

May 24, 2021

# CITY OF BOWIE, TEXAS WATER AND SEWER RATE STUDY

NewGen  
Strategies & Solutions



## INTRODUCTION

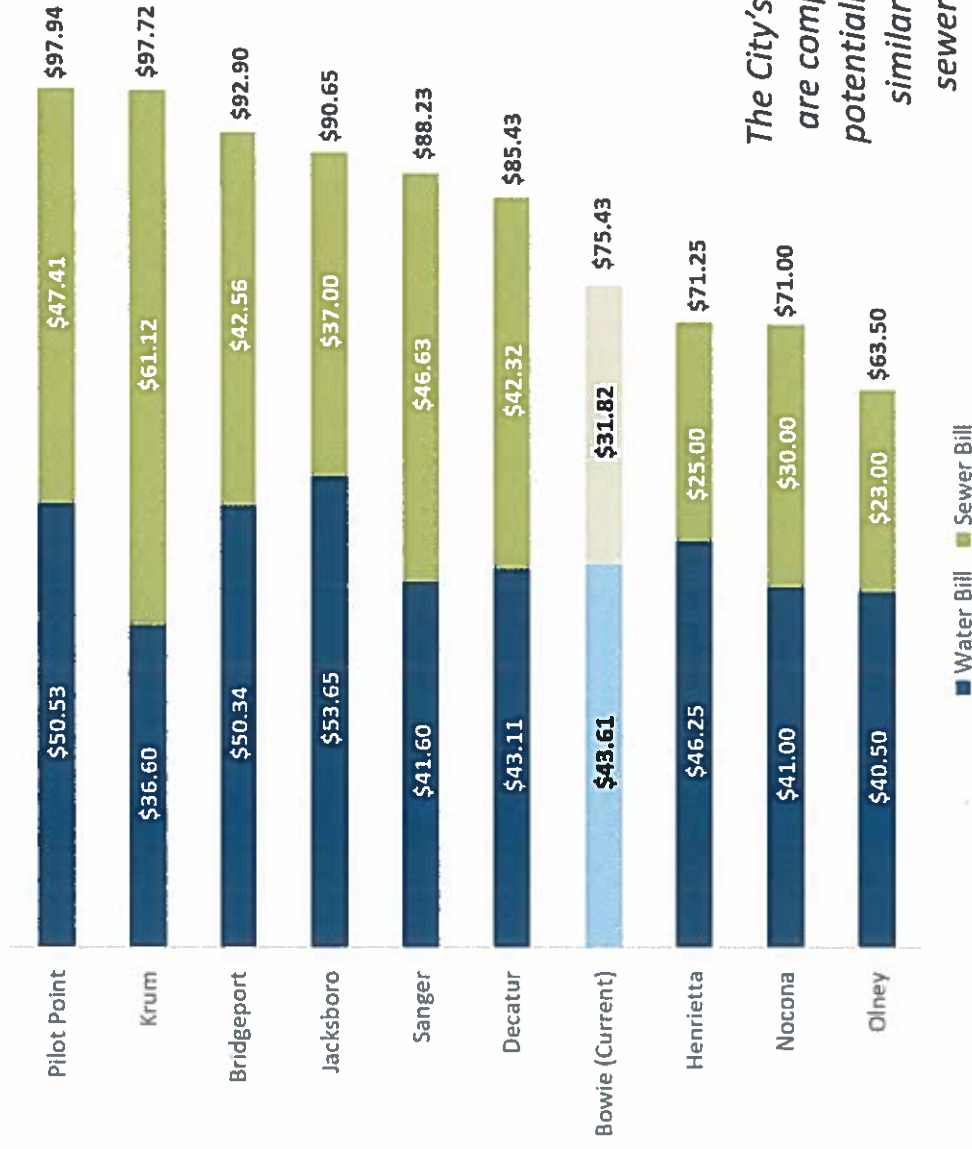
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- On recommendation of the City's Financial Advisor, NewGen Strategies & Solutions was retained to review the City's current water and sewer rates
- This review is necessary to ensure sufficient rates and charges specific to the City's repayment of planned debt issuance through the Texas Water Development Board (TWDB)
- Before the debt can be issued, and critical projects undertaken, the City must commit to charging rates and charges which will produce sufficient revenue to cover its costs and honor its commitments to the TWDB

