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PETITION BY RODNEY EARL	§	PUBLIC UTILITY COMMISSION
MOHNKE, STEPHEN LEE MOHNKE,	§	
MELVIN MAX MOHNKE, KENNETH	§	OF TEXAS
WAYNE MOHNKE, KATHLEEN ANN	§	
MOHNKE-BLAKELY AND MEL	§	
MOHNKE, TRUSTEE OF THE	§	
MOHNKE LIVING TRUST DATED	§	
DECEMBER 7, 1996, TO AMEND H-M-	§	
W SPECIAL UTILITY DISTRICT'S	§	
CERTIFICATE OF CONVENIENCE	§	
AND NECESSITY IN HARRIS COUNTY	§	
BY EXPEDITED RELEASE	§	

**PETITIONER'S SUBMISSION OF
APPRAISAL REPORT**

Petitioner submits the attached appraiser's report pursuant to Order No. 5, which provides that this appraisal report is due to be filed within 70 days after the Commission approves the expedited release. The Commission approved the expedited release on November 2, 2021. Accordingly, this submission is timely filed.

Respectfully submitted,

Gregg Law PC



Peter T. Gregg
State Bar No. 00784174
910 West Ave., No. 3
Austin, Texas 78701
Phone: 512-522-0702
Fax: 512-727-6070

Attorneys for Petitioners

CERTIFICATE OF SERVICE

I certify by my signature above that on the 11th day of January, 2022, a true and correct copy of the above and foregoing document was forwarded via electronic mail to all parties of record to:

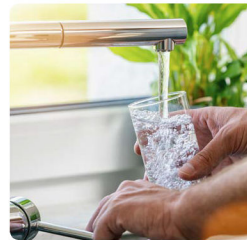
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REPORT | January 10, 2022

COMPENSATION FOR DECERTIFICATION OF A PORTION OF HMW SPECIAL UTILITY DISTRICT'S CERTIFICATE OF CONVENIENCE AND NECESSITY

GREGG LAW PC



PREPARED BY:

**NewGen
Strategies & Solutions**



275 W Campbell Road
Suite 440
Richardson, TX 75080
Phone: (972) 680-2000

January 10, 2022
Mr. Peter Gregg
Gregg Law PC
910 West Ave., Suite #3
Austin, Texas 78701

Re: Decertification Compensation_Report

Dear Mr. Gregg:

We are pleased to provide Gregg Law PC with a summary report for the appraisal to determine appropriate compensation for the expedited decertification of a portion of HMW Special Utility District's service area covered under water certificate of convenience and necessity number 10342.

If you have any questions concerning this report, please contact us.

Sincerely,

DocuSigned by:

FB62F346CFA8440...
Chris Ekrut
Chief Financial Officer


DocuSigned by:

1870379CE9854F5
Zak Wright, ASA
Manager

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Section 1

PREMISE OF THE APPRAISAL

Gregg Law PC (Gregg or Client) retained NewGen Strategies and Solutions, LLC (NewGen) to perform an independent appraisal to determine appropriate compensation for the decertification of a portion of HMW Special Utility District's (HMW) service area covered under water certificate of convenience and necessity (CCN) number 10342. The particular area at issue in this analysis (Decertified Area) is composed of one contiguous tract of land in Harris County, Texas. The Decertified Area was requested to be decertified via expedited release, as codified in Texas Water Code §13.254 and Texas Water Code §13.2541, by Rodney Earl Mohnke, Stephen Lee Mohnke, Melvin Max Mohnke, Kenneth Wayne Mohnke, Kathleen Ann Mohnke-Blakely, and Mel Mohnke, Trustee of the Mohnke Living Trust Dated December 7, 1996 (Mohnke) in Docket No. 51973 at the Public Utility Commission of Texas (PUCT).

Scope of Services

The purpose of the appraisal is to determine appropriate compensation for the decertification in accordance with applicable laws, statutes and the Uniform Standards of Professional Appraisal Practice (USPAP). In particular, the conduct of this analysis was dictated by Texas Water Code §13.254(g). Thus, NewGen relied upon a jurisdictional exception to conduct the scope of services as described herein. This report was prepared in conformance with the 2020-2021 Edition of USPAP as promulgated by the Appraisal Standards Board of the Appraisal Foundation (extended through December 31, 2022).

Date of Valuation

The compensation was determined as of January 4, 2022.

