



Control Number: 49225



Item Number: 111

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**SOAH DOCKET NO. 473-20-1554.WS  
PUC DOCKET NO. 49225**

<b>PETITION BY OUTSIDE CITY RATEPAYERS APPEALING THE WATER AND WASTEWATER RATES ESTABLISHED BY THE CITY OF CELINA</b>	§ § § § §	<b>PUBLIC UTILITY COMMISSION  OF TEXAS</b>
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**OUTSIDE CITY RATEPAYERS' RESPONSES TO CITY OF CELINA'S FIRST  
REQUEST FOR INFORMATION AND FIRST REQUEST FOR ADMISSIONS**

COME NOW, the Outside City Ratepayers ("Petitioners") and file this, their Responses to the City of Celina's First Request for Information and Request for Admissions. The City of Celina ("City") filed and served its First Request for Information and First Request for Admissions to Petitioners on May 21, 2020. Pursuant to 16 Tex. Admin. Code Ann. § 22.144(c) ("TAC"), Petitioners' responses to City's requests are due within 20 days from receipt or June 10, 2020. Therefore, Petitioners' responses are timely filed.

Respectfully submitted,

By:   
\_\_\_\_\_


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**ATTORNEYS FOR PETITIONERS**

**CERTIFICATE OF SERVICE**

I hereby certify that I have served or will serve a true and correct copy of the foregoing document via hand delivery, facsimile, electronic mail, overnight mail, U.S. mail and/or Certified Mail Return Receipt Requested to all parties on this the 10<sup>th</sup> day of June 2020.

  
\_\_\_\_\_  
John J. Carlton

**SOAH DOCKET NO. 473-20-1554.WS  
PUC DOCKET NO. 49225**

**OUTSIDE CITY RATEPAYERS' RESPONSES TO CITY OF CELINA'S  
FIRST REQUEST FOR INFORMATION AND FIRST REQUEST FOR ADMISSIONS**

**CITY'S REQUEST TO RATEPAYERS 1-1:** Please provide the name, address, and telephone number of persons having knowledge of facts relevant to this proceeding.

**RESPONSE:** Persons having knowledge of relevant facts include the following:

Developers for Collin County Municipal Utility District No. 1  
Jake Wagner  
Rony Ruggeri  
Mark Kiker  
Republic Property Group  
400 S. Record Street, Suite 1200  
Dallas, Texas 75202  
214-292-3410

Clay Crawford, Attorney for Collin County Municipal Utility District No. 1  
Crawford & Jordan LLP  
19 Briar Hollow Lane, Suite 245  
Houston, Texas 77027  
713-621-3707

Kevin Carlson, P.E., Engineer for Collin County Municipal Utility District No. 1  
Huitt Zollars, Inc.  
1717 McKinney Avenue, Suite 1400  
Dallas, Texas 75202  
214-871-3311

Financial Advisors for Collin County Municipal Utility District No. 1  
Laura Alexander,  
Adam LanCarte  
Hilltop Securities, Inc.  
777 Main Street, Suite 1200  
Fort Worth, Texas 76102  
214-953-4000

Richard Harned, Bookkeeper for Collin County Municipal Utility District No. 1  
2650 FM 407 East, Suite 125  
Bartonville, Texas 76226  
940-728-5050

Virginia Blake, Bond Reimbursement Report for Collin County Municipal Utility District No. 1  
McCall Gibson Swedlund Barfoot PLLC  
13100 Wortham Center Drive, Suite 235  
Houston, Texas 77065  
713-462-0341

Ken Heroy, P.E., Jones-Heroy & Associates  
Bond application filings with the Texas Commission on Environmental Quality for Collin  
County Municipal Utility District No. 1  
13915 N. Mopac Expy, Suite 408  
Austin, Texas 78728  
512-989-2200

The following current and former members of the Board of Directors of Collin County Municipal  
Utility District No. 1:

Craig Davis  
c/o Crawford & Jordan LLP  
19 Briar Hollow Lane, Suite 245  
Houston, Texas 77027-2858  
713-621-3707

Gordon Greeson  
c/o Crawford & Jordan LLP  
19 Briar Hollow Lane, Suite 245  
Houston, Texas 77027-2858  
713-621-3707

Andy Harvey  
c/o Crawford & Jordan LLP  
19 Briar Hollow Lane, Suite 245  
Houston, Texas 77027-2858  
713-621-3707

Bob Heinze  
c/o Crawford & Jordan LLP  
19 Briar Hollow Lane, Suite 245  
Houston, Texas 77027-2858  
713-621-3707

Kenneth Prater  
c/o Crawford & Jordan LLP  
19 Briar Hollow Lane, Suite 245  
Houston, Texas 77027-2858  
713-621-3707

Lissa Shepard  
c/o Crawford & Jordan LLP

19 Briar Hollow Lane, Suite 245  
Houston, Texas 77027-2858  
713-621-3707

Keller Webster  
c/o Crawford & Jordan LLP  
19 Briar Hollow Lane, Suite 245  
Houston, Texas 77027-2858  
713-621-3707

All petitioners identified in the “Appeal of City of Celina Water [and Wastewater] Rates” (*see* Petition by Outside City Ratepayers, filed February 14, 2019);

Employees and consultants of the City of Celina;

Staff of the Texas Commission on Environmental Quality responsible for processing Collin County MUD No. 1 bond documents;

Staff of the Public Utility Commission, assigned to this Docket; and

Staff of the Upper Trinity Regional Water District, that have been involved in efforts to provide wastewater service to the City of Celina.

Prepared by: John Carlton

**CITY’S REQUEST TO RATEPAYERS 1-2:** Please identify each fact witness that will testify in this proceeding.

**RESPONSE:** Pursuant to negotiations, Petitioners and the City have agreed that RFI 1-2 is repetitive of RFI 1-12 and need not be answered.

**CITY'S REQUEST TO RATEPAYERS 1-3:** Please identify each testifying expert.

**RESPONSE:** Mr. Dan V. Jackson, Ms. Georgia N. Crump and Mr. Jason Gray have been identified as testifying experts for the City.

Mr. Jay Joyce and Mr. Kevin Carlson, P.E. have been identified as testifying experts for Petitioners.

Prepared by: John Carlton

Sponsored by: Jay Joyce; Kevin Carlson



**CITY'S REQUEST TO RATEPAYERS 1-4:** Please identify each consulting expert whose mental impressions or opinions have been reviewed by a testifying expert.

**RESPONSE:** None.

Prepared by: John Carlton

Sponsored by: Jay Joyce; Kevin Carlson

**CITY'S REQUEST TO RATEPAYERS 1-5:** Please provide the following information for each testifying expert:

- (1) name, address, and telephone number;
- (2) the subject matter on which the expert will testify;
- (3) the general substance of the expert's mental impressions and opinions and a brief summary of the basis for them, or if the expert is not retained by, employed by, or otherwise subject to the control of the responding party, documents reflecting such information;
- (4) if the expert is retained by, employed by, or otherwise subject to the control of the responding party:
  - a) all documents, tangible things, reports, models, or data compilations that have been provided to, reviewed by, or prepared by or for the expert in anticipation of the expert's testimony; and
  - b) the expert's current resume and bibliography.

**RESPONSE:**

Jay Joyce:

- (1) See Attachment A to the Direct Testimony of Jay Joyce at page 161 of 1683.
- (2) See the Direct Testimony of Jay Joyce at page 10 of 1683.
- (3) See the Direct Testimony of Jay Joyce at pages 10-42 of 1683.
- (4)
  - a) Please see the attached responsive documents.
  - b) See Attachment A to the Direct Testimony of Jay Joyce at pages 161-165 of 1683.

Kevin Carlson, P.E.:

- (1) Kevin Carlson, P.E.; 1717 McKinney Avenue, Suite 1400, Dallas, Texas; 214-871-3311
- (2) The water and sewer infrastructure constructed by CCMUD No. 1 as it relates to the overall City of Celina system.
- (3) The water and sewer infrastructure funded by CCMUD No. 1 serves the District as well as significant portions of the City of Celina. The District is not like other areas outside of City limits, which can be a burden on a city to provide water and sewer. The District installed infrastructure actually assisted the City's system and enabled growth in and around the District.
- (4)
  - a) None
  - b) See Exhibit KNC-1 attached to the Direct Testimony of Kevin Carlson, P.E. at pages 19-22 of 24.

Prepared by: Jay Joyce; Kevin Carlson

Sponsored by: Jay Joyce; Kevin Carlson

**CITY'S REQUEST TO RATEPAYERS 1-6:** Please provide the following information for each consulting expert whose mental impressions or opinions have been reviewed by a testifying expert:

- (1) name, address, and telephone number;
- (2) the subject matter on which the expert was consulted;
- (3) the general substance of the expert's mental impressions and opinions and a brief summary of the basis for them, of if the expert is not retained by, employed by, or otherwise subject to the control of the responding party, documents reflecting such information;
- (4) if the expert is or was retained by, employed by, or otherwise subject to the control of the responding party:
  - a) all documents, tangible things, reports, models, or data compilations that have been provided to, reviewed by, or prepared by or for the expert in anticipation of the testifying expert's testimony; and
  - b) the expert's current resume and bibliography

**RESPONSE:** None.

Prepared by: John Carlton

**CITY'S REQUEST TO RATEPAYERS 1-7:** Please produce all documents relevant to this matter that were provided, reviewed, or created by or relied upon by each testifying expert.

**RESPONSE:** Pursuant to negotiations, Petitioners and the City have agreed that RFI 1-7 is repetitive of RFI 1-5(4) and need not be answered.

**CITY'S REQUEST TO RATEPAYERS 1-8:** Please produce all documents relevant to this matter that were provided, reviewed, or created by or relied upon by any consulting expert whose mental impressions or opinions have been reviewed by a testifying expert.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

Notwithstanding the foregoing, no responsive documents exist.

**CITY'S REQUEST TO RATEPAYERS 1-9:** Please produce all resumes or *curriculum vitae*, if any, for all persons you intend to call as fact witnesses.

**RESPONSE:** See Attachment A to the Direct Testimony of Jay Joyce at pages 161 to 165 of 1683. See also Exhibit KNC-1 to the Direct Testimony of Kevin Carlson, P.E., at page 19 to 22 of 24. In addition, Petitioners have not yet identified all potential fact witnesses.

Prepared by: John Carlton; Jay Joyce; Kevin Carlson

Sponsored by: Jay Joyce; Kevin Carlson

**CITY'S REQUEST TO RATEPAYERS 1-10:** Please provide copies of any articles, publications, regulatory decisions (outside of Texas), reference material, and documents relied upon by any expert to develop the opinions that the expert may express in this proceeding. If the referenced source is a book, please provide a copy of the relevant section of the book.

**RESPONSE:** Pursuant to negotiations, Petitioners and the City have agreed that RFI 1-10 is repetitive of RFI 1-5(4) and need not be answered.

**CITY'S REQUEST TO RATEPAYERS 1-11:** Please identify all documents you intend to introduce as exhibits at the hearing on the merits. Provide an index of all voluminous materials.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

Notwithstanding the foregoing, see the Direct Testimony of Jay Joyce. See also the Direct Testimony of Kevin Carlson, P.E.. See also Ratepayers Exhibits 1-6 prefiled in this matter.

Prepared by: John Carlton



**CITY'S REQUEST TO RATEPAYERS 1-12:** Please identify all persons you intend to call as fact witnesses at the hearing on the merits, including their title, employer, address, telephone number, and a brief statement of the subject of their testimony.

**RESPONSE:** See the Direct Testimony of Jay Joyce. See also the Direct Testimony of Kevin Carlson, P.E.. In addition, Petitioners have not yet identified all potential fact witnesses.

Prepared by: John Carlton

**CITY'S REQUEST TO RATEPAYERS 1-13:** Please identify and provide a copy of the agreement or agreements, in whatever form, between the attorneys representing the Outside City Ratepayers in this proceeding.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY'S REQUEST TO RATEPAYERS 1-14:** Please provide a copy of all invoices for legal service delivered by, or on behalf of, the attorneys representing the Outside City Ratepayers in this proceeding, with any privileged or confidential information redacted, other than the name(s) and address(s) to whom the invoice is addressed.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY'S REQUEST TO RATEPAYERS 1-15:** Please provide a copy of each check or evidence of other form of payment of each invoice produced in response to the City's RFI 1-14 above, with the routing and account number redacted.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY'S REQUEST TO RATEPAYERS 1-16:** Among all of the Outside City Ratepayers, identify those persons who are authorized, or who have been, to make decisions and representations on behalf of the Outside City Ratepayers in this proceeding.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY'S REQUEST TO RATEPAYERS 1-17:** Produce a copy of each electric, gas, water, or wastewater cost of service study or rate study prepared in whole or in part by Jay Joyce for any Texas municipally-owned utility or a Texas conservation and reclamation district for the past ten years, or direct testimony filed by Jay Joyce with the Texas Commission on Environmental Quality or the Public Utility Commission of Texas in which divided customers between customers within the city's or district's boundary and customers located outside of the city's or district's boundary recommended a higher rate for the class of customers located outside of the city's or district's boundaries, or did not recommend that the city or district cease charging a higher rate for the city's or district's customers located outside of the boundaries.

