### **8.1.4 Roles and Responsibilities**

Roles and responsibilities must be clearly defined and communicated upfront to new board members. This sets the tone of the relationship for new members in the organization. It also minimizes micromanagement of staff by the board, prevents conflicts of interest and helps guide decisions in the best interest of the overall organization (not specific districts or service areas within organization).

At LCRA, their General Counsel provides a presentation on Day One of orientation about the overall roles and responsibilities of new board members. LCRA requires new board members to attend Day One of orientation before they are allowed to interact with staff or attend a board meeting as a voting member. Board members are informed of their role in setting general policy; whereas, the staff handles the day-to-day management and operational issues. The Board Bylaws describe the responsibilities of the general manager and the board in detail.

In addition, LCRA provides each board member with a Board Handbook after they are appointed and take an oath of office. This handbook acts as a reference guide for them during their term of office. The following information is presented in the handbook:

- **Overview** – includes governing documents, roles and responsibilities, board committees, ethics policies, fees and expenses, executive management, internal and external communications, customer relations, community relations, state and federal government relations, and bond rating agencies.

- **Board Members and Committees** – biographies and contact information for each of the board members, expiration dates of board member terms, board committees, and General Manager’s office contacts.
- **Executive Management** – LCRA organization chart, LCRA employee location map, executive team resumes.
- **Customers** – wholesale electric customers, Association of Wholesale Customers board of directors, raw water customers, and water/wastewater utility customers.
- **Communities** – LCRA advisory committees, LCRA public affairs, statutory district county officials, legislators in LCRA’s service area, and maps of legislative districts.
- **LCRA Enabling Legislation**
- **LCRA Bylaws**
- **LCRA Board Policies**

Refer to Appendix G-5 for a copy of LCRA’s Board Handbook; this information will provide the District with additional guidance for preparing incoming board members.

#### **8.1.4 Board Meetings and Committees**

During board meetings, agenda items are presented for discussion and/or action. Both LCRA and TRA have well-defined processes in place to minimize the length of the meeting, as well as prioritizing the decisions to be made.

An agenda item template is developed to clearly present the issue on the table. Refer to Appendix G-6 for an example of LCRA’s board agenda. The primary categories of the agenda item include the following:

- Proposed Motion
- Board Consideration
- Budget Status and Fiscal Impact
- Summary – background information about issue and evaluation of options/alternatives
- Exhibit(s) of study area

In order to conduct business efficiently during the board meeting, separate board Committees are assigned specific issues and meet in advance to make recommendations to the board. For example, TRA has five active board Committees:

- Administration -- committee concerned with TRA’s internal business and management activities including the annual budget, annual audit, and the administrative activities.
- Executive -- Board President, Vice President, Chairman of the Executive Committee and four other directors are elected by the board members to serve as officers and Executive Committee members. Four other directors are elected

by the board to serve as chairpersons for the four primary functional committees of the board.

- Resources Development -- committee concerned with the planning, design and construction of TRA's revenue oriented projects, TRA's provision of financing services to others, master planning responsibilities, and federal water project activities. Refer to Appendix G-7 to view a sample meeting packet for this Board Committee.
- Legal -- committee concerned with TRA's legal activities, particularly how legal matters are handled, litigation, legislation, and TRA's land rights activities.
- Utility Services -- committee addresses issues related to TRA's existing revenue oriented projects, the expansion or enlargement of existing projects, and the sale of water from TRA projects. Refer to Appendix G-8 to view a sample meeting packet for this Board Committee.

Each committee is comprised of approximately five members, and they meet a week in advance of each board meeting. Standard memorandums regarding each issue are provided to the board members in advance of the board meeting, which include background information and staff evaluation and recommendations in a two to four page summary. If board members have any questions, they can always contact the general manager prior to the board meeting.

