



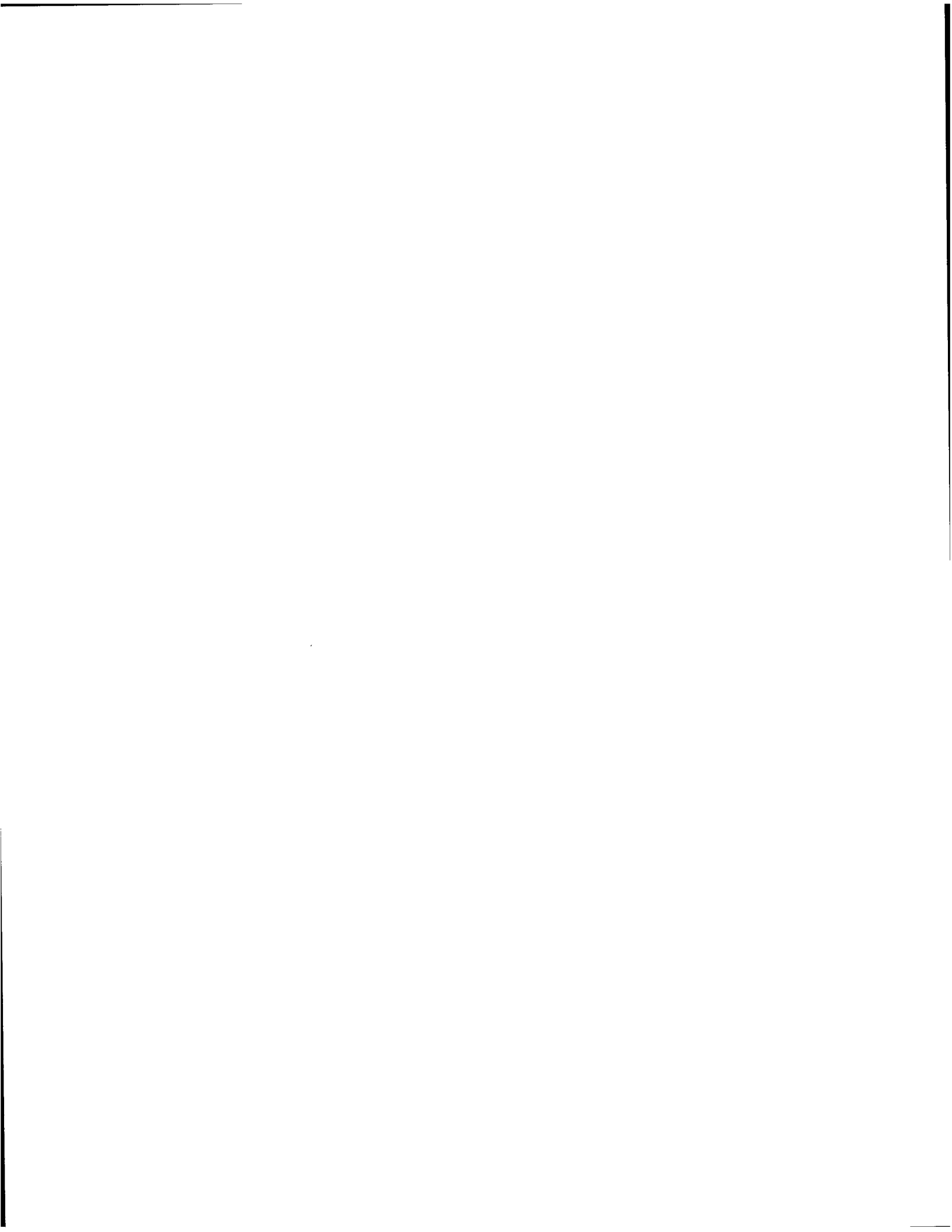
Control Number: 42946



Item Number: 9

Addendum StartPage: 0

House Bill (HB) 1600 and Senate Bill (SB) 567 83rd
Legislature, Regular Session, transferred the functions
relating to the economic regulation of water and sewer
utilities from the TCEQ to the PUC effective
September 1, 2014.



42944

TCEQ Interoffice Memorandum

RECEIVED

To: Brian Dickey

Date: ~~20 March 2011~~ 2011 2: 22

From: *DL* Debi Loockerman, C.P.A.