**RESPONSE:** Pursuant to negotiations, Petitioners and the City agreed that this request is limited to rate studies or testimony of Jay Joyce in situations where the dispute involved a study / testimony related to rates that were different for retail customers within the city / district jurisdiction and retail customers of the city/district that were outside the city / district jurisdiction.

None.

Prepared by: Jay Joyce

Sponsored by: Jay Joyce

**CITY'S REQUEST TO RATEPAYERS 1-18:** Please identify each Outside City Ratepayer who is a party to this proceeding who resides within the boundaries of Collin County Municipal Utility District No. 1.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY'S REQUEST TO RATEPAYERS 1-19:** Please identify each Outside City Ratepayer who is a party to this proceeding who resides outside of the boundaries of Collin County Municipal Utility District No. 1.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.



**CITY'S REQUEST TO RATEPAYERS 1-20:** Identify specific City water and wastewater facilities that you assert are not used and useful in providing water and wastewater service to the in rendering service to the public. The response should include a list of the facilities, the location of each facility, what purpose each facility served prior to decertification, and all reasons each facility is not used and useful in serving customers of the outside-city customer class.

**RESPONSE:** The entire higher pressure plane in Celina's water system is not generally used or useful to the lower pressure plane. This includes pumps and water storage used to supply water from the lower pressure plane to the higher pressure plane. The elevated water storage tanks in the higher pressure plane, the water wells which supply water to the higher pressure plane and the entire distribution system in the higher pressure plane is not used or useful to the lower pressure plane. CCMUD No. 1 resides in the lower pressure plane where it funded the elevated water storage tank and many large water transmission mains to serve the entire pressure plane in which it is contained. While the use of pressure reducing valves can connect the two planes that is not a general practice. And at best, pressure reducing valves provide some usefulness to the lower plane but zero to the higher plane.

A gravity sewer system is used and useful by the public downstream from the point of contributing flow. All points downstream of a connection are used and useful to the public upstream. The gravity sewer system upstream of CCMUD No. 1 is in no way used or useful to CCMUD No. 1. The reality is that the gravity sewer system installed by CCMUD No. 1 is used and useful to all connections within the District plus every connection upstream and beyond the limits of the District.

For further information see the Direct Testimony and Exhibits of Kevin Carlson, P.E.

Prepared by: Kevin Carlson

Sponsored by: Kevin Carlson

**CITY'S REQUEST TO RATEPAYERS 1-21:** Please provide all documents that reflect the analysis performed to determine which facilities are not used and useful in serving water or wastewater service to in rendering service to the public.

**RESPONSE:** General engineering knowledge of how a water and sewer system work is enough to determine which facilities are used and useful in rendering service to specific portions of the public system. Pumps which are designed to transfer water to a higher pressure plane clearly serve the entire system. An elevated water storage tank in the lower pressure plane serves as storage for the entire system. However, the fact that the water is elevated serves little benefit to the higher pressure plane.

A sewer lift station in an entirely separate drainage basin which lifts sewage to the Doe Branch gravity sewer system only serves to use capacity of the drainage basin in which it resides. It is not used and useful to the entire sewer system.

For further information see the Direct Testimony and Exhibits of Kevin Carlson, P.E.

Prepared by: Kevin Carlson

Sponsored by: Kevin Carlson

**CITY'S REQUEST TO RATEPAYERS 1-22:** Please provide all documents reflecting communications between any and all Outside City Ratepayers and the Outside City Ratepayers' consultant(s) or agent(s), and between any and all Outside City Ratepayers' consultant(s) or agent(s) and other Outside City Ratepayers' Consultant(s) or agent(s), that concern or reflect the analysis performed by an Outside City Ratepayer or any Outside City Ratepayers' consultant or agent, used to determine which water and wastewater facilities are not used and useful in rendering service to the public.

**RESPONSE:** Pursuant to negotiations, Petitions and the City agreed that this request does not include privileged communications. Petitioners also objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

None.

Prepared by: Jay Joyce; Kevin Carlson

Sponsored by: Jay Joyce; Kevin Carlson

**CITY'S REQUEST TO RATEPAYERS 1-23:** Please identify the Outside City Ratepayers who are authorized to make decisions relating to this proceeding on behalf of all the Outside City Ratepayers and produce a copy of any document that designates that ratepayer, or ratepayers, to make those decisions.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY'S REQUEST TO RATEPAYERS 1-24:** Please provide a copy of the professional services agreement entered into by the Outside City Ratepayers with Gilbert Wilburn PLLC, with any privileged or confidential information redacted.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY'S REQUEST TO RATEPAYERS 1-25:** Please provide a copy of all invoices received from Gilbert Wilburn PLLC by the Outside City Ratepayers, with any privileged or confidential information redacted.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY'S REQUEST TO RATEPAYERS 1-26:** Please provide a copy of the professional services agreement entered into by the Collin County Municipal Utility District No. 1 with Gilbert Wilburn PLLC, with any privileged or confidential information redacted.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY'S REQUEST TO RATEPAYERS 1-27:** Please provide a copy of all invoices received from Gilbert Wilburn PLLC by the Collin County Municipal Utility District No. 1, with any privileged or confidential information redacted.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.



**CITY'S REQUEST TO RATEPAYERS 1-28:** Please provide a copy of the professional services agreement entered into by the Outside City Ratepayers with The Carlton Law Firm, PLLC, with any privileged or confidential information redacted.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY’S REQUEST TO RATEPAYERS 1-29:** Please provide a copy of all invoices received from The Carlton Law Firm, PLLC by the Outside City Ratepayers, with any privileged or confidential information redacted.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina’s First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY'S REQUEST TO RATEPAYERS 1-30:** Please provide a copy of the professional services agreement entered into by the Collin County Municipal Utility District No. 1 with The Carlton Law Firm, PLLC, with any privileged or confidential information redacted.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY'S REQUEST TO RATEPAYERS 1-31:** Please provide a copy of all invoices received from The Carlton Law Firm, PLLC by the Collin County Municipal Utility District No. 1, with any privileged or confidential information redacted.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY’S REQUEST TO RATEPAYERS 1-32:** Please provide the complete applications by the Collin County Municipal Utility District No. 1 filed with the Texas Commission on Environmental Quality requesting approval to issue the bonds, including but not limited to the engineer’s report and the market study, but excluding the plans and specs and contract documents for facilities.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina’s First Request for Information and First Request for Admissions*, filed June 1, 2020.

The requested records are equally available to the City from the Texas Commission on Environmental Quality. Ratepayers also are aware that the District has responded to the City’s requests under the Texas Public Information Act and provided the requested information to the City. See the attached cover letter from the District to the City provided in response to the Public Information Act request from the City.

Prepared by: John Carlton

**CITY'S REQUEST TO RATEPAYERS 1-33:** Please provide all documents related to the reimbursement report(s) submitted by or on behalf of the developer(s) and other persons to Collin County Municipal Utility District No. 1 requesting reimbursement from the proceeds of the bonds and any audit(s) of those reports.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

The requested records are equally available to the City from the Texas Commission on Environmental Quality. Ratepayers also are aware that the District has responded to the City's requests under the Texas Public Information Act and provided the requested information to the City. See the attached cover letter from the District to the City provided in response to the Public Information Act request from the City.

Prepared by: John Carlton

**CITY'S REQUEST TO RATEPAYERS 1-34:** Please identify and describe the substance of all conversations between you and Commission Staff regarding requests for information in this docket.

**RESPONSE:** None.

Prepared by: John Carlton; Jay Joyce; Kevin Carlson

Sponsored by: Jay Joyce; Kevin Carlson

**CITY'S REQUEST TO RATEPAYERS 1-35:** Please identify and describe the substance of all conversations between you and Commission Staff regarding the Outside City Ratepayers' direct case in this docket.

**RESPONSE:**     None

Prepared by:     John Carlton; Jay Joyce; Kevin Carlson

Sponsored by:     Jay Joyce; Kevin Carlson



**CITY'S REQUEST TO RATEPAYERS 1-36:** Please identify and produce all documents provided by you to Commission Staff regarding requests for information in this docket, other than documents filed on the Commission's Interchange.

**RESPONSE:** None.

Prepared by: John Carlton; Jay Joyce; Kevin Carlson

Sponsored by: Jay Joyce; Kevin Carlson

**CITY'S REQUEST TO RATEPAYERS 1-37:** Please identify and produce all documents provided by you to Commission Staff regarding the Outside City Ratepayers' direct case, other than documents filed on the Commission's Interchange.

**RESPONSE:** None.

Prepared by: John Carlton; Jay Joyce; Kevin Carlson

Sponsored by: Jay Joyce; Kevin Carlson

**CITY'S REQUEST FOR INFORMATION TO RATEPAYERS 1-38:** If the answer to a Request for Admission below is other than "admit," please describe in detail the reason for not admitting.

**RESPONSE:** Petitioners objected to the City's Requests for Admissions 1-1 to 1-5, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

Prepared by: John Carlton

**CITY'S REQUEST FOR ADMISSION TO RATEPAYERS 1-1:** Admit or deny that the Outside Ratepayers who own land within the boundaries of Collin County Municipal District No. 1 are successors or assigns of the signatories to the Amended and Restated Development Agreement dated March 12, 2007 and filed in the public records of Collin County, Texas as document no. 20071101001489980.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY’S REQUEST FOR ADMISSION TO RATEPAYERS 1-2:** Admit or deny that Section 6.3 of the Amended and Restated Development Agreement described in Request for Admission 1-1 states:

**6.3** Rates. The retail water rates charged to customers located within the RPG Property shall not exceed 150% of those rates duly adopted and uniformly charged by the City for “in-city” service. The retail wastewater rates charged to customers located within the RPG Property shall be the same as those duly adopted and uniformly charged by the City for “in-city” services. Each end-buyer (as defined in Section 12.14(a) below) takes title to its portion of the Property, subject to these rates, and acknowledges that such rates are reasonable.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina’s First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY’S REQUEST FOR ADMISSION TO RATEPAYERS 1-3:** Admit or deny Section 6.3 of the Amended and Restated Development Agreement, as described in Request for Admission 1-1 above provides that the signatories to the Amended and Restated Development Agreement described in Request for Admission 1-1, and the successors and assigns of those signatories, have agreed that the water rates charged to the Ratepayers that are up to 150% of the rates duly adopted and uniformly charged by the City for “in city” service are reasonable.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY’S REQUEST FOR ADMISSION TO RATEPAYERS 1-4:** Admit or deny Section 2.10 of the First Amended and Restated Development Agreement described in Request for Admission 1-1 above states the following:

2.10 Waiver. RPG, the East Commercial Property Owner and the West Commercial Property Owner (a) waive any and all claims against the City regarding validity or enforceability of the Development Fees and easement and site donations described in this Agreement, and (b) release any claims that RPG, the East Commercial Property Owner and the West Commercial Property Owner may have against the City regarding such fees and donations (whether such claim exists on the Effective Date or arises in the future). In addition, RPG, the East Commercial Property Owner and the West Commercial Property Owner on behalf of themselves and their respective assigns and successors in interest, including subsequent owners of the Property (a) waive any and all claims against the City regarding validity or enforceability of the Park Fee, Water Impact Fee, and Sewer Impact Fee, and water rates described in this Agreement, and (b) release any claims that RPG, the East Commercial Property Owner and the West Commercial Property Owner, and their respective assigns and successors in interest may have against the City regarding the collection of such fees and the payment of all or part of such fees to RPG.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina’s First Request for Information and First Request for Admissions*, filed June 1, 2020.

**CITY'S REQUEST FOR ADMISSION TO RATEPAYERS 1-5:** Admit or deny RPG, the East Commercial Property Owner and West Commercial Property Owner, on behalf of themselves and their respective assigns and successors in interest, including subsequent owners of the Property, waive any and all claims against the City regarding validity or enforceability of the Park Fee, Water Impact Fee, Sewer Impact Fee, and water rates described in the First Amended and Restated Development Agreement described in Request for Admission 1-1 above.

**RESPONSE:** Petitioners objected to this Request, please see *Objections of Outside City Ratepayers to City of Celina's First Request for Information and First Request for Admissions*, filed June 1, 2020.