TRA also loans their board members a laptop computer for their home, as well as another laptop in the TRA board room on the day of the meeting for viewing the agenda and packet. The board packet (agenda items, etc.) is provided on a CD in advance for the board members to view at home. By providing the board packet information electronically, TRA is able to reduce paper consumption. Since the board addresses agenda items in advance of the board meeting, they are able to conduct business efficiently and effectively. Although TRA's board meets every other month, they are able to adjourn the meeting within an hour. In June 2008, TRA had over 50 agenda items, the largest in the history of the organization; their board meeting lasted approximately two hours. A copy of this board agenda packet is provided in Appendix G-9

As another example, LCRA holds an agenda review with staff approximately two to three weeks prior to their board meetings. During this review, staff is required to give a 'dry run' presentation to the Executive Management Team and managers from other business groups. By diversifying the review, presenters are able to receive constructive critiques from different perspectives. If necessary, those presenting agenda items are offered assistance from a public speaking coach to refine their presentation skills; this usually involves taping a speech and critiquing afterward.

Immediately following the board meetings, LCRA conducts a high-level critique with the general manager and executive management on what went well and areas for improvement at the next board meeting.

### **8.1.6 Communication**

Most water purveyors will agree that communication is the key fundamental issue between the board and management. During the Board Orientation at LCRA, the hierarchy of communication is clearly established. The LCRA general manager always notifies the Board Chair of an issue to be communicated to the board before disseminating the information to the rest of the organization. If a board member has a question about a particular issue, they are encouraged to contact the general manager or the executive management first. In addition, if a staff member has a conversation with a board member, they are instructed to email their direct supervisor about the details of the discussion, which in turn is sent to the general manager. In turn, staff is instructed to not feel obligated to follow direction from a board member without confirmation from their supervisor. Staff is reminded that they work for LCRA and not for the board.

### **8.2 Organizational Structure**

A continually updated organization chart is a necessary tool for the management of a water utility. By having an organization chart, staff roles are clearly defined, minimizing any overlap of responsibilities. Departments with only one or two people can possibly be consolidated with other departments to make operations more efficient. Organization charts are typically subdivided between the upper management level and detailed staff level. Examples of organization charts from LCRA are provided in Appendix G-10 to illustrate this concept. The first organization chart shows the breakdown of the executive management team and upper level management for the primary business groups. The second organization chart shows more staff detail for the Water Business Group. Due to the complexity and large number of capital improvement projects in Water Services, LCRA has structured this department to include a chief engineer position along with two supervising engineering positions. This organizational layout for Project Management and Engineering under Water Services is illustrated in both charts for LCRA in Appendix G-10. Below these management levels are additional engineers to manage and perform the work. See Appendix G-11 for a copy of TRA's bylaws.

### **8.3 Customer Service**

In order to improve procedures for handling calls and tracking data, the District should implement effective and cost-efficient software to capture and record these customer service issues. A few years ago, LCRA contracted with Advanced Utility Systems to utilize their CIS Infinity software for billing and customer service. CIS Infinity provides the following applications:



- Review and maintain customer information from a single computer screen: customer accounts, services, meters, billing and transactions, service orders, moving customers, collections and payment plans;
- Locate customers and accounts quickly with search criteria; and,
- Automate communications with customers, attach files to customers, track time spent with customers, and assign tasks to other users or departments.

When LCRA receives a phone call about a particular issue, they log the complaint or concern with the appropriate customer billing account. If the issue is field/infrastructure related, then a service order is filed for the corresponding customer billing account. LCRA's customer service center then follows-up with a phone call to the customer after the service order is closed out.

