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DOCKET NO. 52497

PETITION OF HC CELINA 414, LLC	§	PUBLIC UTILITY COMMISSION
TO AMEND MARILEE SPECIAL	§	
UTILITY DISTRICT’S CERTIFICATE	§	
OF CONVENIENCE AND NECESSITY	§	
IN COLLIN COUNTY BY EXPEDITED	§	OF TEXAS
RELEASE	§	

**MARILEE SPECIAL UTILITY DISTRICT’S
SUBMISSION OF APPRAISAL REPORT**

Marilee Special Utility District (the “District”) submits the attached appraiser’s report substantiating that the District is due just and reasonable compensation, pursuant to Texas Water Code § 13.2541(f), in the amount of \$12,955.00. Order No. 5 in this proceeding 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 April 4, 2022. Accordingly, this submission is timely filed.

Respectfully submitted,

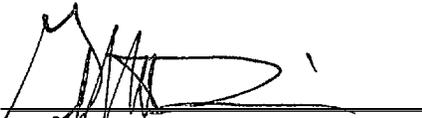
By: 

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**ATTORNEYS FOR MARILEE SPECIAL
UTILITY DISTRICT**

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 13th day of June 2022.



Grayson E. McDaniel



DOCKET #52497

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

JUNE, 2022

Prepared for:
Mustang Special Utility District
P.O. Box 1017
Celina, Texas 75009-1017



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

June 13, 2022

Mr. Chris Boyd
General Manager
Mustang Special Utility District
P.O. Box 1017
Celina, Texas 75009-1017

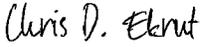
Re: Decertification Compensation - Docket No. 52497- Report

Dear Mr. Boyd:

We are pleased to provide Marilee Special Utility District with a summary report for the appraisal to determine appropriate compensation for the expedited decertification of a portion of Marilee Special Utility District's service area covered under water certificate of convenience and necessity number 10150.

If you have any questions concerning this report, please do not hesitate to contact us.

Sincerely,

DocuSigned by:

FB62F346CFA8440
Chris Ekrut, Chief Financial Officer

DocuSigned by:

1870379CE9854F5
Zak Wright, ASA

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Section 1

PREMISE OF THE APPRAISAL

Marilee Special Utility District (Marilee SUD or Marilee) retained NewGen Strategies and Solutions, LLC (NewGen) to perform an independent appraisal to determine appropriate compensation for the decertification of a portion of Marilee SUD's service area covered under water certificate of convenience and necessity (CCN) number 10150. The particular area at issue in this analysis (Decertified Area) is composed of a contiguous tract of land of land in Collin County, Texas. The Decertified Area was requested to be decertified via streamlined expedited release, as codified in Texas Water Code §13.2541 and Texas Water Code §13.254, by HC Celina 414, LLC. in Docket No. 52497 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 13.2541 and the compensation factors specified in 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 June 8, 2022.

Date of Report

The date of this report is June 13, 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 Strategies and Solutions, LLC 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:

- NewGen assumed it was reasonable to expect that the buildout plan for the Decertified Area, as detailed in the January 11, 2022 Celina City Council Regular Meeting¹, remains accurate. The planned development was referred to as Serenade during the Council Meeting.
- NewGen reviewed the projected connection counts in the buildout plans for the Petitioner's tracts of land (Petitioner Tracts) described in the City Council Meeting. The petitioner tracts are within the geographic boundaries of the Decertified Area. The Serenade development projects approximately 1,109 connections within the Decertified Area at full buildout.
- NewGen assumes that the estimated connection count and a five-year timeline for the complete buildout of the Decertified Area beginning in year 2023 is reasonable. This assumption results in approximately 222 connections in years two through five of the study, and an additional 221 connections in the sixth year. While the full buildout under the plans detailed in the assumption above projects additional connections in the Decertified Area, NewGen understands that the Certificate Holder's nearby existing facilities can accommodate 0 additional connections². This is detailed further in the assumptions below and subsequent analysis of the compensation factors.
- The Client identified the nearby existing facilities available to provide water service to the Decertified Area. These facilities have the capacity to serve a maximum of 642 connections and currently serve approximately 642 connections.
- NewGen's analysis of just and adequate compensation is limited to the level of development that Marilee SUD's existing facilities are able to serve based on our review of publicly available data and data provided by Marilee SUD.
- The scope of work was dictated by Texas Water Code §13.2541 and Texas Water Code §13.254(g) and, thus, NewGen relied on a jurisdictional exception to conduct the scope of services as described herein.

¹ City Council Regular Meeting Item VIII.I. – Celina Council Chambers, dated January 11, 2021

² Unused capacity information provided on June 8, 2021 email. Maximum additional connections determined according to 30 TAC §290.45 (b)(1)(D)

Section 2

- 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.
- Certain data and assumptions have been provided by third parties, including, but not limited to, historical costs, active connection counts, and plant capacities. NewGen reserves the right to adjust the results in this report as may be required by changes to these third-party assumptions.
- NewGen assumes the growth projections for Marilee SUD's area, published in the Texas Water Development Board's 2021 Regional Water Plan, are a reasonable basis to escalate annual connection counts on the nearby facilities available to serve the Decertified Area.
- NewGen's recommendation of compensation for decertification is irrespective of any compensation that may have been paid to Marilee SUD for prior decertification of portions of service area within the CCN. NewGen is not aware of any compensation being paid under other decertification dockets that might share production plant with the Decertified Area in Docket No. 52434. NewGen notes further that there is no certainty that any compensation will be awarded in any pending docket to decertify a portion of Marilee's service area.³
- 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.