**OUTSIDE CITY RATEPAYERS'  
PRODUCTION RESPONSIVE TO  
CITY REQUEST TO RATEPAYERS 1-5(4)(A)**

## Rate of Return Report – Texas as of January 1, 2020

This report contains historical PUC Docket references for investor owned water/sewer utilities with rate of return-related testimony. The documents may be located at: <http://interchange.puc.texas.gov/>

### 48640 W. E. Vlasek

- Applicant ROR
  - Direct, item number 100 (8/21/2019)
  - Rebuttal, item number 121 (10/25/2019)
  - Amended rebuttal, item number 124 (11/7/2019)
- Staff ROR, item number 111 (9/19/2019)
- Test year end 12/31/2017 (case is pending)

### 47976 Liberty Utilities (Silverleaf)

- Applicant ROR, Direct, item number 4 (bates pages LU000377- LU000457; 3/19/18)
- OPUC ROR, item number 1017 (10/5/18)
- Staff ROR, item number 1037 (10/26/18)
- Test year end 12/31/2017 (case was settled)

### 47897 Forest Glen Utility Company

- Applicant ROR, Direct, item number 205 (bates pages FGU0580, FGU0592-FGU0594; 7/18/18)
- Staff ROR, Direct item number 231 (8/23/18)
- Test year end 12/31/2016 (case was settled)

### 47736 SWWC Utilities, Inc.

- Applicant ROR, Direct, item number 2 (bates page 86-167; 11/10/17)
- Test year end 12/31/2016 (case was settled)

### 47626 Southwest Liquids, Inc.

- Applicant ROR, item number 182 (3/16/18)
- Staff ROR, item number 210 (4/27/18)
- Test year end 12/31/2016 (case was settled)

### 47275 The Commons Water Supply, Inc.

- Applicant ROR
  - Direct, item number 382 (11/29/17)
  - Errata, item number 410 (2/14/18)
  - Rebuttal, item number 412 (3/7/18)
- Staff ROR, direct, item number 395 (12/18/17)
- Test year end 12/31/2016 (case was withdrawn)

### 46747 Cypress Gardens Mobile Home Subdivision

- Applicant filed no direct testimony on ROR
- Staff ROR, item number 40 (9/14/18)
- Test year end 12/31/2015
- **Final Order, item number 66:**

Component	Ratio	Cost Rate	Weighted Cost
Debt	50%	5.04%	2.52%
Equity	50%	9.07%	4.54%
Overall			7.06%

## Rate of Return Report – Texas as of January 1, 2020

### 46256 Liberty Utilities (Woodmark Sewer & Tall Timbers Sewer)

- Applicant ROR
  - Direct, item number 2 (9/2/16)
  - Rebuttal, item number 1681 (6/30/17)
- OPUC ROR, item number 1629 (5/23/17)
- Staff ROR, item number 1668 (6/12/17)
- Test year end 9/30/2015 (case was settled)

### 46245 Double Diamond Utility Company, Inc.

- Applicant ROR
  - Direct, item number 573 (8/4/17)
  - Rebuttal item number 614 (10/16/17)
- Staff ROR, item number 591 (9/22/17)
- Applicant Rebuttal ROR, item number 614, (10/16/17)
- Test year end 12/31/2015
- **Final Order on Rehearing, item number 737:**

Component	Ratio	Cost Rate	Weighted Cost
Debt	42.27%	4.91%	2.32%
Equity	52.73%	8.79%	4.63%
Overall			6.95%

### 45720 Rio Concho Aviation

- Applicant ROR
  - Direct, item number 54 (8/5/16)
  - Rebuttal, item numbers 113, 114 (9/27/16)
- Staff ROR, item number 86 (9/9/16)
- Test year end 12/31/2015
- **Final Order, item number 177:**

Component	Ratio	Cost Rate	Weighted Cost
Debt	50%	5.03%	2.52%
Equity	50%	8.48%	4.24%
Overall			6.76%

### 45570 Monarch Utilities I, L.P.

- Applicant ROR, item number 1 (6/28/17)
- Staff ROR, item number 286 (8/24/16)
- Test year end 6/30/2015 (case was settled)

### 45418 Corix Utilities (Texas), Inc.

- Applicant ROR, item number 2 bates pp 000383-000451 (12/28/15),
- Staff ROR, item number 605 (9/21/16)
- Test year end 9/30/2015 (case was settled)

## **Rate of Return Report – Texas as of January 1, 2020**

### **44809 Quadvest, LP.**

- Applicant ROR
  - Direct, item number 60 (3/4/16)
  - Rebuttal, item number 130 (5/18/16)
- Staff ROR, item number 111 (5/11/16)
- Test year end 12/31/2014 (case was settled)

### **44236 Custom Water Company, LLC**

- Number specific Applicant ROR testimony
- Staff ROR, item number 85 (10/23/15)
- Test year end 9/1/2014 (case was withdrawn)

### **43076 Consumers Water, Inc.**

- Applicant ROR
  - Direct, item number 394 (5/3/16)
  - Rebuttal, item number 418 (8/29/16)
- Staff ROR, item number 408 (7/26/16)
- Test year end 12/31/2013 (case was settled)

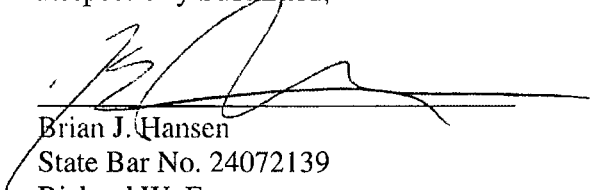
**DOCKET NO. 49154  
SOAH DOCKET NO. 473-19-5677.WS**

<b>RATEPAYERS' APPEAL OF THE DECISION BY LAGUNA MADRE WATER DISTRICT TO CHANGE RATES</b>	§ § § §	<b>STATE OFFICE OF  ADMINISTRATIVE HEARINGS</b>
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**LAGUNA MADRE WATER DISTRICT'S RESPONSE TO  
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION  
TO LAGUNA MADRE WATER DISTRICT  
QUESTION NO. STAFF 1-1 THROUGH STAFF 1-16**

COMES NOW, Laguna Madre Water District, Respondent in the above-referenced matter, and pursuant to the Tex. Admin. Code Ann. § 22.144 (TAC), makes and files this its Responses to Commission Staff's First Request for Information to Laguna Madre Water District Question No. Staff 1-1 through Staff 1-16.

Respectfully Submitted,

  
Brian J. Hansen  
State Bar No. 24072139  
Richard W. Fryer  
State Bar No. 24085316

**Fryer & Hansen, PLLC**  
1352 West Pecan Boulevard  
McAllen, Texas 78501  
Telephone: (956) 686-6606  
Facsimile: (956) 686-6601  
Email: Email@fryerandhansen.com

**ATTORNEYS FOR RESPONDENT  
LAGUNA MADRE WATER DISTRICT**

### **CERTIFICATE OF SERVICE**

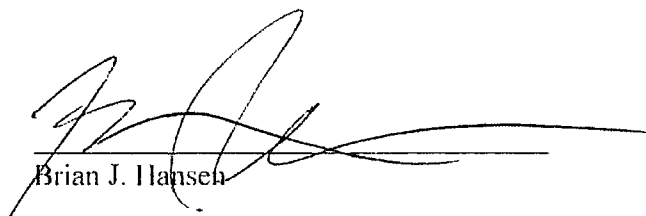
A true and correct copy of the above and foregoing **Laguna Madre Water District's Responses to Commission Staff's First Request for Information to Laguna Madre Water District Question No. Staff 1-1 Through Staff 1-16** has been served on all parties of record on the 27<sup>th</sup> day of November, 2019 as follows:

**Via U.S. Postal Service:**

Kourtnee Jinks  
Public Utilities Commission of Texas Legal Division  
P.O. Box 13326  
Austin, Texas 78711-3326  
*Attorney for Public Utilities Commission of Texas*

**Via U.S. Postal Service:**

Liliana Elizondo  
James H. Hunter, Jr.  
Royston, Rayzor, Vickery & Williams, LLP  
55 Cove Circle  
Brownsville, Texas 78521  
*Attorney for South Padre Island Golf Course*



Brian J. Hansen

**SOAH DOCKET NO. 473-19-5677.WS  
PUC DOCKET NO. 49154**

**LAGUNA MADRE WATER DISTRICT'S RESPONSE TO  
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION  
TO LAGUNA MADRE WATER DISTRICT  
QUESTION NO. STAFF 1-1 THROUGH STAFF 1-16**

Staff 1-1      Please provide a copy of the rate study used to determine the rate increase subject to this appeal.

RESPONSE: See Exhibit "A" (LMWD 0001 - LMWD 0105)

Staff 1-2      Please provide all information used by the board of directors of Laguna Madre Water District to determine the rate increase subject to this appeal.

RESPONSE: See Exhibit "B" (LMWD 0106 - LMWD 0199)

Staff 1-3      Please provide copy of the tariffs or rate schedules before and after the rate increase.

RESPONSE: See Exhibit "C" (LMWD 0200 - LMWD 0206)

Staff 1-4      Please provide a copy of Laguna Madre's annual budgets approved by the board of directors for the fiscal years (FY) 2017, 2018, and 2019.

RESPONSE: See Exhibit "D" (LMWD 0207 - LMWD 0329)

Staff 1-5      Please provide a copy of Laguna Madre's audited financial statements, including the notes to basic financial statements and required Texas supplemental schedules, and any other financial reports for the FY 2016, 2017, and 2018. If the audited financial statements are not available, please provide the unaudited financial statements.

RESPONSE: See Exhibit "E" (LMWD 0330 - LMWD 0597)

Staff 1-6      Please provide a schedule for Bonds Issued or any Debt Issuances for 2018 and 2019, with the following column headings:

- a.      Purpose;
- b.      Creditor;
- c.      Description of the bonds or debt certificates;
- d.      Original Amount;
- e.      Year of Issue;
- f.      Final Maturity or Maturity Date;
- g.      Interest Rate;
- h.      Amount of Annual Payments;
- i.      Balance as of 9/30/2018, or end of the FY; and

- j. Annual debt service outstanding balance broken down by principle and interest for 2017, 2018, and 2019.

RESPONSE: See Exhibit "F" (LMWD 0598 - LMWD 0606)

Staff 1-7 Please provide a schedule of Laguna Madre's property plant and equipment for the FY 2017 and 2018, with the following column headings:

- a. Item or account name;
- b. Date of acquisition or date placed in service;
- c. Original Cost;
- d. Estimated life of the asset;
- e. Annual Depreciation;
- f. Accumulated Depreciation;
- g. Net Book Value; and
- h. Discuss whether the item is used to produce or deliver water to the appellant in this case.

RESPONSE: See Exhibit "G" (LMWD 0607 - LMWD 0678)

Staff 1-8 Please provide copies of contracts between Laguna Madre with any company, agency, or any service provider for the years 2017, 2018 and 2019.

RESPONSE: See Exhibit "H" (LMWD 0679 - LMWD 17968)

Staff 1-9 Please provide copies of contracts with all commercial, non-residential, wholesale, and non-potable water customers of Laguna Madre.

RESPONSE: See Exhibit "I" (LMWD 17969 - LMWD 17986)

Staff 1-10 Please provide copies of the minutes of Laguna Madre's board meetings when the rate increase to customers were discussed and approved.

RESPONSE: See Exhibit "J" (LMWD 17987 - LMWD 18109)

Staff 1-11 Please provide a schedule of revenues for FY 2017, 2018 and 2019, broken down by base rate revenues (gallonge charges and minumum monthly or annual charges, and other income or revenues, such as tap fees and late fees).

RESPONSE: See Exhibit "K" (LMWD 18110 - LMWD 18111)

Staff 1-12 Please provide the number of customers of Laguna Madre for FY ending 2017 and 2018. Please classify the customers as to residential, commercial, etc.

RESPONSE: See Exhibit "L" (LMWD 18112 - LMWD 18113)



Staff 1-13 Please provide a list of Laguna Madre's customers for FY ending 2017 and 2018.

RESPONSE: See Exhibit "M" (LMWD 18114 - LMWD 18341)

Staff 1-14 Please provide copies of tax returns, any IRS forms, or other documents filed with the Internal Revenue Service for the years ending 2017 and 2018.

RESPONSE: See Exhibit "N" (LMWD 18342; and LMWD 18502 - 18504)

Staff 1-15 Please provide a list of Laguna Madre's officers and board of directors as of FY 2018 and 2019.

RESPONSE: See Exhibit "O" (LMWD 18343 - LMWD 18345)

Staff 1-16 Please provide a list of officers and employees as of December 31, 2018, of Laguna Madre with the following column headings:

- a. Name;
- b. Position;
- c. Date employed;
- d. Date terminated, if applicable;
- e. Salary per hour, month, or year, where applicable;
- f. Number of hours work per week; and
- g. Detailed job description.

RESPONSE: See Exhibit "P" (LMWD 18346 - LMWD 18501)

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LMWD 0001 - LMWD 18504

DOCUMENTS TOO VOLUMINOUS  
FOR PAPER PRODUCTION

SEE THUMB DRIVE ATTACHED

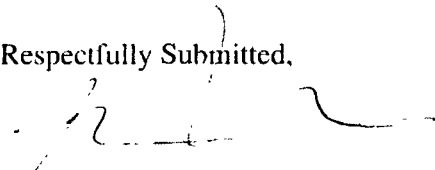
**DOCKET NO. 49154  
SOAH DOCKET NO. 473-19-5677.WS**

<b>RATEPAYERS' APPEAL OF THE</b>	<b>§</b>	<b>STATE OFFICE OF</b>
<b>DECISION BY LAGUNA MADRE</b>	<b>§</b>	
<b>WATER DISTRICT TO CHANGE</b>	<b>§</b>	<b>ADMINISTRATIVE HEARINGS</b>
<b>RATES</b>	<b>§</b>	

**LAGUNA MADRE WATER DISTRICT'S RESPONSE TO  
COMMISSION STAFF SECOND SET OF REQUESTS FOR INFORMATION  
TO LAGUNA MADRE WATER DISTRICT  
QUESTION NO. STAFF 2-1 THROUGH 2-21**

COMES NOW, Laguna Madre Water District, Respondent in the above-referenced matter, and pursuant to the Tex. Admin. Code Ann. § 22.144 (TAC), makes and files this its Responses to Commission Staff's Second Set of Requests for Information to Laguna Madre Water District, Question No. Staff 2-1 through Staff 2-21.