## 9.0 RECOMMENDATIONS

### 9.1 Recommendations For Management Structure, Policies and Procedures

- **Develop Clear Organizational Structure and Communicate It to Employees**  
The District needs to develop a clear organizational structure based on water utility functions. Input from department heads and employees should be considered in developing an organization based on functionality. At the time of this review there were several departments with an inappropriately small number of staff (1-2) and several departments with an excessively large number of staff to manage (20 or more). Appropriate sizing of departments could streamline operations and improve internal communications. Once developed, the organizational structure should be communicated to all employees and made widely available to the public.
- **Conduct a Thorough Search for Qualified Candidates for General Manager**  
The General Manager of BexarMet was hired without the board conducting a search for alternative candidates for the position. Given that BexarMet is a relatively large utility with a complex operational structure (many disparate water systems, large service area, several different sources of water) it is important to have a well-qualified and experienced individual in the position of general manager. For such a position, it is always important to conduct a thorough search for qualified candidates to ensure that the best candidate is hired. In the future, the board is strongly encouraged to conduct searches for General Manager.
- **Conduct a Thorough Search for All Vacant Management Positions**  
A broad search, either regional, state, or national (depending upon the complexity of the position) should be done for all vacant senior or middle management positions. Existing employees should be encouraged to apply for these positions but their qualifications and experience should be considered in the context of the qualifications and experience of other applicants and the demands of the position. Existing employees should be given fair consideration but should not be “guaranteed” the position.
- **Develop Clear Strategic Plan**  
BexarMet lacks a clear strategic directive. There is no clear mission statement and little direction provided within BexarMet to indicate how the management and staff are supposed to carry out its mission. BexarMet should develop a comprehensive mission statement and a long-term strategic plan inclusive of measurable goals and objectives. Many successful water purveyors provide examples to adapt and model after. The mission statement and strategic plan should be made public and widely available to management, staff and customers. Public meetings for customers and training sessions for staff should

be held to ensure all are familiar with the mission and direction of the District. Advice and trainings on these topics are widely available.

- **Minimize Overall Risks Through Development of Appropriate Programs**  
In order to minimize overall risk, BexarMet should commit adequate resources to develop and implement several important programs and initiatives that are presently sorely lacking. These programs need to be well thought out and integrated within the organization. It is not enough to take a program directly from other water utilities and simply change the name. Management should designate a person to coordinate the development of each program. Timelines should be set and progress should be reported to ensure that goals are being met. Key programs presently absent in BexarMet include the following:

***A Comprehensive Safety Program:*** BexarMet does not have a well-developed and implemented safety program. This has resulted in higher insurance costs and frequent claims paid by BexarMet. Representatives from appropriate departments should be involved in the process of development and implementation. A safety analysis for all jobs should be completed as part of the process of developing a plan. Safety plans from other water purveyors can be used as examples and guidelines, but BexarMet's safety program should be designed based on its own unique structure and particular needs. Metrics of success should be developed for this program and progress to stated goals and objectives should be reported at each board meeting. Training sessions for current and new employees and regular safety meetings should be an important component of this program.

***A Comprehensive Source Water Protection Program:*** BexarMet should develop and implement a source water protection program to minimize risks of chemical and microbiological contamination of production wells and surface water intakes. Assistance in developing a source water protection plan can be obtained from various government agencies and technical assistance providers. BexarMet needs to make a serious long-term commitment to developing this plan and regularly report progress to the board.

***A Comprehensive Emergency Preparedness Plan:*** BexarMet has inadequate emergency response planning. The utility does not have a well-communicated and well-implemented plan that describes the various types of emergency situations and the BexarMet response to these emergencies. There are many different types of emergencies that a utility might face including vandalism, sabotage by disgruntled current or former employees, sabotage by others, heavy rain events, severe droughts, electrical outages, and lightning strikes. BexarMet must be able to respond to each of these events in a proactive, timely manner to

minimize impacts to customers, both from a public health and service perspective. BexarMet should develop an emergency response plan that clearly describes procedures to be followed to address each of these types of emergencies

**An Asset Management Program:** BexarMet should develop and implement an asset management plan that considers risk and alternatives as a basis for developing a strategic capital improvement plan and budget. This plan should be used to make informed decisions regarding maintenance and repair and replacement of facilities, and to prioritize upgrades and additions to the system, considering multiple alternatives in order to select functional and cost-effective options

- **Develop Goals and Metrics to Measure Performance**

BexarMet needs to develop goals and related performance measures for each department. These measures should be tied to operational budgets. The status of progress toward departmental goals should become a routine report for the board of directors on a monthly basis.