Date of Report

The date of this report is January 10, 2022

Factors for Compensation

The factors ensuring just and adequate compensation in Texas Water Code §13.254(g) include:

- The value of real property owned and utilized by the retail public utility for its facilities (as determined according to the standards set forth in Chapter 21, Property Code, governing actions in eminent domain);
- The amount of the retail public utility's debt allocable for service to the area in question;
- The value of the service facilities of the retail public utility located within the area in question;
- The amount of any expenditures for planning, design, or construction of service facilities that are allocable to service to the area in question;
- The amount of the retail public utility's contractual obligations allocable to the area in question;



Section 1

- Any demonstrated impairment of service or increase of cost to consumers of the retail public utility remaining after the decertification;
- The impact on future revenues lost from existing customers;
- Necessary and reasonable legal expenses and professional fees; and
- Other relevant factors.

NewGen Strategies and Solutions

NewGen is a management and economic consulting firm specializing in serving the utility industry and market. We provide financial, valuation, strategy, expert witness, stakeholder and sustainability consulting services to water, wastewater, solid waste, and energy clients across the country. Our expertise includes litigation support in state and federal regulatory proceedings, valuation of utility property, business and financial planning, and strategic planning for electric, water, wastewater, solid waste, and natural gas utilities.

Section 2

ASSUMPTIONS, CONSIDERATIONS AND LIMITING CONDITIONS

In the preparation of this report, NewGen has made certain assumptions and used certain considerations with respect to conditions which may exist or events which may occur in the future. While we believe these considerations and assumptions to be reasonable based upon conditions known to us as of the date of this report, they are dependent upon future events and actual conditions may differ from those assumed.

While we believe the use of such information and assumptions to be reasonable for the purposes of this report, we offer no other assurances with respect thereto, and some assumptions may vary significantly due to unanticipated events and circumstances. To the extent actual future conditions differ from those assumed herein, or from the assumptions provided by others, the actual results may vary from those estimated.

The conclusion and opinions found in this report are made expressly subject to the following conditions and stipulations:

- Extraordinary Assumptions¹
 - NewGen assumed it was reasonable to expect the Decertified Area to be built out with lot sizes that are consistent with a “rural standard” of development. NewGen’s analysis is limited to the level of development that the Decertified Utility’s existing facilities may be able to serve based on review of publicly available data. This is described in further detail, below, in the analysis of compensation factor two.
- The scope of work was dictated by Texas Water Code §13.254(g) and, thus, NewGen relied on a jurisdictional exception to conduct the scope of services as described herein.
- No personal inspection of the property that is the subject of this report was made.
- No responsibility is assumed by NewGen for matters that are legal in nature, nor does NewGen render any opinion as to the title, land and/or land rights, which are assumed to be good and marketable. No opinion is intended to be expressed for matters that would require specialized investigation or knowledge beyond that normally used by an appraiser engaged in valuing the type of system described in this report.
- NewGen made no determination as to the validity, enforceability, or interpretation of any law, contract, rule, or regulation applicable to the water system or its operation. However, for the purposes of this report, NewGen assumed that all such laws, contracts, rules, and regulations will be fully enforceable in accordance with their terms as NewGen understands them and that the operators of the water system will operate the utility in accordance with all applicable laws, contracts, rules, and regulations. NewGen assumed that the water system conforms to all applicable zoning and use regulations and restrictions.
- We assume there are no hidden conditions that would make the Decertified Area more or less valuable.

¹ Extraordinary assumptions, in the context of this analysis, are statements that are believed to be true but, if found to be false, could alter the opinions or conclusions of value. (USPAP Definitions)

Section 2

- ▣ Individuals affiliated with NewGen and contributing to this report are Mr. Chris Ekrut, Chief Financial Officer, Mr. Zak Wright, ASA, Manager, and Mr. Nick Coomer, Consultant.
- ▣ The studies and analyses undertaken in the preparation of the opinions contained herein have been performed in accordance with USPAP.

Section 3 ANALYSES

Introduction

The compensation factors contained in Texas Water Code §13.254(g) are designed to ensure the utility losing a portion of its service territory, or CCN, (the Decertified Utility) is not financially harmed by the decertification. These factors are intended to provide just and adequate compensation to the Decertified Utility so that the remaining customers of the Decertified Utility will not have to bear a greater portion of the Decertified Utility's total costs as a result of the decertification. Water utilities are fixed cost intensive entities, which make investments in infrastructure in order to provide water service to existing and expected future customers. Water utilities are tasked with planning for the provision of service to future customers and, further, water utilities have an obligation to provide continuous and adequate service to the area within their CCN, as required under Chapter 13 of the Texas Water Code.