# REGIONAL COMPARISON

## Average Residential ¾" Customer Bill (5,000 gallons)

*A variety of differences exist between providers – this is not an “apples to apples” comparison. Every community is different, and the City must charge rates unique to its financial needs*



*The City's current rates are comparable, and potentially lower, than similar water and sewer providers*

## BORROWING FROM THE TWDB

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- When the City borrows through the TWDB, it is making a long-term commitment to abide by the terms and conditions of the borrowing
- These terms and conditions include meeting certain requirements and milestones relative to rates and financial performance
- NewGen has utilized the TWDB's standard terms and conditions, coupled with the City's financial and billing data, to calculate the rate action the City must take if it is going to honor the commitment it is making to the TWDB

# TWDB STANDARD CONDITIONS (DEBT SERVICE COVERAGE)

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD  
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF  
\$9,775,000 TO THE CITY OF BOWIE  
FROM THE CLEAN WATER STATE REVOLVING FUND  
THROUGH THE PROPOSED PURCHASE OF  
\$9,775,000 CITY OF BOWIE, TEXAS COMBINATION TAX AND SURPLUS REVENUE  
CERTIFICATES OF OBLIGATION,  
PROPOSED SERIES 2021

- As a condition of the loan, the City must set rates which will collect sufficient money to pay its expenses, pay all of its debt service obligations, and have a 10% margin
- This is a standard TWDB requirement and is included to ensure the City can meet its obligations
- Any extra margin that is generated can be used to build reserves or cash fund capital projects to maintain the system

iii. the Obligations must include a requirement that the City shall at all times maintain and collect sufficient rates and charges in conjunction with any other legally available funds so that after payment of the costs of operating and maintaining the system, it produces revenues in an amount not less than 1.10 times debt service requirements of all outstanding Obligations of the City and other obligations of the City which are secured in whole or in part by the pledged revenues, for which the City is budgeting the repayment of such Obligations, or the City shall provide documentation which evidences the levy and collection of an ad valorem tax rate dedicated to the Interest and Sinking Fund, in conjunction with any other legally available funds, sufficient for the repayment of debt service requirements.