³ To the extent compensation is paid on other pending dockets our opinion of just compensation could be subject to change.

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 Marilee SUD's CCN. The PUCT has determined the Decertified Area is not currently receiving water service.⁴ However, Marilee contends it is capable of serving the water needs of the Decertified Area.⁵

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: Marilee SUD 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 Marilee SUD did not provide information to detail the specific projects and improvements that were funded through existing debt service. Marilee SUD provided annual financial statements that summarize the annual debt service payments on all outstanding debt. This payment schedule is included in the attached Schedule 1.

If the decertification had not occurred, Marilee SUD would have been able to recover a portion of the fixed debt service costs from future connections within the Decertified Area. However, the number of connections that would be expected to be able to share in the debt service cost is limited by the existing capacity to serve the Decertified Area. The Decertified Utility's engineering professional provided capacity data for the nearby existing facilities available to serve the Decertified Area. NewGen estimated that the existing supply facilities could support 0 additional connections². It is

⁴ Docket No. 52497, Order, Dated April 4, 2022

⁵ Docket No. 52497, Marilee Special Utility District's Verified Response to Petition for Expedited Release from its Water CCN No. 10150, Dated December 23, 2021

Section 3

NewGen's opinion that any potential compensation for debt service can only be expected to be spread across the maximum number of customers that the water system near the Decertified Area is capable of supporting. Therefore, since the existing nearby supply facilities are not able to accommodate additional connections, there is no compensation due related to this factor.

3. **Factor:** The value of the service facilities of the retail public utility located within the area in question

Analysis: Marilee's service facilities located within the Decertified Area include a twelve-inch water line running through the east end of the tract⁴. The water line is not being transferred as a result of the decertification and also is not providing service to the Decertified Area as determined by the PUCT.⁴ Additionally, NewGen has not 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.

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: NewGen is not aware of any expense incurred due to the development of any master plan or engineering design specific to Docket 52497. Professional expenses related to the decertification are included in Factor 8, below.

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

Analysis: Although Marilee SUD's existing system is located in the North Texas Groundwater Conservation District, Marilee SUD is not currently paying for any water allocable to the area in question. Marilee has an existing contract with the City of Sherman for the purchase of treated groundwater. This contract includes a take or pay component of 0.10 million gallons per day according to the documentation provided for NewGen's review. Data detailing recent purchases under this contract was also provided. The data indicate that Marilee historically purchases treated water in excess of the volume specified as take or pay, therefore, NewGen does not have evidence of any increased cost to remaining customers as a result of the Decertification. Further, the PUCT has determined the Decertified Area is not currently receiving water service, as discussed above. Thus, there is no compensation due 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 incremental compensation related to this factor. While Marilee has existing infrastructure in the Decertified Area⁴ NewGen has not been made aware of circumstances that would cause the infrastructure to be impaired or permanently underutilized as a result of the Decertification. There was no demonstrated impairment of service and the only potential source of increased cost to remaining Marilee customers were addressed in compensation Factors 2 and 8.

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

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

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

Analysis: Marilee is entitled to recovery of any necessary and reasonable legal expenses and professional fees related to this decertification. NewGen was provided estimated legal expenses and professional fees related to this decertification. At the time these costs were provided, legal expenses were approximately \$8,567 and professional fees from NewGen related to this appraisal report were approximately \$4,388. The total compensation for this factor is **\$12,955**. However, compensation for this factor may need to be updated at a later date if additional professional expenses related to this decertification are identified or incurred.

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.

**Table 3-1
Compensation Summary**

Factor Allocable to Decertified Area	Compensation
Legal Expenses and Professional Fees *	\$ 12,955
	\$ 12,955

* May need to be updated if additional expenses related to this decertification are incurred

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 Director 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
June 13, 2022





**SCHEDULE 1:
ALLOCATION OF
DEBT SERVICE TO THE
DECERTIFIED AREA**

DOCKET #52497
**DECERTIFICATION
COMPENSATION**

Table 1
Assumptions
General Assumptions for Fixed Cost Allocation

All Counties

Marilee SUD - Growth Projections [1]	2020	2030
Population Projections	7,686	7,955
Potential Annual Connection Growth	0.34%	

Current Connection Count [2]		
Facilities Nearby Decertified Area	642	
Marilee SUD Total System	2,592	

Additional Homes to be Built in Decertified Area [3]		
Assumed Connections per Year	1,109	
	222	

Maximum Additional Connections [4]		
	-	

Maximum Connection Assumptions [5]		
Well Capacity per Connection	0.60	GPM/Connection

Cost of Debt [6]		
	2.52%	

Footnotes:

[1] Data from 2021 Regional Plan - Population Projections for 2020-2070 for Water user Groups by Region and county. Data shown for Marilee SUD.