Respectfully Submitted,

  
\_\_\_\_\_  
Brian J. Hansen  
/State Bar No. 24072139  
Richard W. Fryer  
State Bar No. 24085316

**Fryer & Hansen, PLLC**  
1352 West Pecan Boulevard  
McAllen, Texas 78501  
Telephone: (956) 686-6606  
Facsimile: (956) 686-6601  
Email: Email@fryerandhansen.com

**ATTORNEYS FOR RESPONDENT  
LAGUNA MADRE WATER DISTRICT**

**CERTIFICATE OF SERVICE**

A true and correct copy of the above and foregoing **Laguna Madre Water District's Responses to Commission Staff's Second Set of Requests for Information to Laguna Madre Water District, Question No. Staff 2-1 Through Staff 2-21** has been served on all parties of record on the 3<sup>rd</sup> day of January, 2020 as follows:

**Via U.S. Postal Service:**


Kourtnee Jinks  
Public Utilities Commission of Texas Legal Division  
P.O. Box 13326  
Austin, Texas 78711-3326  
*Attorney for Public Utilities Commission of Texas*

**Via U.S. Postal Service:**

Liliana Elizondo  
James H. Hunter, Jr.  
Royston, Rayzor, Vickery & Williams, LLP  
55 Cove Circle  
Brownsville, Texas 78521  
*Attorney for South Padre Island Golf Course*

**Via U.S. Postal Service:**

Stephen Journeay  
Public Utilities Commission of Texas  
P.O. Box 13326  
Austin, Texas 78711-3326  
*Commission Counsel for Public Utilities Commission*

  
\_\_\_\_\_  
Brian J. Hansen

**SOAH DOCKET NO. 473-19-5677.WS  
PUC DOCKET NO. 49154**

**LAGUNA MADRE WATER DISTRICT'S RESPONSES TO  
COMMISSION STAFF'S SECOND SET OF REQUESTS FOR INFORMATION  
TO LAGUNA MADRE WATER DISTRICT  
QUESTION NO. STAFF 2-1 THROUGH STAFF 2-21**

**STAFF 2-1. Please provide Laguna Madre Water District's cost of service models used to develop the November 2017 raw water rates and the April 1, 2018 rates in native excel format with all formulas intact.**

**RESPONSE:** The District's comprehensive rate model used to calculate raw and retail water rates for the 2018 rate study and for Mr. Dan V. Jackson's prefiled testimony is included in Microsoft Excel executable format along with this submission. This model is titled *2020 01 02 LMWD Rate Model Staff RFI*. The District notes that this model comprises the intellectual property of the District's consultant, Willdan Financial Services. The District requests that this model be considered confidential, not be shared with outside parties during the course of these proceedings, and that all parties relinquish control of this model at the conclusion of these proceedings.

The model that has been provided contains the calculations prepared by Willdan for the 2018 rate study, along with the revised calculations as presented in Dan V. Jackson's November 15 2019 prefiled testimony.

Also included is the rate model used in the District's 2014 rate study and long-term financial forecast. This model was used as the basis for the 2017 and April 2018 raw water rates adopted by the Board, though it should be noted that the Board did not precisely follow the recommendations as set forth in the rate study. This model is labeled *2015 02 27 LMWD Rate Model Alt 1*.

**STAFF 2-2. Please provide the native excel format with all formulas intact for the 2018 rate study filed in Laguna Madre Water District's direct testimony.**

**RESPONSE:** Please see answer to S 2-1. The District's comprehensive rate model used to calculate raw and retail water rates for the 2018 rate study and for Mr. Dan V. Jackson's prefiled testimony is included in Microsoft Excel executable format along with this submission. This model is titled *2020 01 02 LMWD Rate Model Staff RFI*. The District notes that this model comprises the intellectual property of the District's consultant, Willdan Financial Services. The District requests that this model be considered confidential, not be shared with outside parties during the course of these proceedings, and that all parties relinquish control of this model at the conclusion of these proceedings.

**STAFF 2-3. Please provide the allocation factors used to allocate all line items within the cost of service models referenced in (2-1).**

**RESPONSE:** The District's interactive Excel-based rate model contains a series of spreadsheets labelled "Input". These are the spreadsheets in which the user inputs the data required to complete the cost of service calculation and forecast for the next ten years. All cells that require manual entries are in blue typeface and are shaded in yellow. If cell is in black, it is a formula or non-changing hardcode.

The Operating Input page lists every budget line item in each of the District's departments. There are approximately 1,000 line items in this spreadsheet. The input page lists the percent each line item is allocated to the water and wastewater cost of service. The spreadsheet also lists the percent each line item is allocated to each function – Supply/Raw Water Transmission, Treatment, Distribution, Administration and Customer Billing. Finally, the spreadsheet lists the percent increase forecast each year for the next decade for each budget line item. All of the allocation factors used in the District's raw and treated water cost of service calculation are contained in this spreadsheet. The model allows for the user to adjust these allocations and forecast increases as appropriate.

**STAFF 2-4. For the items that were allocated among the functions in the cost of service models referenced in (2-1), please explain the rational for the functional allocation factor that was used.**

**RESPONSE:** In the 2014 rate study, the 2018 rate study, and the prefiled testimony of Dan V. Jackson, the District used a general allocation factor of 25% of water plant and distribution costs that would be allocable to the raw water line. This estimate and factor was based primarily on the professional expertise of District staff, who have operated and managed the raw water line and the distribution system since its construction began in 1988 (The District's general manager has been employed by the District since before the line was completed). The District had felt that the professional expertise and estimates of those who have been responsible for the line for the past three decades would be sufficient support for these allocation factors.

Further, the District felt that using a standard percentage of 25% for water plant and water distribution costs would be efficient and would be easy to understand and administer. The District's budget is composed on hundreds of account codes, and conducting a detailed evaluation of every line item for the purposes of allocation to raw water every time the rate needed to be updated would be expensive, time consuming and out of proportion considering that raw water customer sales are less than 1% of the District's total revenues.

However, the SPI Golf Course's expert has filed testimony challenging these allocation factors, and has provided his own set of cost estimates (for which he provides no supporting evidence) that bear no resemblance to the actual costs incurred by the District. Given this development, the District will provide clarification and support for the 25% allocation factors used

in the cost of service model provided in response to S 2-1.

### **Operating Costs**

The District provides the following evidence, rationale and documentation for the allocation of 25% of operating costs of water plant (01) and water distribution (03) cost centers to the raw water system:

- 1) The duties, responsibilities and professional expertise of District staff regarding the raw water line result in approximately 25% of FTEs attributable to raw water
- 2) The percentage of water plant and distribution asset values devoted to the raw water line are approximately 25%
- 3) The percentage of inch-miles of the raw water line to the entire transportation and distribution system exceed 25%
- 4) Raw-Water Related Electricity expenses, a key component of operating costs, are approximately 25% of total Electricity expenses

Each will be discussed in turn. However, a point of clarification needs to be addressed. The District splits its raw water related assets between its Water Plant and Water Distribution departments. Raw water costs are captured in both the Water Plant cost center (01) and Water Distribution cost center (03). This is because staff in both these departments devote professional time and responsibility to the raw water line. Like many smaller districts, staff in the water plant and water distribution departments perform all the tasks that are necessary to operate and maintain a water system – plant-related, raw water line-related, and retail distribution-related. So while “Water Plant – 01” may imply 100% of responsibilities for the water treatment plant, and “Water Distribution – 03” may imply 100% of responsibilities for the retail water distribution department, in reality both departments provide resources to and support the raw water function.

- 1) *The duties, responsibilities and professional expertise of District staff regarding the raw water line result in approximately 25% of FTEs attributable to raw water*

There are a total of 12 Water Plant FTEs, and District staff estimates that 3 FTEs, or 25%, are devoted to raw water line and pump station operations and maintenance. It is not specific individuals who manage the raw water system; all of the water plant employees take turns performing raw water line-related tasks.

The raw water line pumped 1,637,161,000 gallons of raw water in 2018 through its 26 mile system, and the daily and hourly volumes varied widely based on the time of year. The District had to have raw water available to service the needs of the hundreds of thousands of persons who visit South Padre Island each summer. This makes it intuitively obvious that a significant amount of effort and expense will be required to maintain the primary raw water line servicing the District.

The staff operations and maintenance responsibilities regarding the raw water transportation

system include but are not limited to the following:

- 1) 2-3 staff persons travel to the River Pump Station 7-10 days per month in the winter months and 15-20 days per month during the summer months specifically to monitor the raw water pumps. This includes travel time and hours on site as the pumps perform their operations. This is during the time the District is receiving the water it ordered.
- 2) 2-3 staff persons travel at other times to the three different pump stations several times per month to perform routine maintenance, monitor oil levels, etc.
- 3) Staff must travel to the river pump station on a nearly daily basis to complete the readings for the TCEQ Master Meter reports (weekends and holidays are typically excluded). This includes time spent in route and time spent at the pump stations.
- 4) Staff travels to the Cuatas and River Pump Stations 2-3 times per week to check for potential leaks. Staff specifically monitors and walks the 36" line from the reservoir to the Cuatas Pump Station. District staff has nicknamed this line "the pipeline from Hell" due to the frequency with which it has had leaks over the years. Concerns over the system have compelled staff to be physically present to walk the line to search for evidence of any new leaks. This is time-consuming, and includes much include travel time from the District.
- 5) Even when the staff is not physically present at the pump stations, staff at Water Treatment Plant #2 monitor the pump stations 24/7 through remote computers and the District's SCADA system. Virtually every single hour someone at the plant is monitoring readings at the line or pump stations.
- 6) When there are system leaks or malfunctions, significant additional effort is required. Water must be cut off, plans drawn, materials acquired for the fix, etc. The level of effort can vary widely based on the leak. It also involves additional personnel up to and including the District's General Manager.

All these tasks involve 2-3 personnel, in keeping with District policy that employees should not travel to remote locations alone and without support or assistance. It is easy to see how the combination of all these tasks makes it reasonable to assume a full use of 3 FTEs out of the 12 total WTP personnel.

Though Water Plant (01) personnel have primary responsibility for the line and pump stations, significant effort to support the raw water transportation system is contributed by Water Distribution (03) personnel as well. There are a total of 8 FTEs in the Water Distribution department. When a leak is discovered, virtually all distribution department employees cease other responsibilities and devote all resources to fixing the leak. This is because transmission line leaks risk crippling the District's entire system, and so any leak, no matter how small it may initially seem,



is treated with the utmost gravity by District staff. It is important to note that for any given leak, District staff does not know what the level of effort will be until the line is uncovered. District staff estimates that there have been 8-10 major leaks in the last decade, each of which will take several days of staff and senior personnel time. Also, there must be reports written, permits obtained, and the coordination of several personnel to fix the problem.

Additional, the water distribution department supervisor personally contributes to monitoring the portion of the raw water line known as the “pipeline from Hell”. He drives this route at least once a week.

In conclusion, the 25% factor is clear for the water plant cost center (01). It is less clear for the distribution department (03), because the actual line leaks are more random and difficult to predict. However, it is reasonable to allocate the same 25% of the distribution cost center (03), because this infrastructure exists to support and fix raw water leaks when they occur, and without this department and the FTEs that support this department, line leaks cannot be fixed.

Finally the District notes that at this time it’s policy of a simple and straightforward allocation of 25% of water plant and water distribution costs does not include the allocation of any expenses of the following District Departments:

- 05 – Maintenance
- 11 – Electrical
- 12 – Construction and Maintenance

District staff acknowledges that a portion of each of these expenses can be reasonably allocated to Raw Water Line. Should the District be requested or encouraged to adopt a more “direct” allocation that does not rely as much on its current system of using general factors, then the District should revisit these costs centers and allocate a portion of these costs accordingly.

- 2) *The percentage of water plant and distribution asset values devoted to the raw water line are approximately 25%*

The rate model supplied by the District, *2020 01 02 LMWD Rate Model Staff RFI*, contains a spreadsheet entitled *Fixed Assets Raw Water*. This spreadsheet lists all of the District’s assets assigned to the water plant (01) and water distribution (03) cost centers. District staff examined this asset list in detail and identified those assets devoted to the raw water system. The total original cost is as follows:

Total Water Plant and Distribution	= \$53,799,891
Total Raw Water Portio	= \$14,747,588
Percent of Total	= 27%

Using the values for net assets after depreciation, the percent actually rises to 30%.

If raw water assets are 27% of the total water plant and distribution assets, it further adds to the reasonableness of assigning that same approximate total (25%) of operating costs to raw water.