# TWDB STANDARD CONDITIONS (ADDITIONAL BONDS TEST)

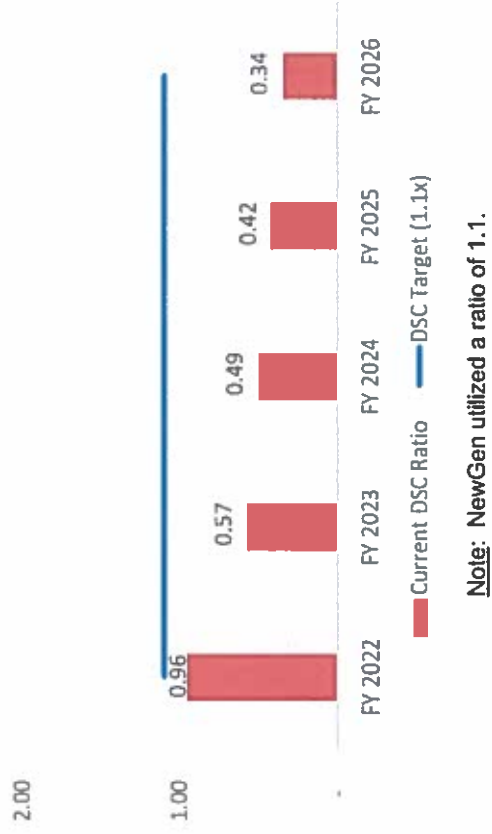
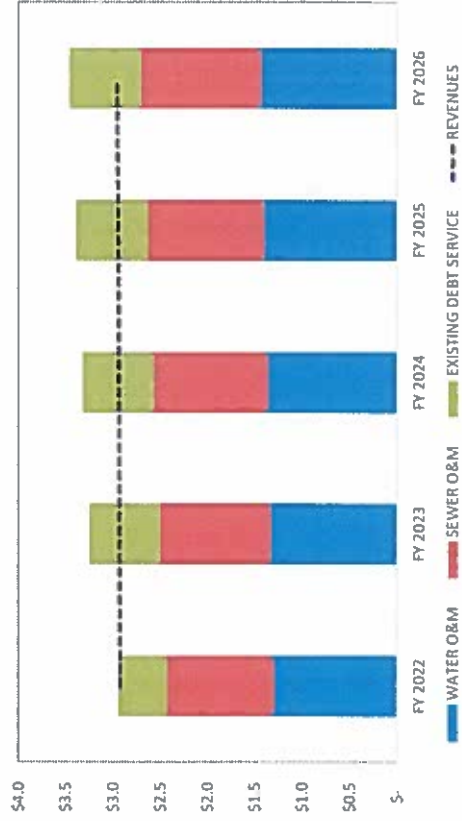
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the Obligations must contain a provision providing that additional revenue obligations may only be incurred if net system revenues are at least 1.25 times the average annual debt service requirements after giving effect to the additional obligations when net revenues are a) determined from the last completed fiscal year or a 12 consecutive calendar month period ending not more than ninety (90) days preceding the adoption of the additional obligations as certified by a certified public accountant; or b) the City certifies that the City is expected to continue to meet or exceed the net system revenue test with a minimum coverage of 1.25 times the average annual debt service requirement. An authorized representative of the City must provide the calculations, identifying reasonable assumptions, in a manner and format that is acceptable to the Executive Administrator.

- If the City issues future revenue debt, it must ensure that sufficient revenues are collected to pay both the existing and new debt obligations, plus a 25% margin
- This is a standard TWDB requirement and is included to ensure the City can meet its obligations
- Before issuing any future revenue-backed debt, the City will need to review rates at that time to ensure this requirement is met



# ANTICIPATED FINANCIAL PERFORMANCE UNDER CURRENT RATES



Note: NewGen utilized a ratio of 1.1.

(\$ Millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Total Revenues	\$2.93	\$2.94	\$2.95	\$2.96	\$2.97
Total Expenses	2.95	3.27	3.33	3.40	3.47
Variance	(\$0.02)	(\$0.33)	(\$0.38)	(\$0.45)	(\$0.50)

Under current rates, the City is projected to be unable to fully pay its expenses and meet the requirements of the TWDB. Sewer rates need to be adjusted going forward as shown on the next page.