PUBLIC UTILITY COMMISSION
FILING CLERK

Subject: Application from Mustang Special Utility District (SUD), Certificate of Convenience and Necessity No. 11856, to Transfer Facilities and to Transfer and Cancel CCN No. 13020 from Denton County Fresh Water Supply District (FWSD) 9, in Denton County; Application No. 36966-S

Application from Mustang SUD, CCN No. 20930, to Transfer Facilities and to Transfer and Cancel CCN No. 20922 from Denton County FWSD 9, in Denton County; Application No. 36967-S

CN: 601363534; RN: 101222669 (water) 102946019 (sewer) (Mustang SUD)

CN: 600739387; RN: 10410140 (water and sewer) (Denton FWSD 9)

In my opinion, Mustang SUD has demonstrated adequate financial and managerial capability to provide service to the requested area. These conclusions are based on information provided by the applicant prior to this date and may not reflect any changes in the applicant's status subsequent to this date.

Background

Mustang SUD holds Certificate of Convenience and Necessity (CCN) No. 11856, and has applied to transfer facilities and transfer and cancel CCN No. 13020 from Denton County FWSD 9. According to the application, Mustang SUD currently provides service to approximately 3,648 water connections and 1,115 Sewer Connections in Denton County. Mustang SUD currently contracts with Denton County FWSD 9 to operate the facilities being transferred. The application included a copy of a TCEQ inspection report indicating that the subject water system was inspected on February 21, 2006 with compliance noted by a TCEQ region letter dated March 28, 2006. The application involves a consolidation of a FWSD with a SUD and there is no purchase price. The certified area to be transferred includes approximately 1,722 current customers and 1,116 acres located approximately 8 miles east of downtown Denton, Texas. The Water Utilities Database indicates no active NOE exists for either entity. The rates charged by the SUD will actually decrease from the rates charged by the FWSD.

I have reviewed the Independent Auditors' Reports on Mustang SUD prepared by Rutherford, Taylor & Company, P.C. for September 30, 2009 including unqualified auditor's opinions that the overall financial statements fairly present both entities' financial positions in conformity with accounting principles generally accepted in the U.S.A.

Based upon the financial statements supplied, the SUD held cash and equivalents of \$683,745 as of 9/30/09. The Statement of Revenues, Expenses, and changes in Fund Net Assets indicates a decrease in net assets of \$1,366,859 for 2009. Net operating loss was (\$950,233) prior interest expense for 2009. Adding back depreciation and amortization of



TCEQ Interoffice Memorandum

Application Nos. 36966-S & 36967-S

Financial Managerial Review

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\$1,366,261 results in amounts available for debt service coverage (DCS) of \$416,028. Principle and interest due on revenue bonds payable for 2010 and 2011 are \$1,795,421 and \$718,590, respectively. The following years reflect bond payments closer to 2011 (the lesser amount). The SUD also has a note payable with maturities due in 2010 and 2011 of \$234,257 each year. Total DS for 2010 and 2011 would be calculated as follows:

- 2010: \$1,795,421 plus \$234,257, or \$2,029,678;
- 2011: \$718,590 plus \$234,257, or \$942,847.

Basically, debt service is not covered by operating revenues in 2010 (the DSC ratio is less than 1:1). The DSC ratio of $\geq 1.25:1$ is preferred, as it allows for debt coverage with an additional amount made available to build reserve funds for the repair and/or replacement of equipments at the end of useful life. A spike in expenses associated with the distribution system appears to be responsible for the net loss. It is possible that these expenditures will return to more normal levels after 2009. If not, the SUD would need to consider raising rates to maintain its current financial stability. However, the Statement of Net Assets reveals restricted funds already reserved for debt payment totaling \$5,041,077 for 2009. Furthermore, after 2010, the annual debt service decreases by \$1,086,831 in 2011 with small changes in the years thereafter. The long term debt to equity (net assets) ratio for 9/30/09 was \$10,528,753 to \$22,229,403, or 0.47:1. A ratio less than 1:1 is preferred for financial assurance determination.

FM Checklist

Applicant: Mustang SUD
 Application Nos.: 36866/67-S

Deke Loockerman 3/29/11 Signature/date

A. PROJECTED # OF CONNECTIONS	
1. The customer classes and meter sizes are appropriate for the type of development and the predicted consumption patterns.	Date: 03/25/2011
Comments: N/A.	
2. The growth projections are verifiable and make sense. Note: A growth rate greater than 10% per year will require significant documentation.	Date: 03/25/2011
Comments: N/A	

B. FEASIBILITY OF OBTAINING SERVICE FROM ALTERNATE SOURCES OF SUPPLY WITHIN A 2-MILE RADIUS	
1. There are no alternate sources within a 2-mile radius. Go to section C.	Date: 03/25/2011
Comments: Not a new system; N/A	
2. Application for service was denied. Go to section C.	Date: 03/25/2011
Comments: N/A	
3. Applicant is asserting that interconnection is infeasible.	Date: 03/25/2011
Comments: N/A	
4. Documentation of the cost of interconnection is verifiable.	Date: 03/25/2011
Comments: N/A.	
5. Cost information includes the cost of initiating service.	Date: 03/25/2011
Comments: N/A	
6. Cost information includes the cost of any facilities that may be need to be constructed to obtain service	Date: 03/25/2011
Comments: N/A.	