- 3) *The percentage of inch-miles of the raw water line to the entire transportation and distribution system exceed 25%*

It is common practice for utilities to allocate operating costs based on the percentage of inch miles of the distribution system. This method is endorsed by the American Water Works Association Manual M-1, page 303. The rate model supplied by the District, *2020 01 02 LMWD Rate Model Staff RFI*, contains a spreadsheet entitled *Line Inch Miles*. It shows the following totals:

Total Transportation/Distribution Inch Miles	= 3,488
Total Raw Water Line Inch Miles	= 1,350
Percent of Total	= 38.7%

The AWWA Manual does note that the diameter of the mains may not always have a direct relationship to cost, as smaller mains may be older, more depreciated and more costly to operate. Therefore, even though raw water inch miles are 38.7% of the total, the District considers it reasonable to allocate a percentage less than that, or 25%, of distribution costs to raw water.

- 4) *Raw-Water Related Electricity expenses, a key component of operating costs, are approximately 25% of total Electricity expenses*

One of the key non-personnel costs involve electricity. The District reviewed its electricity costs for the 2017-2018 fiscal year. Total costs are as follows:

Total Electricity	= \$257,246
Raw Water Pump Station Electricity	= \$59,729
Percent	= 23.2%

In summary, a significant amount of evidence (personnel, asset values, inch miles, allocation of specific expenses) all lend support to the District's allocation of 25% of water plant and water distribution operating expenses to the raw water line.

### **SPI Expert Operating Costs Allocation**

In lieu of preparing any substantive analysis of the District's costs and operations, SPI Golf witness Mr. Billy Bradford simply quotes an estimate from a 20 year old document that 10% of the District's water plant costs only are attributable to the raw water transmission line. There are numerous reasons why his cherry-picking a 20-year-old estimate will lead to inappropriate and

unreasonably low cost estimates, and should therefore be disregarded. These reasons include but are not limited to the following:

1. The very document from the year 2000 that Mr. Bradford cites and presents as an exhibit in his testimony states the following about this 10% estimate: “the revised calculation was based on a  **cursory** review that assumed approximately 10.0% of the District’s distribution-related O&M expense was devoted to the transmission line ... a detailed operations review and analysis would likely result in a finding that **significantly more than 10.0%** is devoted to this line, which is the largest and most complex transmission line owned by the District. (emphasis added).” In other words, the very document he cites as support warns against the continued use of a 10% allocation factor in future years. And the District’s detailed analysis of its operating costs for raw water has resulted in exactly what this document predicted – a higher cost of operating the raw water line than was assumed 20 years ago.
2. In the last two decades the District has extensively revised its accounting system, beginning in 2007 with the purchase of a new general ledger system. It has added several new departments and hundreds of new account codes. The system as it exists now is significantly different from that which existed 20 years ago. One example of this is that the District now includes raw water transportation costs in both the Water Plant Department (01) and the Distribution Department (03). Specifically, it includes pump station and reservoir costs in Plant, and line repair and monitoring costs in Distribution. Since the District has different account codes, a restructuring of its departments, and an entirely new staff of administrative and finance personnel, it is no surprise that its costs are accounted for significantly differently than they were in the year 2000. Mr. Bradford’s unilateral incorporation of an outdated 10% allocation factor takes none of this into consideration, and should be wholly disregarded.
3. Mr. Bradford’s analysis fails to consider the fact that the District has almost doubled in size since 2000. In 2000 the District served approximately 3,600 accounts; as of the 2018 study it served 6,800 accounts. In the past twenty years a number of new hotels, restaurants and other tourist-related infrastructure has been constructed in the District’s service territory. The District itself is a vastly different organization today than it was at the turn of the century. Further, the District’s transmission line was eight years old in 2000; today it is nearly 30 years old and is in need of significantly more ongoing maintenance and monitoring. All of these factors make it intuitively obvious that an estimate considered appropriate and conservative in 2000 would not be appropriate in 2020.
4. Mr. Bradford’s analysis does not utilize or consider the opinions of those professionals with decades of experience operating and managing the raw water system. During the course of these proceedings Mr. Bradford has not examined or

inspected any District facilities, other than providing a couple of overhead photos from Google Earth in his testimony, and has not spoken to any District senior staff about their maintenance practices. Yet he expects this Commission to accept his estimates over those of District staff who have decades of experience managing the raw water line, and who assert that an allocation factor of 25% is far more appropriate and reasonable.

5. Mr. Bradford accepts the District's expert's 2000 estimate of 10%, and ignores the same expert's 2014 estimate and the 2018 estimate that 25% of water plant and distribution costs are attributable to raw water transmission. His "analysis", if that is what it can be called, consists of little more than picking numbers out of thin air, numbers with no supporting documentation and no rational basis. He also fails to explain why the District's expert's 2000 numbers should be relied upon, but his more recent 2014 and 2018, and 2019 numbers should be disregarded.
6. Mr. Bradford is inconsistent in his use of the 20-year-old estimate of the District's raw water cost. He is perfectly fine with the use of 10% as an allocation factor for operating costs, instead of the District's more appropriate estimate of 25%. However, he rejects the same 20-year-old document's use of a 4.96% rate of return, substituting a rate of 2.75%. So he accepts a number from this 20 year old document that benefits his client (10%), and rejects a number from this same document that does not benefit his client (4.96%).

### **Administration Costs**

Administration costs are clearly a significant component of raw water costs. Mr. Dan V. Jackson's prefiled testimony pp. 24-25 outlined the reasons why administration is a reasonable cost of service. Further, Table DVJ-7 shows that administration costs are allocated based on the ratio of non-administration raw water costs to total water operating costs. This is a standard allocation methodology in water utility ratemaking.

SPI Golf Expert Mr. Billy Bradford excludes 99% of all administration costs on the fatally-flawed logic that because the District's raw water revenues are 1% of total revenues, then administration costs should be only 1%. Mr. Bradford fails to recognize that the District incurs costs for producing, managing and administering the transportation of raw water to ALL of its customers, not just those who purchase raw water directly. Over 90% of the raw water transported by the District is converted into treated water that is consumed by its customers, and the District incurs significant administrative costs producing and transporting this raw water. This very proceeding presents further evidence of the significant amount of administrative cost incurred by the District regarding its raw water function.

The cost of raw water incorporates the sum total of ALL raw water produced and transported,

including administrative costs. This total cost is then divided by the total amount of raw water transported, which in 2018 was 1,637,161,000 gallons. This results in a net cost for raw water of \$1.04 per 1,000 gallons as calculated in the District's 2018 rate study. The golf course purchased 108,609,000 gallons in 2018; the rest of the raw water was converted to treated water and transported to other customers. By attempting to allocate on 1% of the District's administration costs to raw water, Mr. Bradford mixes costs specific to his client with the general cost of producing raw water for everyone, a fatal arithmetic error which significantly undercounts total costs and renders his entire analysis invalid.

**STAFF 2-5. Please indicate which items were directly assigned to each function within the cost of service models referenced in (2-1).**

**RESPONSE:** The rate model does not directly assign any operating costs to raw water. The reasons why the use of allocation methodologies are reasonable and appropriate are contained in the answer to S 2-4.

Depreciation costs and rate base are directly assigned to raw water based on whether the asset is a component of the raw water system. The project team and District staff reviewed all 1,200 line items in the District's asset list and assigned those assets that are a component of the raw water system. This is presented in the rate model, in a spreadsheet entitled *Fixed Assets*.

The District rigorously disputes the majority of SPI Expert Billy Bradford's attempts to exclude costs from the District's depreciation schedule. Mr. Bradford misinterprets the Cuatas improvement project as new construction, when it is in fact an improvement to existing infrastructure, and therefore should be assigned a 20 year depreciable lifespan. The District notes that its auditors have reviewed and approved this asset list as well as the assigned depreciable lifespans, those very lifespans which Mr. Bradford challenges.

However, the District agrees that a single line item, for a line on South Padre Island, was improperly assigned to raw water. The District is also willing to further review its direct assignment of vehicles to raw water. The District seeks only to directly assign those costs that are used and useful to the provision of raw water, and if the parties generally agree that only a portion of certain assets should be assigned to raw water, the District will make such an adjustment.

**STAFF 2-6. For the items that were directly assigned to each function in the cost of service models referenced in (2-1), please justify why direct assignment is preferable to an allocation treatment.**

**RESPONSE:** As stated above, the District has utilized a general allocation factor of 25% of water plant and distribution costs that would be allocable to the raw water line. This factor was based primarily on the professional expertise of District staff, who have operated and managed the raw water line and the distribution system since its construction began in 1988. This District applied this

factor to all costs in the Water Plant (01) and Water Distribution (03) cost centers.

The District is aware that SPI Golf has argued that certain costs should not be subject to the general allocation factor of 25%. One of these costs is chemicals, which Mr. Bradford asserts does not apply to raw water. He bases this exclusion based on a question answered by District witness Mr. Dan V. Jackson during his deposition. Mr. Jackson is a financial expert, not a professional engineer, operator or chemist, yet he was asked whether chemicals are used in the provision of raw water service, a subject clearly outside his expertise. Though Mr. Jackson initially stated that he did not think they were, he learned through subsequent discussions with District staff that potassium permanganate is purchased by the District in significant quantities and used to fight off algae in the reservoirs and raw water lines. Therefore some portion of chemicals costs is indeed allocable to raw water, though the precise percentage remains uncertain as of this writing.

The District advises against the selective employment of direct allocations for expenses such as chemicals. If chemicals are directly allocated, then all other expenses should be reviewed and re-allocated directly. This defeats the purpose of using a general allocation system, and will result in significant additional effort and expense for the District to pour through hundreds of budget line items to calculate a rate that applies to less than 1% of total sales.

**STAFF 2-7. Please see you answer to Staff 1-1, Staff 1-5, Staff 1-6, Staff 1-7, and Staff 1-11. Please re-submit spreadsheets in native excel format with all formulas intact for the answers provided.**

**RESPONSE:** Please see response to Staff 2-2. As to Staff 1-5 documents, these do not exist in requested format.

**STAFF 2-8. Please see your answer to Staff 1-2, please provide all information used by the board of directors of Laguna Madre Water District to determine the rate increase in April 2018.**

**RESPONSE:** See attached document labeled "2015 02 27 LMWD FINAL REPORT" bates labeled LMWD 18835 - LMWD 18893

**STAFF 2-9. Please see your answer to Staff 1-3, please provide copy of the tariffs or rate schedules from November 2017.**

**RESPONSE:** See attached document bates labeled LMWD 18894 - 18895 as well as document labeled "Raw Water Rates Nov 2017.xlsx".

**STAFF 2-10. Please see your answer to Staff 1-12 and Staff 1-13, please disclose the 33 confidential clients listed in your answers for Staff 1-12 and 1-13.**

**RESPONSE:** LMWD objects to this request pursuant to Section 182, Subchapter B of the Texas Utility Code.

**STAFF 2-11. Please see your answer to Staff 1-14, please provide copies of tax returns, any IRS forms, or other documents filed with the Internal Revenue Service for the year ending 2017.**

**RESPONSE:** None.

**STAFF 2-12. Does Laguna Madre Water District charge rates to South Padre Island Golf Course pursuant to a written agreement? If yes, please provide a copy of the written agreement and any amendments to the agreement.**

**RESPONSE:** No.

**STAFF 2-13. Reference Direct Testimony of Dan V. Jackson, page 16 lines 5-7. Do you have other customers who are using facilities of the water or wastewater system for which they have paid little or none of the cost? If the answer is yes, please list the types of customers and the size of their meters. Are these customers' rates set using the cash method or the utility method?**

**RESPONSE:** At this time the District has no retail customers who are using facilities of the water and wastewater system for which they paid little or none of the cost. The District has two types of customers – retail customers and raw water customers. The District has no other wholesale customers.

The cost of service for all retail customers is calculated under the Cash Basis. Retail customers pay for service in two forms – monthly rates, and property taxes.

The cost of service for raw water customers is calculated under the Utility Basis.

**STAFF 2-14. The debt that funded the transportation system has been repaid. The debt service was paid for using the cash method. Because the utility method provides for payment of the same assets, how is Laguna Madre Water District not double-recovering for these assets?**

**RESPONSE:** The use of the utility basis not only prevents the District from double-recovering for raw water assets, but is also allows those customers who paid for the system to be reimbursed for the portion of their system that is used by other customer classes.

Debt service for the raw water line was retired in 2007. It was funded through 20 year revenue bonds, not tax bonds, which means that the District's retail ratepayers paid for the line through their monthly rates. When the SPI Golf Course's predecessor approached the District in 1996 about purchasing raw water, the raw water line debt was already 50% retired. This meant that if the District charged for raw water based on the cash basis, then within 10 years the debt would be retired, even though the golf course was anticipated to purchase water for decades beyond 2007.

Other customers also approached the District about purchasing raw water, including the Cities of Port Isabel and Los Fresnos. Neither of these entities pay taxes to the District. The District therefore sought to develop a single rate for raw water that would take into consideration the fact that purchasers of raw water were not likely to have contributed to the raw water line debt service. In retrospect that did not turn out to be the case, as these other major outside-district raw water customers did not materialize as of yet (though they still may). But the District's logic, approach and actions were reasonable based on the information available at the time.