# RECOMMENDED SEWER RATE ADJUSTMENTS

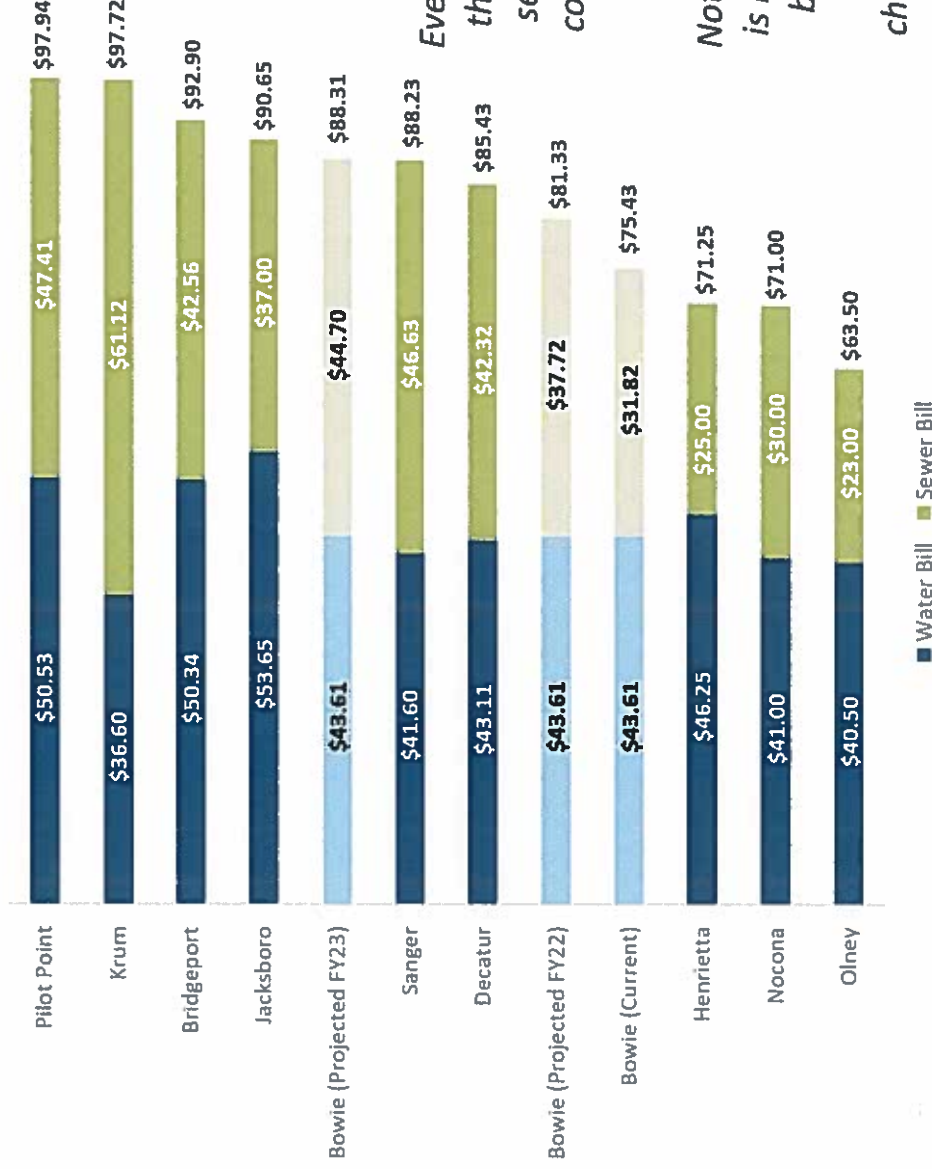
	Current	2022	2023	2024	2025	2026
<b>Residential (Inside City)</b>						
Minimum Monthly Bill	\$17.02	\$20.17	\$23.90	\$24.86	\$25.86	\$26.90
Volumetric Rate per 1,000 gallons	\$2.96	\$3.51	\$4.16	\$4.33	\$4.50	\$4.68
<b>Residential (Outside City)</b>						
Minimum Monthly Bill	\$18.70	\$22.16	\$26.26	\$27.31	\$28.41	\$29.56
Volumetric Rate per 1,000 gallons	\$3.39	\$4.02	\$4.76	\$4.96	\$5.15	\$5.36
<b>Commercial / Industrial (Inside City)</b>						
Minimum Monthly Bill	\$24.12	\$28.58	\$33.87	\$35.23	\$36.64	\$38.11
Volumetric Rate per 1,000 gallons	\$3.60	\$4.27	\$5.06	\$5.26	\$5.47	\$5.69
<b>Commercial / Industrial (Outside City)</b>						
Minimum Monthly Bill	\$24.90	\$29.50	\$34.97	\$36.37	\$37.82	\$39.34
Volumetric Rate per 1,000 gallons	\$3.73	\$4.42	\$5.24	\$5.45	\$5.67	\$5.90
<b>Residential (Inside City) Sewer Bill Impact</b>						
Monthly Bill	\$31.82	\$37.72	\$44.70	\$46.51	\$48.36	\$50.30
Year over Year Increase		5.90	6.98	1.81	1.85	1.94



# REGIONAL COMPARISON

Average Residential  
¾" Customer Bill  
(5,000 gallons)