- **Develop Method to Validate Capital Improvement Projects**

BexarMet needs a means of validation of the capital projects as well as a means of prioritizing the projects across the entire district. In addition, a rigorous process of investigating and evaluating alternatives should be implemented

## 9.2 Recommendations for Improving Decision-Making Policies and Procedures

- **Clearly Define the Role of the Board of Directors and the Role of BexarMet Management.**

The roles of the board and the BexarMet management need to be more clearly defined. Ideally the board's role would generally be limited to establishing the organization's policies and overall direction. However, the management of BexarMet must also recognize and accept that the board has legitimate rights in questioning major expenditures, asking for alternatives, reviewing the overall budget, etc. The board should give the BexarMet management a higher level of expenditure approval before a board vote is required, as long as the expense is part of the overall budget. This would reduce the number of votes the board would have to take and allow the system to more quickly respond to field conditions. The list of expenditures can be incorporated as a standard item on the board agenda. Board members need to respect the policies of the organization and support the management and staff in their administration of these policies.

- **Develop and Implement Training for Current and New Board Members**

BexarMet should provide mandatory training for all board members that includes roles and responsibilities of boards of directors; ethics; conflicts of interest; proper conduct of board meetings; basics of financial management; and, an overview of water utility operations. This training should be provided to current board members and repeated for all new members before taking office.

- **Develop Consistent Message to Customers, Public, and Press**

The board of directors and the management of BexarMet should be presenting a consistent and united message to the press and public. Once an issue is decided by majority vote of the board it is not helpful to have management or board members presenting different messages to their constituents or to the press. The board members should state their opposition to items in the public forum of the meeting, but after the vote, board members should consistently present only the final decision of the board to the press and the public. BexarMet board and management should strive to be consistent with each other when they inform the media and the public of important issues. Additionally BexarMet should restore publicity regarding ribbon cutting ceremonies and other positive accomplishments of the organization.

- **Revise Procedure for Creating Board Minutes**

The minutes of the board meetings should accurately reflect the discussions and actions taken by the board of directors. The current process for creating the board minutes should be reviewed. Specific recommendations are presented below.

- Show absent members on the first page of the minutes after "Board Members Present"
- Show early departures on the first page of the minutes.
- List tabled items from previous meeting as a separate agenda category.
- Instruct staff preparing agenda to always list tabled items from previous meeting automatically unless specifically requested for delay or deletion.
- Set a standard for the format of minutes, designate one or two staff members to transcribe the minutes and provide training for those staff.
- Designate a staff member or board member to review and proofread minutes before they are presented for approval.

- **Revise Process for Presenting Information to the Board**

BexarMet management and staff should present information to the board such that the board clearly understands the issues, the impacts of the choice they are making and alternatives that were considered. The presentations should allow the public to clearly understand the issue before the board and the consequences of the proposed action and no action. Ideally the person selected for an item's presentation should be the individual best able to articulate the issue, regardless of title within the organization. BexarMet should provide training for individuals making presentations to the board and all

presentations should be reviewed and critiqued by appropriate managers or peers prior to the board meeting.

### 9.3 Recommendations for Improving Regulatory Compliance

In general, BexarMet has a good record of compliance with water quality regulations as well as responsiveness to violation notices.

- **Develop a Preventative Maintenance Program**  
BexarMet needs to commit sufficient resources to the development and implementation of a preventative maintenance program. This could significantly reduce the number of TCEQ noted violations incurred by BexarMet's systems. In addition, BexarMet can avoid Boil Water Notices by implementing better controls on disinfecting water main break repairs, flushing on a regular basis, and by improving system supply and pressure in critical areas.
- **Aggressively Investigate All Health-Based Concerns**  
BexarMet should be proactive when receiving notification about areas of concern that could potentially lead to health-based violations, regardless of whether the information is obtained from the TCEQ, the testing laboratories or from their employees in the field. Health based data of concern should be reported at each board meeting until the issue is resolved.
- **Provide More Public Education Regarding Compliance and Water Quality**  
BexarMet should utilize the required publishing and mailing of an annual Consumer Confidence Report (CCR) as a tool for public outreach. Although the CCRs are completed annually for all BexarMet's community water systems and they meet all of TCEQ's requirements, they do not provide any additional information to assist in public education. These reports could be used to provide important updates to community members and assist in improving public perception.