[2] 642 active connections on facilities nearby the area of interest per professional engineer for Marilee SUD (J. Dupuis). Marilee SUD System total connection count per Docket No. 52497 Marilee SUD Verified

[3] City Council Regular Meeting Item VIII.I. - Celina Council Chambers, dated January 11, 2022

[4] See Table 3

[5] TCEQ Texas Administrative Code (TAC) §290.45(b)(1)(D)

[6] Based on review of existing debt.

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

Note Payable - GTUA [1]				Revenue Note - Series 2013 [1]			
Year	Principal	Interest	Debt Service	Year	Principal	Interest	Total
2021	\$ 43,000	\$ 10,583	\$ 53,583	2021	\$ 150,000	\$ 22,554	\$ 172,554
2022	\$ 44,000	\$ 9,859	\$ 53,859	2022	\$ 155,000	\$ 18,711	\$ 173,711
2023	\$ 45,000	\$ 9,052	\$ 54,052	2023	\$ 160,000	\$ 14,742	\$ 174,742
2024	\$ 46,200	\$ 8,161	\$ 54,361	2024	\$ 165,000	\$ 10,647	\$ 175,647
2025	\$ 49,800	\$ 4,979	\$ 54,779	2025	\$ 170,000	\$ 4,347	\$ 174,347
2026	\$ 49,800	\$ 4,979	\$ 54,779	2026	\$ 170,000	\$ 4,347	\$ 174,347
2027	\$ 49,800	\$ 4,979	\$ 54,779	2027			
2028	\$ 49,800	\$ 4,979	\$ 54,779	2028			
2029	\$ 49,800	\$ 4,979	\$ 54,779	2029			
2030	\$ 53,600	\$ 1,329	\$ 54,929	2030			

Fixed Cost per Connection					
Fiscal year	Total System Beginning of Year Connection Count	Facility Nearby Decertified Area Growth [2]	Remaining System Organic Growth	Total System End of Year Connection Count	Fixed Cost per Connection
2022	2,592		7	2,599	\$ 87.01
2023	2,599		7	2,606	\$ 87.33
2024	2,606		7	2,613	\$ 87.56
2025	2,613		7	2,620	\$ 87.79
2026	2,620		7	2,627	\$ 87.22
2027	2,627		7	2,634	\$ 86.99
2028	2,634		7	2,641	\$ 20.74
2029	2,641		7	2,648	\$ 20.69
2030	2,648		7	2,655	\$ 20.63

Footnotes:

[1] 2020 Final Audit Marilee SUD - Long-Term Debt Service

[2] Maximum capacity of Facilities Nearby Decertified Area met in FY 2027.

Table 3
Connection Capacity
Additional Connections Possible to Serve Area of Interest

Well #4 [1]	
Well #4	385 GPM
Total Possible Connections [2]	
Well #4	642 Connections
Total Possible Connections	642 Connections
Estimated Unused Capacity of 0% [3]	- Connections

Additional Connections Possible via Wells	-
Additional Connections Possible to Serve Area of Interest [4]	-

Footnotes:

[1] Facility data as provided by professional engineer for Marilee SUD engineer for Marilee SUD (J. Dupuis) per discussion on June 8, 2022

[2] Table 1, Footnote 5

[3] Unused production capacity data as provided by professional engineer for Marilee SUD (J. Dupuis) per discussion on June 8, 2022

[4] Maximum possible additional connections existing nearby source of supply can support.

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

Connection Count	Facilities Nearby Decertified Area								
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Nearby System Service Area - Potential Connections	642	644	868	1,092	1,316	1,540	1,763	1,765	1,767
Marilee SUD Growth Rate [1]	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%
New Connections on Remaining System [2]	2	2	2	2	2	2	2	2	2
New Connections from Decertified Area	-	222	222	222	222	221	-	-	-
Nearby System Service Area - EOY Potential Connections	644	868	1,092	1,316	1,540	1,763	1,765	1,767	1,769
Nearby System Service Area - Maximum Connections	642	642	642	642	642	642	642	642	642

Decertified Area Annual Allocation of DS Payments [3]	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Annual Allocable Connections in Decertified Area [4]	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Payment Allocable to Decertified Area Connections	-	-	-	-	-	-	-	-	-
Total Payment from Decertified Area	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Total payment	\$ -
2022 NPV of Total Payment Amount	\$ -

Footnotes:

[1] Data from 2021 Regional Plan - Population Projections for 2020-2070 for Water user Groups by Region and county. Data shown for Marilee SUD total system.

[2] Organic growth on the Facilities Nearby Decertified Area.

[3] Decertified Area Annual Allocation of DS Payments offset by natural system growth and limited by Facilities Nearby Decertified Area maximum capacity.

[4] Annual Connections in Decertified Area allocable to debt service payments are calculated by the Decertified Area additional connections while taking into account the Facilities Nearby Decertified Area Maximum Capacity and the organic growth on the Facilities Nearby Decertified Area. See report for discussion of assumed buildout period.

NewGen
Strategies & Solutions



THANK YOU!



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