In this particular circumstance, the Decertified Area is composed of undeveloped land within HMW's CCN. The PUCT has determined the Decertified Area is not currently receiving water service.² However, HMW contends it is capable of serving the water needs of the Decertified Area.³ HMW has not provided data to confirm this capability as of the date of this report.

Analysis of Factors for Compensation

1. **Factor:** The value of real property owned and utilized by the retail public utility for its facilities (as determined according to the standards set forth in Chapter 21, Property Code, governing actions in eminent domain)

Analysis: There is no real property being transferred as a result of the decertification nor any real property rendered useless or permanently under-utilized as a result of the decertification. Therefore, there is no compensation due related to this factor.

2. **Factor:** The amount of the retail public utility's debt allocable for service to the area in question

Analysis: HMW has issued debt to fund the planning, design, and construction of facilities to provide water service to existing and future customers within its CCN. It is noted, however, that NewGen did not have access to information to detail the specific projects and improvements that were funded through existing debt. In the absence of responsive data from HMW, NewGen reviewed the Electronic Municipal Market Access site to identify outstanding debt.⁴ From that database, NewGen was able to calculate the annual principal and interest payments on the outstanding debt. The annual debt service payments cease in 2025, as shown on Table 2, once all outstanding issues are repaid.

If the decertification had not occurred, HMW may have been able to recover a portion of the fixed debt service costs from any future connections within the Decertified Area. NewGen's review of

² Docket No. 51973, Commission Order dated November 2, 2021

³ Docket No. 51973, HMW Special Utility District Response to Petition Approved as Administratively Complete dated August 4, 2021, Exhibit 2

⁴ MSRB, Electronic Municipal Market Access (EMMA), Accessed January 4, 2022, <https://emma.msrb.org/IssueView/Details/0D12C49F446BDAAE22DDB3490F9CAB1D>

Section 3

publicly available data, from sources such as the Texas Commission on Environmental Quality (TCEQ) and the Harris-Galveston Subsidence District, indicate that there are active HMW facilities approximately one mile from the Decertified Area. These facilities may have excess capacity, though NewGen has not seen conclusive evidence that this is the case, that could potentially serve a portion of any future demand from the Decertified Area.⁵ These facilities are part of a larger water system (System) designed to serve the current and future demand from the Towering Oaks, Rosewood Hills, Timberlake Village and Woodloch subdivisions.⁶

Assumed Connections in the Decertified Area

NewGen assumed that the 2021 water connection count of 492 for the System, was an accurate representation of the active connections on the System.⁴ NewGen assumed that the System, which is located approximately one mile from the Decertified Area, could support approximately 438 additional retail connections, based on capacity data from the Texas Commission on Environmental Quality Texas Drinking Water Watch.⁴ According to the 2021 Regional Water Plan⁷, the HMW service area population is forecasted to grow at approximately 1.85% per year between 2020 and 2030.

NewGen estimated the Decertified Area could support approximately 79 new connections. This was based on the approximately 99 acres in the Decertified Area, less 20% for undevelopable purposes (e.g., roadways, creeks, stormwater ditches, etc.), leaving approximately 79 net acres for development. NewGen assumed the development would be composed of one single-family dwelling per net acre for development based on the on-site sewage facility (e.g., septic tank) regulations in Harris County for subdivisions not served by a public water supply. This is consistent with a “rural standard” of development.⁸

Compensation

Table 4 shows the forecasted growth in retail connections for the System and forecasted annual new connections in the Decertified Area based on an assumed five-year buildout period. Table 4 also shows the debt service allocated to the Decertified Area by multiplying the annual allocation of debt service to each retail connection according to cumulative connection growth in the nearby System, remaining CCN, and the Decertified area. The portion of debt service allocated to the Decertified Area ceases once the outstanding debt issues are repaid in 2025. Finally, the debt service allocated to the Decertified Area by year is discounted to represent the present value today based on a 5.39% discount rate. This discount rate was selected to represent the approximate cost of debt for HMW, based on publicly available information. The present value of the debt service allocated to the Decertified Area equals **\$648**.

3. **Factor:** The value of the service facilities of the retail public utility located within the area in question
Analysis: NewGen understands there are no facilities owned by HMW currently located within the Decertified Area nor have we been made aware of any facilities rendered permanently useless or under-utilized as a result of the decertification. Thus, there is no compensation due related to this factor.