7. Cost information includes costs of receiving and maintaining service for 5 years	Date: 03/25/2011
Comments: N/A.	
8. Assumptions about the cost of receiving and maintaining service are based on valid information	Date: 03/25/2011
Comments: N/A.	

C. FEE FOR SERVICE	
1. Projected # of connections agrees with assumptions listed.	Date: 03/25/2011
Comments: Yes.	
2. Consumption assumptions are reasonable in light of the types of consumers expected to be on the system, e.g. Large homes on large lots vs. mobile home parks, or residential vs. commercial.	Date: 03/25/2011
Comments: Yes.	
3. Proposed rates reflect cost of service and are affordable. [Could consider the %age of Median Household Income]	Date: 03/25/2011
Comments: N/A.	

D. DOCUMENTATION RELATED TO PROVIDING SERVICE USING APPLICANT'S FACILITIES					
Note: This section applies to NEW CCNs and substantial amendments.					
1. Cost of construction is based on engineering estimates.				Date: 03/25/2011	
Comments: N/A					
2. Cost of maintaining and operating the system includes reasonable amounts for a contract operations company.				Date: 03/25/2011	
Comments: N/A.					
3. Cost of maintaining and operating the system includes reasonable amounts for the following: (<input type="checkbox"/> - Insert Comment # in this column)					
Comments: See financial information supplied by the applicant attached to the original FM Review document; no projections required.					
Expense Item	Yes	<input type="checkbox"/>	Expense Item	Yes	<input type="checkbox"/>
Wholesale water or sewer	X		Insurance - office equipment	X	
Salaries - O & M Staff	X		Legal fees	X	
Salaries - Admin staff	X		Engineering fees	X	

Salaries – Owner	X	Employee training	X
Power for operating all facilities	X	Office supplies/postage	X
Treatment Chemicals	X	Telephone/other office utilities	X
Monitoring/Testing	X	Office rent	X
M & R materials & labor	X	Accounting	X
Vehicle maintenance expenses	X	Income taxes	X
Contract Labor	X	Property taxes	X
Equipment rental	X	Employment taxes	X
Insurance – vehicle	X	Debt service	X
Insurance – liability	X	Bad debt expense	X
Insurance - Workmen's comp	X	Lease payments	X
Includes cost of operating system for 5 years. No projections required.			Date: 03/25/2011
Comments Number comments to correspond with numbers above:			

E. FINANCING	
1. Applicant has identified sources for funding construction and capital improvements.	Date: 03/25/2011
Comments: Facilities transfer; none needed.	
2. Sources of revenue for construction and capital improvements are verifiable and documented.	Date: 03/25/2011
Comments: Yes; financial statements indicate funds available.	
3. Sources of revenue for construction and capital improvements are guaranteed.	Date: 03/25/2011
Comments: See above.	
4. Sources of revenue for shortfalls, other than from rates, are guaranteed.	Date: 03/25/2011
Comments: See above.	
5. Applicant has contingency financing plan to fund any unforeseen repairs or equipment replacements, e.g. Reserves equal to depreciation or 1/8 O & M.	Date: 03/25/2011
Comments: None needed.	

F. OWNERSHIP

1. Applicant has identified current and any future potential owners.	Date: 03/25/2011
Comments: Special Utility District/not for profit, N/A.	
2. Applicant has identified all other affiliated businesses.	Date: 03/25/11
Comments: N/A.	
3. Applicant has documented qualifications of all organizations and persons who will be involved in the operation of the system.	Date: 03/25/2011
Comments: N/A.	

G. CONCLUSIONS	
The source to be used is identified and documentation supports the application.	Date: 03/25/2011
Comments: No funds needed for improvements; transaction will result in a lower customer rate.	
1. Applicant is capable of financing and operating the system for at least the 1 st 5 years of operation if the applicant provides financial assurance in the amount of \$	Date: 03/25/2011
Comments: Yes.	
2. Applicant is capable of managing the system for the long term.	Date: 03/25/2011
Comments: According to the documentation provided in this application, yes.	
3. Applicant has the technical capacity to operate the system for the long term.	Date: 03/25/2011
Comments: Yes above.	