The advantage of the Utility Basis is that it allows the District to be reimbursed for that portion of the line that is used by these raw water customers. The revenue accumulated by raw water charges has been classified as a "non-rate revenue" by the District.

The District's retail rates are set based on the Net Revenue Requirement to be Raised from Rates. This total is the District's cost of service less its non-rate revenues. Therefore, the inclusion of raw water revenues in non-rate revenues means that total non-rate revenues are higher, and the net revenue requirement to be raised from rates is lower. This means that the District's retail rates will be lower. So the raw water rate benefits the District's other customers by lowering their net revenue requirement, which means that their rates will be lower than they otherwise would have been.

The revenue from raw water can also be interpreted as a reimbursement to the District for the portion of the raw water system used by raw water customers. In this sense the raw water rate can be thought of as using the same principles as that of an impact fee, in that it reimburses the utility for the infrastructure investment it has made.

Since the District is a non-profit entity, by definition the more money it makes through raw water and other non-rate revenue sources, the less it needs to make through its retail rates. This reimbursement is the benefit of having a raw water rate that incorporates a capital cost component for the raw water line.

**STAFF 2-15. What other customers' rates are set using the utility method?**

**RESPONSE:** None. The raw water customers are the only customers who pay for service under the utility method.



The utility method was established in 1996 by the District for raw water customers because of the anticipation that raw water customers would be a unique customer class, for many reasons. First, many of the District's water system assets would not be used and useful in providing service to raw water customers. Second, customers outside the District who would not be subject to the District's taxes had expressed an interest in purchasing raw water. These customers included the City of Los Fresnos and the City of Port Isabel, which though was technically inside the District's boundaries was not subject to the District's taxes. Third, the District wanted to follow the model of utilities such as North Texas Municipal Water District and charge a single wholesale rate per 1,000 gallons for raw water to all its customers. This would avoid issues such as attempting to segregate costs by the "amount" or mileage of the raw water line that would be used to service a specific customer. A one-rate concept would be easier to understand and administer. Finally, at the time the first raw water customer approached the District in 1996, the debt on the District's raw water line was already 50% retired. Further, this debt was funded by revenue bonds, not tax bonds, so therefore a utility method would not reimburse the District for the specific bonds' principal and interest.

Hindsight is always preferable to foresight, and as it had turned out, most of the expected customers and volumes of raw water purchases did not materialize. But the methodology was sound, the reasoning was rational, and the application of the utility method has resulted in a fair, just and reasonable rate for the past 24 years.

**STAFF 2-16. How do the customers whose rates are set using the cash method benefit from Laguna Madre Water District using the utility method of determining rates for the South Padre Island Golf Course? Please provide the dollar amount of these benefits.**

**RESPONSE:** This issue is addressed in the District's answer to S 2-14. The District's retail rates are set based on the Net Revenue Requirement to be Raised from Rates. This total is the District's cost of service less its non-rate revenues. Therefore, the inclusion of raw water revenues in non-rate revenues means that total non-rate revenues are higher, and the net revenue requirement to be raised from rates is lower. This means that the District's retail rates will be lower. So the raw water rate benefits the District's other customers by lowering their net revenue requirement.

The revenue from raw water can also be interpreted as a reimbursement to the District for the portion of the raw water system used by raw water customers. In this sense the raw water rate can be thought of as utilizing the same principles as that of an impact fee, in that it reimburses the utility for the infrastructure investment it has made.

Since the District is a non-profit entity, by definition the more money it makes through raw water and other non-rate revenue sources, the less it needs to make through its retail rates. This reimbursement is the benefit of having a raw water rate that incorporates a capital cost component for the raw water line.

The District estimates that it has collected \$1,362,581 in revenues from raw water sales during the time period 1996 – 2019. This means that the District has been able to set retail rates that collect \$1,362,581 less from its retail customers than it otherwise would have had to but for the establishment of a raw water rate.

**STAFF 2-17. Does the South Padre Island Golf Course pay taxes? If so, what is the tax revenue use for?**

**RESPONSE:** Yes, the SPI Golf Course pays taxes. The tax revenue is primarily used to fund general infrastructure debt service. However, because the raw water line's original debt was funded from revenue bonds paid for by rates, none of the SPI Golf Course or its predecessors' tax revenue was used to fund the raw water line.

Also note that the SPI Golf Course did not purchase the property from IBC Bank until 2017, so the SPI Golf Course has only been paying tax revenue to the District for approximately two years.

**STAFF 2-18. Did the South Padre Island Golf Course agree to the utility method when the original raw water contract was signed?**

**RESPONSE:** Yes. The original 1996 contract included an exhibit that plainly displayed a Utility Basis calculation of the unit rate for raw water. It showed the elements of the Utility Basis – rate base, rate of return, depreciation and Operations and Maintenance Expenses – used to develop the unit rate. Agreement to the use of this methodology was conveyed when the contract was signed by both parties.

The August 9 2000 letter from Mr. Dan V. Jackson to SPI Golf's predecessor's General Counsel, made repeated references to the Utility Basis as the methodology employed to calculate the raw water rate. The District is not aware of any time either SPI Golf or its predecessor ever disputed the use of the Utility Basis over the past 24 years, until SPI Golf filed its case with the Public Utility Commission.

**STAFF 2-19. Under Texas Water Code § 12.013(c), what rate would be required to meet Laguna Madre Water District's requirements regarding debt service and bond coverage.**

**RESPONSE:** The District's current retail rates are sufficient to meet all debt service and coverage requirements. Because the customers who purchase raw water directly generate less than 1% of the District's total revenue, the revenue from raw water is not a material component of either debt service or bond coverage calculations.

**STAFF 2-20. Reference Direct Testimony of Dan V. Jackson, page 39. Please provide detailed explanations and calculations for the determination of all projected increases.**

**RESPONSE:** This answer is similar to The District's response to S 2-3. The District's interactive Excel-based model contains a series of spreadsheets labelled "Input". These are the spreadsheets in which the user inputs the data required to complete the cost of service calculation and forecast for the next ten years. All manual entries are in blue typeface shaded in yellow. If an entry is in black, it is a formula or non-changing hardcode.

The Operating Input page lists every budget line item in each of the District's departments. There are almost 1,000 line items in this spreadsheet. The input page lists the percent increase forecast each year for the next decade for each budget line item. All information regarding allocation factors used in the District's raw and treated water cost of service calculation is contained in this spreadsheet.

Lines 18-27 list the primary "accelerators" used for the ten year forecast. These are as follows:

*Inflation rate* -- assumed to be 3.0% per year. Virtually all operating expenses are assumed to increase by 3.0% annually.

*Personnel Increase* – allows for personnel costs to increase at a greater or lesser rate than inflation, should the District so choose. In prior years the District has built in pay raises higher than, and lower than, the rate of inflation. In the current forecast, personnel raises are forecast to mirror the inflation rate.

*Expense Increase Premium* – certain expenses, such as chemicals, electricity, insurance, workers compensation, etc. are assumed to increase at rates greater than inflation. This premium is added to the inflation rate in certain line items.

*Non-Rate Revenue Increase* – allows users to increase non-rate revenues, should they so choose.

*Water Account/Volume Growth* – certain water expenses, such as repairs and supplies, are assumed to increase as volumes and customers increase.

*Wastewater Account/Volume Growth* -- certain wastewater expenses, such as repairs and supplies, are assumed to increase as volumes and customers increase.

Finally, the model allows the user to manually override certain expense assumptions for given line items.

**STAFF 2-21. Please explain how Laguna Madre Water District's annual budgets were used in the ratemaking process.**

**RESPONSE:** The District's annual budgets were a critical component of the ratemaking process. The District's comprehensive rate model used to calculate raw and retail water rates for the 2018 rate study and for Mr. Dan V. Jackson's prefiled testimony is included in Microsoft Excel executable format along with this submission. This model is titled *2020 01 02 LMWD Rate Model Staff RFI*.

The District's budget is input in its entirety in the spreadsheet titled *Operating Input*. This is a spreadsheet that is a line by line reconstruction of the District's current operating budget. The Operating Budget forms the basis for the water and wastewater current year and forecast cost of service, as illustrated in the *Operating Input* spreadsheet.

DOCKET NO. 49154  
SOAH DOCKET NO. 473-19-5677.WS

LMWD 18835 - LMWD 18895  
UNBATES EXCEL DOCUMENTS

SEE CD ATTACHED

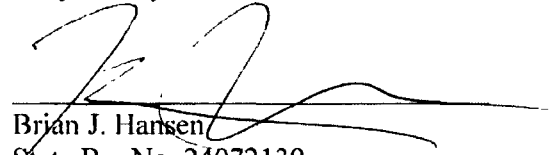
**DOCKET NO. 49154  
SOAH DOCKET NO. 473-19-5677.WS**

<b>RATEPAYERS' APPEAL OF THE</b>	<b>§</b>	<b>STATE OFFICE OF</b>
<b>DECISION BY LAGUNA MADRE</b>	<b>§</b>	
<b>WATER DISTRICT TO CHANGE</b>	<b>§</b>	<b>ADMINISTRATIVE HEARINGS</b>
<b>RATES</b>	<b>§</b>	

**LAGUNA MADRE WATER DISTRICT'S RESPONSE TO  
RATEPAYERS' FIRST SET OF REQUESTS FOR INFORMATION  
TO LAGUNA MADRE WATER DISTRICT**

COMES NOW, Laguna Madre Water District, Respondent in the above-referenced matter, and pursuant to the Tex. Admin. Code Ann. § 22.144 (TAC), makes and files this its Responses to Ratepayers' First Set of Requests for Information to Laguna Madre Water District.

Respectfully Submitted,

  
Brian J. Hansen  
State Bar No. 24072139  
Richard W. Fryer  
State Bar No. 24085316

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**ATTORNEYS FOR RESPONDENT  
LAGUNA MADRE WATER DISTRICT**

### **CERTIFICATE OF SERVICE**

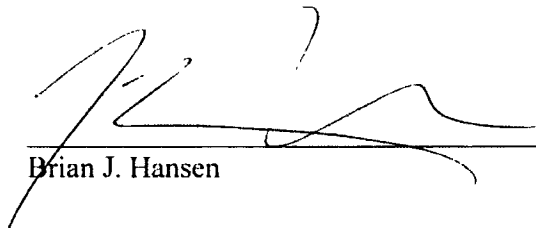
A true and correct copy of the above and foregoing **Laguna Madre Water District's Responses to Ratepayers' First Set of Requests for Information to Laguna Madre Water District** has been served on all parties of record on the 20<sup>th</sup> day of December, 2019 as follows:

**Via U.S. Postal Service:**

Kourtnee Jinks  
Public Utilities Commission of Texas Legal Division  
P.O. Box 13326  
Austin, Texas 78711-3326  
*Attorney for Public Utilities Commission of Texas*

**Via U.S. Postal Service:**

Liliana Elizondo  
James H. Hunter, Jr.  
Royston, Rayzor, Vickery & Williams, LLP  
55 Cove Circle  
Brownsville, Texas 78521  
*Attorney for South Padre Island Golf Course*



Brian J. Hansen

**SOAH DOCKET NO. 473-19-5677.WS  
PUC DOCKET NO. 49154**

**LAGUNA MADRE WATER DISTRICT'S RESPONSES TO  
RATEPAYERS' FIRST SET OF REQUESTS FOR INFORMATION  
TO LAGUNA MADRE WATER DISTRICT**

1. Please produce all studies prepared by or for Laguna Madre Water District regarding raw water since in or after 1988.

**RESPONSE:** See Exhibit "A" -Documents bates labeled LMWD 18505 – LMWD 18822.

2. Please produce all invoices received from Dan V. Jackson, Economists.com, Willdan, and any other firm for whom Dan V. Jackson's work the invoice charged Laguna Madre Water District from 1988 to the present.

**RESPONSE:** See Exhibit "B" -Documents bates labeled LMWD 18823 – LMWD 18828.

3. Please produce copies of all payments made to Dan V. Jackson, Economists.com, Willdan, and any other firm for work by Dan V. Jackson from 1988 to the present.

**RESPONSE:** See Exhibit "C" -Documents bates labeled LMWD 18829 – LMWD 18833.

4. Please identify all Laguna Madre Water District raw water rate increases from 1988 to the present by amount and date.

**RESPONSE:** See Exhibit "D" -Document bates labeled LMWD 18834.

5. Please identify the composition of the water line used by Laguna Madre Water District to transport water to South Padre Island Golf Course.

**RESPONSE:** Pipeline from Water Plant #2 Raw Water Pump Station to South Padre Island Golf Community meter is 18" PVC CL100 SDR41.

The following components of raw water conveyance system serve all customers, including South Padre Island Golf Course (SPIG):

From Rio Grande River to Reservoir No. 4: Contract 'C' As-Built dated March 1990, 42" Concrete Pipe Class A - 50, 24,230 feet; 14 stand pipes



From Reservoir No. 4 to Cuates Pump Station: Contract 'D' 36" Concrete Pipe Class A – 50, 31,717 Linear Feet (LF) & Class B – 50, 16,091 LF, for a total length of 47,808 LF, built Completed March 1990.

From Cuates Pump Station to Reservoir #3 in Laguna Vista has three parallel water lines:

- 24" Asbestos Cement (AC) water line, 23,425 LF, Completed in July 1985, then 20" AC, 42,500 LF, completed in 1983;
- parallel 16" AC/PVC waterline, 65, 925 LF, age unknown (oldest pipeline, 1950s to 1970s)
- 24" AWWA C905, DR 32.5 PVC, 23, 680 LF completed October 2012, then 24" PVC DR 41 C905, 42, 695 LF, completed August 7, 2014

6. Please identify the age of the water line used by Laguna Madre Water District to transport water to South Padre Island Golf Course.

**RESPONSE:** As-Built Record Drawings for SPIG irrigation line are dated 8-28-97. Therefore, SPIG water line is 22 years old. The remaining components of the waterline are 29 years old, 34 years old, 36 years old, 7 years old, 5 years old, & unknown (50+ years) as described in response to Item 5.

7. Please identify the dimensions of the water line used by Laguna Madre Water District to transport water to South Padre Island Golf Course.

**RESPONSE:** Length of 18" diameter pipe is 762 feet from Water Plant 2 raw water pump station to raw water stand pipe. The remaining components of the waterline vary in diameter from 16" to 42" with lengths described in Item 5.

8. Please identify the projected time of replacement of the water line used by Laguna Madre Water District to transport water to South Padre Island Golf Course and explain how this projected time of replacement was calculated, including what it is based upon.

**RESPONSE:** Virtually all the assets that comprise LMWD's expensive and complex 26 mile raw water transportation system have depreciable/useful lifespans of 40 to 50 years. Each asset, its original cost, and forecast depreciable lifespan is contained by line item in the Rate Model spreadsheet provided by Mr. Dan V. Jackson. The District assumes that as the useful lifespans expire each asset will be replaced accordingly.

Please note that 40 to 50-year useful lifespans are common for water distribution assets in the industry.

PUC DOCKET NO. 49154  
SOAH DOCKET NO. 473-19-5677.WS

CD CONTAINING DOCUMENTS RESPONSIVE TO  
RATEPAYERS' RFI TO  
LAGUNA MADRE WATER DISTRICT

LMWD 18505 – LMWD 18834

**DOCKET NO. 49154  
SOAH DOCKET NO. 473-19-5677.WS**

<b>RATEPAYERS' APPEAL OF THE</b>	<b>§</b>	<b>STATE OFFICE OF</b>
<b>DECISION BY LAGUNA MADRE</b>	<b>§</b>	
<b>WATER DISTRICT TO CHANGE</b>	<b>§</b>	<b>ADMINISTRATIVE HEARINGS</b>
<b>RATES</b>	<b>§</b>	

**LAGUNA MADRE WATER DISTRICT'S  
DIRECT TESTIMONY**

**COMES NOW**, Laguna Madre Water District ("*District*") and files this its Direct Testimony as follows:

**I. Procedural History**

1. On January 29, 2019, South Padre Island Golf Course vs. SPI Golf Homeowners JV, Inc. ("*Ratepayer*") filed an appeal pursuant to Texas Water Code (TWC) §§13.043 and 13.1861 challenging a decision by the Laguna Madre Water District to increase Ratepayer;s rates for untreated irrigation water. On March 8, 2019, Ratepayers filed an amended appeal pursuant to TWC § 12.013, challenging the same increase.

2. On April 23, 2019, the Administrative Law Judge ("*ALJ*") issued Order No. 5, denying the Staff of the Public Utility Commission of Texas' ("*Staff*") and District's motions to dismiss and ordering the parties to file comments regarding how to proceed with the petition and propose a procedural schedule. On May 6, 2019, both District and Ratepayers filed their Comments on Procedural Schedule and Staff filed its comments on May 8, 2019.

3. On June 21, 2019 an Order of Referral to the State Office of Administrative Hearings ("*SOAH*") was filed referring this matter to the SOAH. The Order of Referral also ordered the parties to compile a List of Issues to be included in the Preliminary Order. On August 8, 2019, the PUC issued its Preliminary Order including the issues to be addressed by the parties. On September

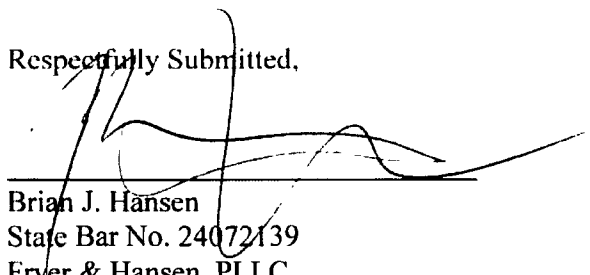
9, 2019, SOAH issued Order No. 4 adopting the Procedural Schedule. The parties filed an Agreement to Modify Deadlines on November 4, 2019 to extend the deadlines. The deadline for District to file its direct testimony is November 15, 2019. Therefore this direct testimony is timely filed.

**II.**

**Laguna Madre Irrigation District's Direct Testimony**

Attached hereto as Exhibit "A" is the Prefiled Testimony of Dan V. Jackson on behalf of Laguna Madre Water District.

Respectfully Submitted,



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## CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on November 14, 2019, in accordance with 16 TAC § 22.74 as follows:

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## **EXHIBIT “A”**

SOAH DOCKET 473-19-5677.WS  
RATEPAYERS' APPEAL OF THE DECISION BY  
LAGUNA MADRE WATER DISTRICT TO CHANGE RATES

PREFILED TESTIMONY OF DAN V. JACKSON  
ON BEHALF OF  
LAGUNA MADRE WATER DISTRICT

NOVEMBER 15, 2019

**Q. Please state your name and business address.**

A. My name is Dan V. Jackson. My business address is 5500 Democracy Drive, Ste. 130, Plano, Texas 75024. My office telephone number is (972) 378-6588, and fax number is (972) 378-6988. My email address is [djackson@willdan.com](mailto:djackson@willdan.com).

**Q. What is your education and business background?**

A. I received an M.B.A. in Finance and Accounting from the University of Chicago in 1984. I have over thirty-five years' professional experience, virtually all as a consultant. My consulting experience includes positions from 1984-1985 for Arthur Andersen & Co.; 1988-1990 for Deloitte and Touche; and 1990-1996 for Reed-Stowe & Co., Inc.

In 1997 I co-founded **Economists.com**, an economic and financial consulting firm providing services primarily to water and wastewater utilities, electric utilities and the telecommunications sector. The firm grew steadily, expanding our client base across the USA and several sovereign nations in the Pacific region.

In 2015 Economists.com was acquired by **Willdan Financial Services** (WFS), a wholly-owned subsidiary of Willdan Group (WGI). WGI has over 1,300 employees operating from offices throughout the USA. The firm has assisted over 1,200 clients, virtually all in the public sector, successfully address a broad range of financial challenges, such as setting utility rates, financing the costs of growth and generating revenues to fund desired services.

I now serve as Vice President and am in charge of the southwest operation of WFS. Willdan staff reporting to me in the Plano office, including Mr. Dan Lanning who has assisted me in preparing this testimony, are involved with the development of the rate-setting methodologies set forth in the American Water Works Association (AWWA) M1 manual "*Principles of Water Rates, Fees and Charges*," and the AWWA M29 manual, "*Water Utility Capital Financing*." Willdan is nationally recognized for its expertise with its staff frequently being called upon to speak or instruct on utility financial matters, as subject matter experts, including the AWWA Utility Management conference.



**Q. Please summarize your experience with water and wastewater utilities.**

A. I have provided economic and financial consulting services for water and wastewater utilities across the United States and the Pacific region for over 30 years. My clients have been primarily public entities, ranging in population from less than 1,000 to over 300,000. I have prepared or overseen the production of over 300 utility rate studies and long-term financial plans over the past quarter century. I have prepared water and wastewater cost of service and rate studies, system privatization analyses, pro forma forecasts of growth and usage, CCN and system valuations, connection and impact fee studies, business and capital improvement plans, alternative water and wastewater treatment sources, contract negotiations, and economic feasibility analyses of desalination as a water treatment option. My clients have ranged from Arizona and Texas border communities to Northwestern metropolises, rural water districts, urban suburbs, and Northern inner-city communities. I have served over 90 separate clients in Texas, and 150 clients across the USA and in five sovereign nations.

Further, I have been engaged on numerous occasions by the Asian Development Bank and the World Bank to assist in projects that have brought potable water for the first time to villages in developing nations. This has lessened diseases and improved the lives of hundreds of thousands of people. I have worked on these engagements in such independent nations as Fiji, Samoa, Palau, Kiribati, the U.S. territory of American Samoa and the U.S. Commonwealth of Northern Mariana Islands.

I have provided expert witness testimony in numerous cases before the Texas Commission on Environmental Quality, other state Public Utility Commissions, state courts, federal courts and territorial legislatures. I am an occasional speaker at utilities conferences and trade associations, and have testified numerous times on the reasonableness of rates. I am also a published author, my novel *The Forgotten Men* is available at Amazon.com and my second novel is in the pre-publication stage.

My resume is attached as **Appendix A** to this prefiled testimony. My resume is a true and correct summary of my professional experience.

**Q. What is the purpose of your testimony today?**

A. I will address the reasonableness of the rate for raw water assessed by Laguna Madre Water District ("The District") to the SPI Golf Homeowners JV, Inc. ("SPI") and its other raw water customers. I will show that the rate charged by the District is fair, just and reasonable, and fully in accordance with both ratemaking principles and the District's long-standing calculation methodology, which has been essentially unchanged for twenty-three years.

My testimony is structured as follows:

**Section I – General Background** – in this section I will describe the Laguna Madre Water District in detail, including its customers, service territory and services provided. I will also outline my 28-year history as rate consultant to the District.

**Section II – Cost of Service and Raw Water Rate** – in this section I will outline the approach the District has adopted to develop its overall raw water cost of service and set its fair, just and reasonable raw water rate. The raw water approach utilizes the AWWA's Utility Basis Methodology, and has been utilized by the District, with the acceptance of its customers, since the raw water rate was first established in 1996. I will describe the original calculation, the history of rate revisions, and the District's most recent raw water rate analysis and rate implementation as a result of Willdan's 2018 Water and Wastewater Rate Study. I will show that the rate of \$1.04 per 1,000 gallons is not only fair, just and reasonable, but it is actually nominally lower than the cost LMWD incurs in providing this service.

**Q. Have you prepared any exhibits?**

A. Yes. These exhibits are embedded within the text of this prefiled testimony. I have also included several appendixes, which I will reference during the course of this testimony.

Importantly, it should be noted that the District adopted the newest raw water rate in September 2018, at the conclusion of the Water and Wastewater Rate Study I prepared for the District. Therefore all data and analysis presented in this testimony will be based on data from the rate study and up to September 2018. This is the body of data on which I based my recommendations and the District set its raw water rate.

**Q. Did you have any assistance in preparing your testimony?**

A. I am responsible for the preparation of all of this testimony and accompanying exhibits. I have been assisted by Mr. Daniel Lanning, Project Manager for Willdan. Mr. Lanning is a professional with thirty years' experience in the utility industry. He is also a member of the AWWA's Rates and Charges Committee, which develops the manuals that serve as industry ratemaking standards. Mr. Lanning's resume is also included in Appendix A.

**Q. Mr. Jackson, can you provide background as to your professional relationship with the Laguna Madre Water District?**

A. Yes. I have had the privilege of serving as the District's water and wastewater rate consultant for the past 28 years. I began working for the District in 1991, and when I started my own firm, Economists.com in 1997, the District was one of my first two clients. The District represents the longest professional relationship I have had with any client in my 35 years of consulting experience.

I have completed the following engagements for the District:

1991	Water and Wastewater Rate Study (with another firm)
1993	Water and Wastewater Rate Study (with another firm)
1994-1995	Assistance with rate appeals to Texas Natural Resource Conservation Commission (with another firm)
1996	Tap Fee Study and Raw Water Rate (with another firm)

1	1997-1998	Water and Wastewater Rate Study
2	2000	Tap Fee Study and Raw Water Rate
3	2002	Water and Wastewater Rate Review
4	2002-2003	Evaluation of potential participation in Southmost Regional Water
5		Authority
6	2003	Financial evaluation of proposed RO Plant
7	2003	Tap Fee Study
8	2004	Water and Wastewater Rate Analysis
9	2005	Water and Wastewater Rate Study
10	2005	Tap Fee Study
11	2007	Water and Wastewater Rate Review
12	2009	Analysis of Proposed Wholesale Rate to the City of Los Fresnos
13	2014	Water and Wastewater Rate Study
14	2018	Water and Wastewater Rate Study

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I have been deeply involved with numerous ratemaking decisions evaluated by the District since the 1990s. Further, in the mid-1990s I designed the retail inverted block rate structure by meter size that the District employs to this day. In 1996 I personally developed the District's raw water rate based on the Utility Basis methodology. This methodology will be described in more detail in the next section, and it is used to this day to calculate the raw water rate. I have worked with five separate General Managers and over a dozen Board members, and have visited the District more than 150 times. It has been a privilege to have served as the District's rate consultant these many years.