⁵ Texas Commission on Environmental Quality, Texas Drinking Water Watch, Accessed January 4, 2022, <https://dww2.tceq.texas.gov/DWW/>

⁶ HMW Special Utility District 2020 Annual Drinking Water Quality Report Dated May 26, 2021, PWS ID 1700317

⁷ Texas Water Development Board, 2021 Regional Water Plan – Population Projections for 2020-2070 for Water Users Groups by Region and County, dated March 28, 2019

⁸ Texas Commission on Environmental Quality – Revised Rules of Harris County, Texas for On-Site Sewerage Facilities

4. **Factor:** The amount of any expenditures for planning, design, or construction of service facilities that are allocable to service to the area in question

Analysis: HMW did not identify any expense related to this category.

5. **Factor:** The amount of the retail public utility's contractual obligations allocable to the area in question

Analysis: HMW did not provide any indication of contractual obligations that would be allocable to the Decertified Area and NewGen's effort to identify any relevant contractual obligations did not identify any relevant obligations. Review of a recent audited financial statement for HMW indicates that all assessments from regional water authorities are applied on a volumetric basis determined by pumpage and, therefore, variable in nature and not applicable for compensation.⁹ Thus, no compensation was identified related to this factor.

6. **Factor:** Any demonstrated impairment of service or increase of cost to consumers of the retail public utility remaining after the decertification

Analysis: NewGen did not identify the need for any compensation related to this factor. There was no demonstrated impairment of service and the only potential sources of increased cost to remaining HMW customers were addressed in other factors.

7. **Factor:** The impact on future revenues lost from existing customers

Analysis: Given there are no existing customers being taken from HMW in this decertification, NewGen did not identify any relevant compensation for this factor.

8. **Factor:** Necessary and reasonable legal expenses and professional fees

Analysis: HMW is entitled to recovery of any necessary and reasonable legal expenses and professional fees related to this decertification. NewGen was not provided estimated legal expenses and professional fees related to this decertification.

9. **Factor:** Other relevant factors.

Analysis: NewGen did not identify any other relevant factors requiring compensation.

Conclusions

The resulting compensation for decertification under Texas Water Code §13.254(g) is summarized in Table 3-1 below.

Table 3-1
Compensation Summary

Factor Allocable to Decertified Area	Compensation
Debt Service	\$648
	\$648

⁹ H-M-W Special Utility District, Harris and Montgomery Counties, Texas, Annual Financial Report dated August 31, 2017

Section 4


CERTIFICATION

I, the undersigned, certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding the agreement to perform this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the Client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice (2020-2021 Edition) (extended through December 31, 2022)*.
- No personal inspection of the property that is the subject of this report was made.
- Chris Ekrut (Chief Financial Officer and Partner at NewGen Strategies and Solutions, LLC) and Nick Coomer (Consultant at NewGen Strategies and Solutions, LLC) provided significant personal property appraisal assistance to the person signing this certification.

Respectfully submitted,

NewGen Strategies & Solutions, LLC

DocuSigned by:

1870379CE9854F5
Zak Wright, ASA
January 10, 2022



SCHEDULE 1
ALLOCATION OF DEBT SERVICE TO THE DECERTIFIED AREA



- Table 1 Assumptions
- Table 2 Existing Debt Service
- Table 3 Percentage Allocation Approach
- Table 4 Connection Count Approach

Table 1
Assumptions
General Assumptions for Fixed Cost Allocation

HMW SUD - Growth Projections [1]	2020	2030
Harris County - Population Projections	3,053	3,666
Potential Annual Connection Growth	1.85%	

Current Connection Count		
HMW SUD Total Connection Count [2]	4,637	

Towering Oaks and Rosewood Hills Subdivision System [3]		
Current Connection Count [4]	492	
Additional Connections Possible	438	
Total Possible Connections	930	

Debt Service Fixed Cost Per Connection [5]		
Debt Service 2022	\$9.68	
Debt Service 2023	\$7.20	
Debt Service 2024	\$4.63	
Debt Service 2025	\$2.01	

Connection Count Assumptions [6]		
Well Capacity per Connection	0.6 GPM/Connection	
Storage Tank Capacity per Connection	200 Gallons/Connection	
Pump Capacity per Connection	2 GPM/Connection	

Additional Homes to be Built in Decertified Area [7]		
Acreage of Decertified Area	99 Acre	
80% Rule	79 Acre	
Minimum Lot Size Requirement	1 Acre	
Additional Homes to be Built in Decertified Area	79 Connections	

Cost of Debt [8]	5.39%
-------------------------	-------

Footnotes:

[1] Data from 2021 Regional Plan - Population Projections for 2020-2070 for Water User Groups by Region and County. Data shown for Harris County.