### 9.4 Recommendations Regarding Financial Policies and Practices and Debt

- **Complete the Organizational Structure of the Accounting Department**  
An organizational structure of the accounting department with clear lines of responsibility should be completed by a stated deadline and communicated to all employees.
- **Update Standard Operating Procedures**  
SOP's should be updated by a stated deadline. Board support for this internal control is imperative. With the staff already burdened by the work of normal operations, the use of additional resources to complete SOP's should be considered by the board.

- **Implement the Budget as a Firm Control**  
BexarMet should use the budget as a controlling tool for expenses. Performance reviews for management should have a component related to meeting budgeted expenditures and management should explore other means of increasing commitment to keeping expenses within budget.
- **Update Accounting Software**  
Accounting software for billing, accounts receivable and accounts payable should be updated to allow reasonable automated reconciliation between accounts receivable and payable sub-ledgers and general ledger.
- **Centralize Purchasing and Procurement**  
Purchasing and procurement should be centralized and clear procedures written and maintained. A data-base should be obtained or developed to track and limit contractual commitments and professional fees.
- **Control Expenditures Through Risk Management**  
Expenditure control through risk management analysis needs to be improved. In general, recommendations by the risk management department should be strongly considered for implementation.
- **Implement a Budget Amendment Processes**  
A budget amendment process should be developed and implemented. The use of this process should be limited to unusual events in order to encourage adherence to the approved budget and board approval should be required.
- **Increase the Dollar Amount Requiring Board Approval**  
After effective leadership is established in the organization, the board should increase the dollar amount requiring board approval for expenditures. The \$5,000 cap is arguably too low for operations to continue efficiently. "Emergency Expenditure Approvals" should be the exception, not the rule.
- **Limit Contractual Commitments**  
Contractual commitments, including professional fees, should be subject to limits set in the budgeting process. A data-base should be obtained or developed to track and limit contractual commitments and professional fees.
- **Listen to Staff Recommendations**  
Management should implement a procedure for staff input and initiate a policy of listening to staff recommendations and addressing the issues presented. Management should make decisions based on information supplied by experienced District employees with the appropriate expertise and the advice of consultants. Recommendations made to the board should include alternatives.
- **Reduce Debt to Equity Ratio**

BexarMet should improve its financial health by setting long term goals to reduce the debt to equity ratio while working closely with outside financial advisers to improve and maintain borrowing capacity. The District should explore options for funding other than issuing more debt, e.g. through operating revenues, controlling expenses and possible sale of assets.

- **Complete funding of cash reserve accounts.**  
BexarMet should have a deadline for fully funding the operating expenditures reserve account and the rate stabilization reserve account. Deadlines for annual replenishment of these reserve accounts should be established.
- **Allow Continued Use of Commercial Paper**  
BexarMet should continue use of commercial paper as a means of obtaining inexpensive short term debt in advance of a bond issuance.

## 9.5 Recommendations Regarding Rate Structure

- **Shift Focus of Goals for Rate Setting**  
BexarMet's rate setting policies should be based on (1) meeting TCEQ obligations for providing continuous and adequate service to its customers; (2) ensuring adequate revenues to provide continuous and adequate services and (3) the overall goal of providing the best water possible at the least cost. Less emphasis should be given to being competitive with SAWS as the two organizations are so dissimilar in asset base.
- **Increase Impact Fees**  
The study to assess the total cost of system improvements recoverable through impact fees should be completed and should result in impact fees set at a level to recover all costs.