**General Background – Laguna Madre Water District**

**Q. Please describe the District.**

A. The Laguna Madre Water District ("The District") is located in the Rio Grande Valley region at the southern tip of the state of Texas. The District is in Cameron County, near the cities of Brownsville and Harlingen, and is approximately twenty-five miles from the border with Mexico. The District includes the towns of Port Isabel, Laguna Vista, Laguna Heights and South Padre Island. The area is an immensely popular resort destination, offering a warm climate, resplendent beaches and a hospitable tourist environment.

The District is an independent government agency. It was created on November 14, 1960 pursuant to Article XVI, Section 59 of the Texas Constitution and Article 7881, Revised Civil Statutes of Texas. It was originally created as a Fresh Water Supply District but was converted into a Municipal Utility District by an order of the Texas Water Rights Commission on November 20, 1973. Presently the District is governed under Chapter 54 of the Texas Water Code.

**Q. Who manages the District?**

A. The District's general policy, procedures and overall management are supervised by a Board of Directors elected by a direct vote of District residents. The Board contains 5 seats, all of which are "at large", meaning that each Director is elected by all registered voters for four-year terms. The Board meets in an open public session every two weeks.

A salaried, professional General Manager supervises the District's day to day operations. The senior management team also consists of a Director of Operations and a Director of Finance. The General Manager retains authority to designate the District's senior management.

**Q. Can you describe some of the District's basic system characteristics?**

A. Yes. The District maintains approximately 110 miles of water main lines servicing both incorporated cities (Port Isabel, Laguna Vista, South Padre Island) and unincorporated

towns (Laguna Heights, Long Island). The water system contains 5 elevated and 2 ground storage tanks, and three water reservoirs. A 42-inch underground transmission line and accompanying network was completed in 1988, which is used as part of a comprehensive system to transport raw water from the Rio Grande. This line replaced an above-ground canal system that caused significant amounts of water loss and evaporation in the transportation of raw water.

The District contains 8.0 mgd of installed water treatment capacity, in the form of two treatment plants, which are located outside Port Isabel and Laguna Vista. The water system is fully integrated and serves all customers; neither treatment plant can be considered a sole source for raw or treated water for either the Mainland or South Padre Island.

The District's wastewater system is divided into two service areas, one on South Padre Island and one on the mainland. Unlike the water system, there is no interconnection between the wastewater systems on the island and the mainland. The total inch-miles of collection lines on the island and mainland are approximately equivalent. The District operates 27 lift stations and four wastewater treatment plants with a combined total 5.85 mgd of capacity. Two wastewater treatment plants are located on South Padre Island and two are located on the mainland.

A salaried, professional General Manager supervises the District's day to day operations. The senior management team also consists of a Director of Operations and a Director of Finance. The General Manager retains authority to designate the District's senior management.

**Q. Please describe the District's customer classes.**

A. The District's customer base and demand is fairly unique, because it serves one of the most popular resort areas in the state of Texas. According to the web site [www.city-data.com](http://www.city-data.com), at present, the permanent population of Laguna Vista is 3,213, the population of Port Isabel is 5,022 and the population of South Padre Island is 2,889, for a combined total of 11,224. However, during spring break and summer, hundreds of thousands of visitors flood the island

1 and the surrounding mainland. This leads to significant demands on the system and  
2 substantial costs to provide water and wastewater service. Further, there are thousands of  
3 condominiums in the District's service territory that serve as second homes for many residents.  
4 Finally, during the winter season the District is home to many visitors from Canada and other  
5 colder climates, who are affectionately referred to as "winter Texans" by the permanent  
6 residents.

7  
8 For this reason, back in the early 1990s the District, at my recommendation, established  
9 customer classes based on meter size. This is because customers with larger meters  
10 generally exerted a greater demand on the system. For example, hotels that were full during  
11 the summer and spring break and sparsely populated during the winter months contributed a  
12 much higher peaking factor to the system than a retail store or other commercial operation. By  
13 grouping customer classes according to meter size, the District avoids grouping all  
14 "commercial" customers into a single class, and subsequently charging a higher rate for a  
15 small commercial business because of the large peaking factors generated by the hotels and  
16 other seasonal businesses.

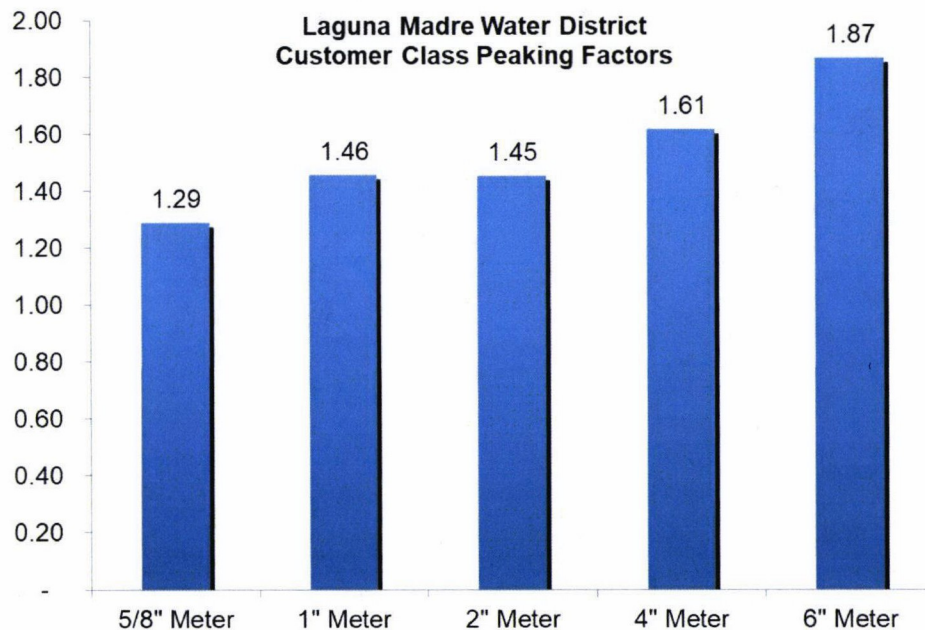
17  
18 **Table DVJ-1** presents the total number of active accounts by meter size at the time the 2018  
19 rate study was completed. All of this data came from our rate study and was contained in the  
20 rate model used to develop all the District's rates. Raw water customers are a separate class  
21 and level of service, and are not included in this chart.

22  
23 **Chart DVJ-2** presents peaking factors by customer class. The chart reveals that the larger  
24 meters have greater peaking factors than the smaller meters. This means that the cost to  
25 serve these meters will be greater, which is logical and appropriate given that many of the  
26 seasonal businesses (hotels, condos, etc.) are served by larger meters.

Table DVJ-1

LAGUNA MADRE WATER DISTRICT WATER AND WASTEWATER CUSTOMER ACCOUNTS TEST YEAR 2018			
WATER Accounts		WASTEWATER Accounts	
5/8" Meter	4,875	5/8" Meter	4,460
1" Meter	1,494	1" Meter	1,190
2" Meter	302	2" Meter	287
4" Meter	75	4" Meter	74
6" Meter	34	6" Meter	33
8" Meter	1	8" Meter	1
<b>Total</b>	<b>6,781</b>	<b>Total</b>	<b>6,045</b>

Chart DVJ-2





**Q. How much raw and treated water does the District produce?**

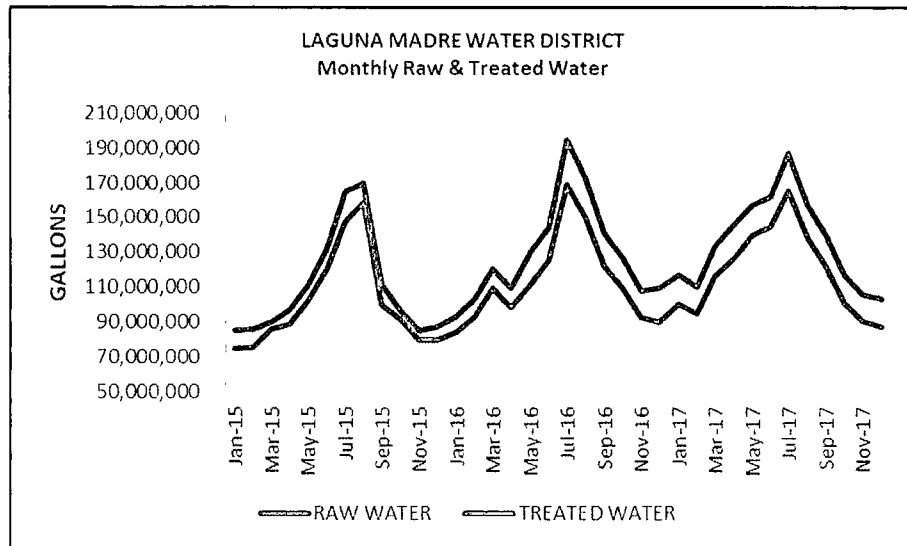
A. **Table DVJ-3** reveals that the District's raw and treated water production increased steadily over the past three years. Raw water increased from 1,316,632,000 gallons (3.61 MGD) in 2015 to 1,637,161,000 gallons (4.49 MGD) in 2017. The difference between the raw and treated water totals are due to a combination of two primary factors – the purchase of raw water by SPI and other customers, and inevitable production and transportation losses.

**Table DVJ-3**

LAGUNA MADRE WATER DISTRICT RAW AND TREATED WATER PRODUCTION		
	Raw Water Gallons	Treated Water Gallons
2015	1,316,632,000	1,204,310,000
2016	1,553,122,000	1,354,564,000
2017	1,637,161,000	1,429,201,000

**Chart DVJ-4** shows monthly averages for the same three-year period. The chart reveals the significant variation in monthly usage between the peak summer periods and the more dormant winter months. This means that the District must size its raw water transportation, treatment and distribution facilities to meet the demands of the tourist season, even though this will result in substantial cost and extra capacity during the winter months. More detail on the District's volumes can be found in our 2018 rate study and long-term financial plan, which I am including as **Appendix B** to this testimony.

Chart DVJ-4



Q. How would you characterize The District's financial condition?

A. It would characterize the District's financial position as sound and stable. Table DVJ-5 is a summary of the District's most recent audited financial statement. This financial statement is presented in its entirety in Appendix C to this testimony.

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Table DVJ-5

LAGUNA MADRE WATER DISTRICT HISTORICAL FINANCIAL STATEMENT SUMMARY		
	2018	2017
<b>INCOME STATEMENT</b>		
Charges for Service	\$ 9,391,158	\$ 9,550,739
Property Taxes	1,475,769	1,486,069
Other Revenue	<u>318,039</u>	<u>286,813</u>
Total Revenue	11,184,966	11,323,621
Operating Expense	<u>10,634,196</u>	<u>10,601,836</u>
Operating Income ( Loss )	550,770	721,785
Total Other Income / Expense	<u>(146,274)</u>	<u>-</u>
<b>Excess of Revenues over Expenses</b>	<b>404,496</b>	<b>721,785</b>
<b>Ending Financial Position</b>	<b>68,498,763</b>	<b>68,094,267</b>
<b>BALANCE SHEET</b>		
Current Assets	\$ 15,001,957	\$ 20,559,648
Capital Assets	<u>81,069,844</u>	<u>76,697,405</u>
<b>Total Assets</b>	<b>96,071,801</b>	<b>97,257,053</b>
Deferred Outflows	520,126	1,126,246
<b>Total Liabilities</b>	<b>27,777,692</b>	<b>30,068,278</b>
Deferred Inflows	315,472	220,754
<b>Net Position</b>		
Net Investment in capital assets	55,806,128	56,218,039
Restricted	3,200,219	3,084,681
Unrestricted	<u>9,492,416</u>	<u>8,791,547</u>
<b>Total</b>	<b>68,498,763</b>	<b>68,094,267</b>
<b>Total Liabilities &amp; Capital</b>	<b>96,071,801</b>	<b>97,257,053</b>

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While there are a lot of numbers in this table, I can summarize my findings as follows:

- In the most recent year available, 2018, The District generated total revenue of \$11,184,966. Approximately 84% of this revenue was generated from its user rates, and 13% from property taxes.
- The District has generated positive cash flows from operations and net cash flows in each of the past two years.
- The District has the ability to set its annual rates at a level to ensure that it recovers all of its costs. Like utilities throughout the state of Texas, it has increased its rates in recent years and is expected to continue to do so in the future.
- Net capital assets after depreciation are approximately \$81,069,844 in 2018, for a base of 6,781 water and 6,045 wastewater customers. This reflects the significant cost the District incurs in transporting raw water, delivering treated water and collecting and treating wastewater for its unique service area.
- The District's net investment in capital assets is \$55,806,128 as of 2018. Further, the District has \$9,492,416 in unrestricted net assets.

What does all this mean? Quite simply, that these standard financial indicators reinforce my assertion that the District is managed prudently, in sound financial condition, and has made the necessary but difficult decisions to set its rates and fees for service at a level that will ensure continued financial health.