[2] Data from District Fiscal Audit for Fiscal Year ending 8/31/2018

[3] Texas Commission on Environmental Quality - PWS ID 1700317

[4] Texas Commission on Environmental Quality, Texas Drinking Water Watch, Accessed January 4, 2022, <https://dww2.tceq.texas.gov/DWW/>

[5] MSRB, Electronic Municipal Market Access (EMMA), Accessed January 4, 2022, <https://emma.msrb.org/IssueView/Details/0D12C49F446BDAAE22DDB3490F9CAB1D>

[6] Texas Commission on Environmental Quality, Texas Administrative Code (TAC) §290.45(b)(1)

[7] Texas Commission on Environmental Quality, Chapter 285 - On-Site Sewage Facilities

[8] Based on Coupon Rate from Outstanding Debt

Table 2
Existing Debt Service
Allocation of Debt Service Fixed Costs per Connection

Summary of Debt Service Requirement on Notes Outstanding [1]

Year	Principal & Interest [2]
2022	\$ 45,890
2023	\$ 34,854
2024	\$ 22,885
2025	\$ 10,152
2026	\$ -
2027	\$ -
Total	\$ 113,780

Fixed Cost per Connection

Fiscal Year	Total System Existing Connections	Organic Growth Across HMW CCN [3]	Towering Oaks & Decertified Area Additional Connections	Fixed Cost per Connection
2022	4,637	77	25	\$ 9.68
2023	4,739	78	26	\$ 7.20
2024	4,843	79	26	\$ 4.63
2025	4,948	81	27	\$ 2.01

Debt Service [1]						
Bond Description	Principle Amount At Issuance	Coupon Rate	Issue Date	Maturity Date	Yearly Payment	
404247BQ0	\$ 200,000	5.39%	2/1/2005	9/1/2022	\$10,780	
404247BR8	\$ 215,000	5.49%	2/1/2005	9/1/2023	\$11,804	
404247BS6	\$ 225,000	5.54%	2/1/2005	9/1/2024	\$12,465	
404247BT4	\$ 240,000	5.64%	2/1/2005	9/1/2025	\$13,536	

Footnotes:

[1] MSRB, Electronic Municipal Market Access (EMMA), Accessed January 4, 2022,
<https://emma.msrb.org/IssueView/Details/0D12C49F446BDAAE22DDB3490F9CAB1D>

[2] Annual total debt service payment normalized to calendar-year basis

[3] Remaining connections across CCN, excluding Towering Oaks System, escalated at annual growth factor on Table 1

Table 3
Connection Capacity
Towering Oaks and Rosewood Hills Subdivision

Towering Oaks and Rosewood Hills Subdivision System [1]		Unit
Well Capacity	764	GPM
Storage Capacity	186,000	Gallons
Pump Capacity	2,800	GPM
Total Possible Connections		
Well - Available Connections	1,273	
Storage - Available Connections	930	
Pump - Available Connections	1,400	
Total Possible Connections	930	
Current Connection Count	492	
Additional Connections Possible for the System	438	

Footnotes:

[1] Texas Commission on Environmental Quality, Texas Drinking Water Watch, Accessed January 4, 2022, <https://dww2.tceq.texas.gov/DWW/>

Table 4
Allocation of Debt Service to Decertified Area
Connection Count Approach

Connection Count	Towering Oaks and Rosewood Hills Subdivision				
	2022	2023	2024	2025	2026
Starting Connection Count	492	517	543	569	595
Harris County Growth Rate [1]	1.85%	1.85%	1.85%	1.85%	1.85%
New Connections on Remaining System	9	10	10	11	11
New Connections from Decertified Area	16	16	16	16	15
Ending Connection Count	517	543	569	595	621

Decertified Area Annual Allocation of DS Payments [2]	2022	2023	2024	2025	2026
Total Connections In Decertified Area	16	32	48	64	79
Total Payment Allocable to Decertified Area Connections	\$ 155	\$ 230	\$ 222	\$ 129	\$ -
Total Payment from Decertified Area [3]	\$ 155	\$ 230	\$ 222	\$ 129	\$ -

Total Payment Amount	\$ 736
2022 NPV of Total Payment Amount [4]	\$ 648

Footnotes:

[1] See Table 1

[2] Allocation based on amount of total debt service to be spread across additional connections within the Decertified Area until buildout of 79 total connections reached

[3] Allocation to Decertified Area decreases as Fixed Cost per Connection decreases

[4] Discount rate assumed to be equal to cost of debt from Table 1

PREPARED BY:

