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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.

TCEQ Interoffice Memorandum

43070

To: Ahmad Tavakoly
Utilities Financial Review Team

2014 OCT 27 AM 11:06

From: Fred Bednarski, CGAP *FB*
Utilities Financial Review Team

PUBLIC UTILITY COMMISSION
FILING CLERK

Thru: *LF* Lisa Fuentes
Utilities Financial Review Team

Date: June 13, 2014 *FB*

Subject: Application from the City of East Tawakoni, A2184, to Obtain a Certificate of Convenience and Necessity (CCN) in Hunt and Rains counties; Application No. 37869-C

CN: 600633432; RN: 101186575

In my opinion, the City of East Tawakoni has demonstrated adequate financial and managerial capability to provide service to the area subject to this application. 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.

The City of East Tawakoni filed an application to obtain a CCN with TCEQ to provide water utility service in Hunt and Rains counties. The proposed utility service area is located approximately 3 and 2 miles north and east of downtown East Tawakoni, Texas, and is generally bounded on the north by CR 3412; on the east by FM 2737; on the south by Lake Tawakoni; and on the west by Lake Tawakoni. The total area being requested includes approximately 3,125 acres and 853 current customers whom the City of East Tawakoni serves. No violations or enforcement cases were found in the Consolidated Compliance and Enforcement Data System on 06/13/2014.

The City of East Tawakoni's audited financial statements for 2012 were available on the city's website. Scott, Singleton, Fincher and Company, P.C., Certified Public Accountants issued an unqualified opinion on the financial statements for the year ended December 31, 2012. The city's Proprietary funds net operating income was \$138 thousand and depreciation was \$147 thousand. Future cash flows from principle and interest payments on long term debt for FY12 were \$98.6 thousand. Therefore the debt service coverage ratio calculates to be \$285 thousand to \$98.6 thousand or 2.89 to 1.00. A ratio of at least 1.25:1 is preferred when reviewing financial capability to ensure that reserve funds for debt payment and repairs and maintenance are built up and maintained. The City of East Tawakoni's total proprietary funds debt to net position ratio at 12/31/2012 was \$2.4 million to \$1.4 million, or 1.71 to 1.00. A ratio of less than 1 to 1 is preferred for analysis of financial/managerial capabilities. Although the City of Tawakoni does not meet the debt to net position preferred ratio requirement they have a considerable restricted cash balance of \$256 thousand to pay their outstanding debts. Additionally, their current ratio calculates to be 1.50, which indicates the City of East Tawakoni does not have difficulty meeting their current obligations. Low

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TCEQ Interoffice Memorandum

values indicate a critical problem (normally values less than 1). Additionally noted the City of East Tawakoni has the authority to issue general obligation bonds which are paid by property taxes and revenue bonds which are paid from revenues of the water and sewer system. Currently the combined outstanding balance of these bonds is \$3,162 million with a par value amount of \$3,825 million.