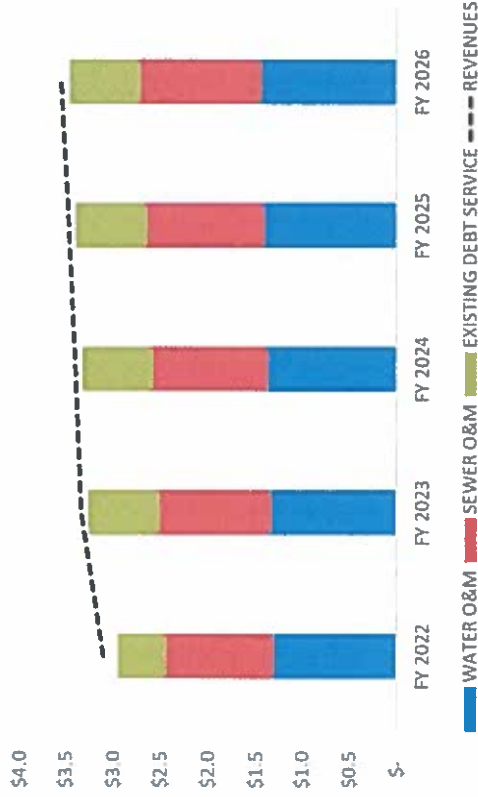
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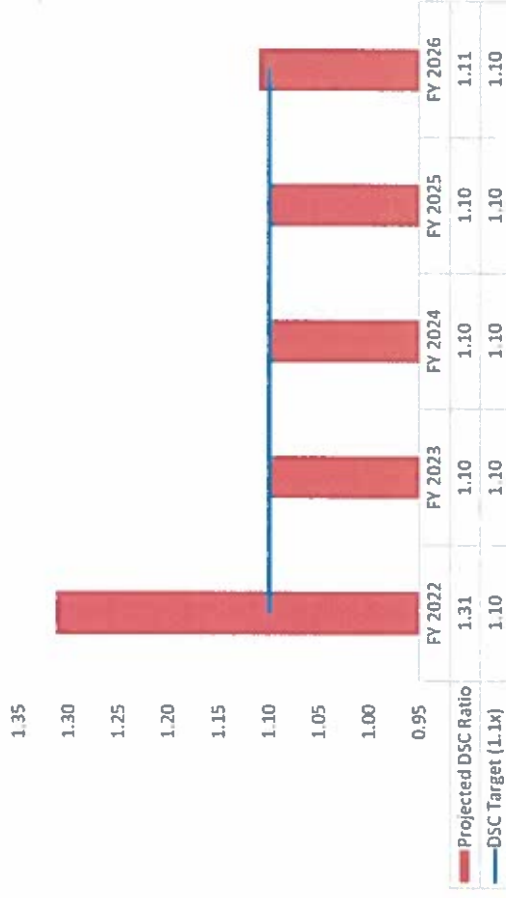
*Even after adjustment, the City's water and sewer rates remain comparable to other providers*

*Note that the 2023 bill is being compared to bills today – these comparison will change as Cities take rate action in the future*

# ANTICIPATED FINANCIAL PERFORMANCE UNDER PROJECTED RATES



(\$ Millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Total Revenues	\$3.12	\$3.34	\$3.41	\$3.48	\$3.55
Total Expenses	2.95	3.27	3.33	3.40	3.47
Variance	\$0.16	\$0.08	\$0.08	\$0.08	\$0.08



Note: NewGen utilized a ratio of 1.1.

*Under sewer rate adjustments as proposed, the City is projected to generate sufficient revenue and meet its obligations to the TWDB*

## CONCLUSION

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- The City's water rates are projected to be sufficient at this time, but adjustments to sewer rates are needed to meet the City's commitments to the TWDB
  - Adjustments to water rates may be needed in the future reflective of capital needs and inflationary impacts on expenses
- Sewer rate action should be taken effective October 1, 2021, commensurate with the adoption and implementation of the next Fiscal Year's budget
- Regular monitoring of revenue performance is critical to ensuring the proposed rate plan is sufficient. If actual results vary from projections, other adjustments to either water or sewer rates may be needed during the forecasting period.
  - NewGen recommends the City continue to carefully monitor and review rates commensurate with the City's on-going budget cycle.



## WE APPRECIATE THE OPPORTUNITY TO ASSIST THE CITY

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