

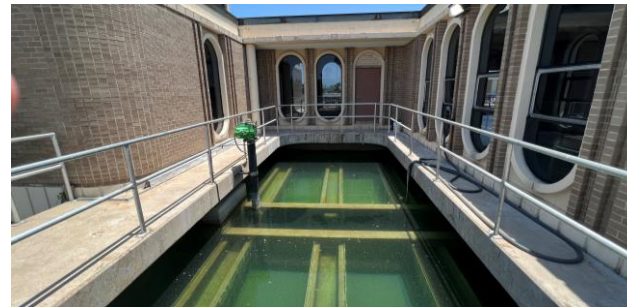
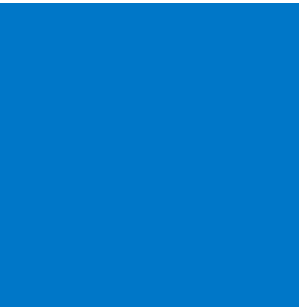
Water & Wastewater Rate Study

City Commission Presentation

April 16, 2024



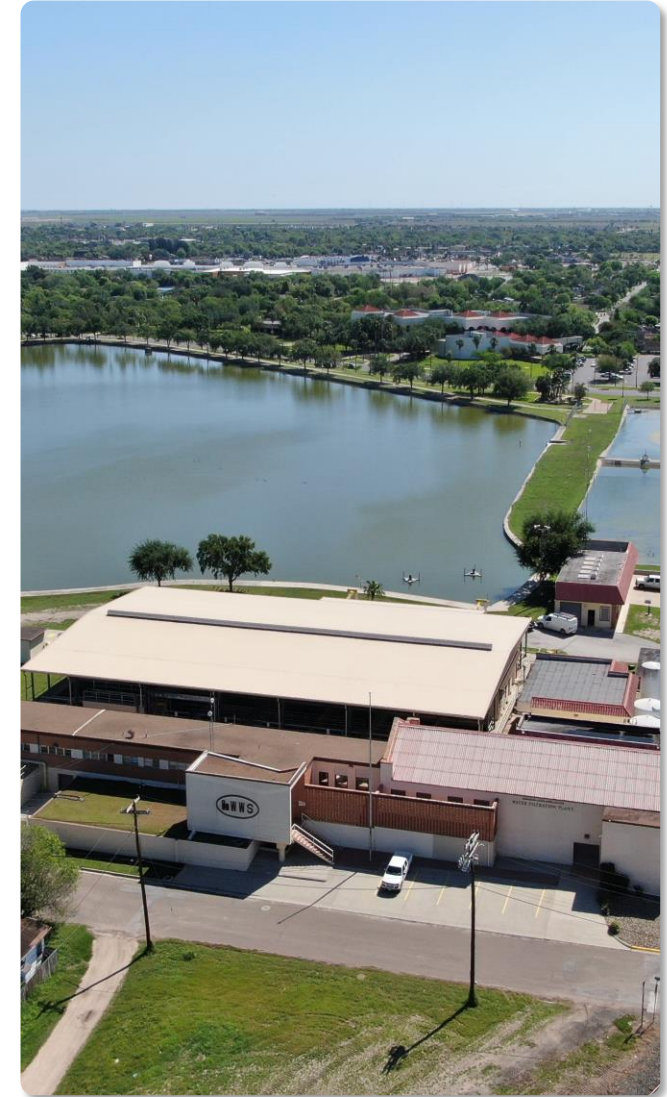
**HARLINGEN
WATERWORKS
SYSTEM**



A blue-tinted photograph of an industrial facility, likely a water treatment plant or a large-scale manufacturing plant. The image shows a complex network of large pipes, valves, and machinery. In the foreground, there are large, curved pipes and a large cylindrical tank. In the background, there are more pipes and structures, including what appears to be a control room or a large windowed area. The overall scene is industrial and technical.

INTRODUCTION

- Based on feedback from previous meetings, project team has updated 5-year rate plan scenarios, and the HWWS Board has approved a recommended rate plan for Commission consideration
- **Key rate plan variables:**
 - Amount of CIP to be funded in FY2024-2028 represents “On-Time” scenario
 - Rate design represents “Inverted Block with Higher Monthly Charges” scenario
 - Fund balance drawdown to minimize rate adjustments
 - Days of operating expenses and debt coverage meets financial advisor guidelines



Higher Monthly Charges -- Background



- HWWS fixed monthly charges significantly below other RGV cities
- Rate plan increases monthly charge to \pm 50% of average residential bill
- Advantages: more guaranteed revenue; less dependent on weather
- Challenges: higher percentage adjustment on low-volume customers

Entity	Fixed Fee Fraction of 5,000-gallon bill
McAllen	60%
BPUB	44%
North Alamo WSC	67%
Weslaco	52%
East Rio Hondo WSC	75%
Mercedes	77%
San Benito	87%
Mission	56%
Pharr	71%
San Juan	59%
Military Highway WSC	82%
Edinburg	67%
La Feria	74%
Raymondville	67%
Olmito WSC	78%
Other Entity Average	67%
HWWS	34%

The background of the slide is a blue-tinted photograph of an industrial facility. It shows a complex network of pipes, valves, and large cylindrical tanks. In the foreground, there are large, curved pipes and a fan-like component. The overall scene is a typical industrial or manufacturing environment.

ACCOUNTS AND COST OF SERVICE

Water and Wastewater Accounts | Test Year 2024

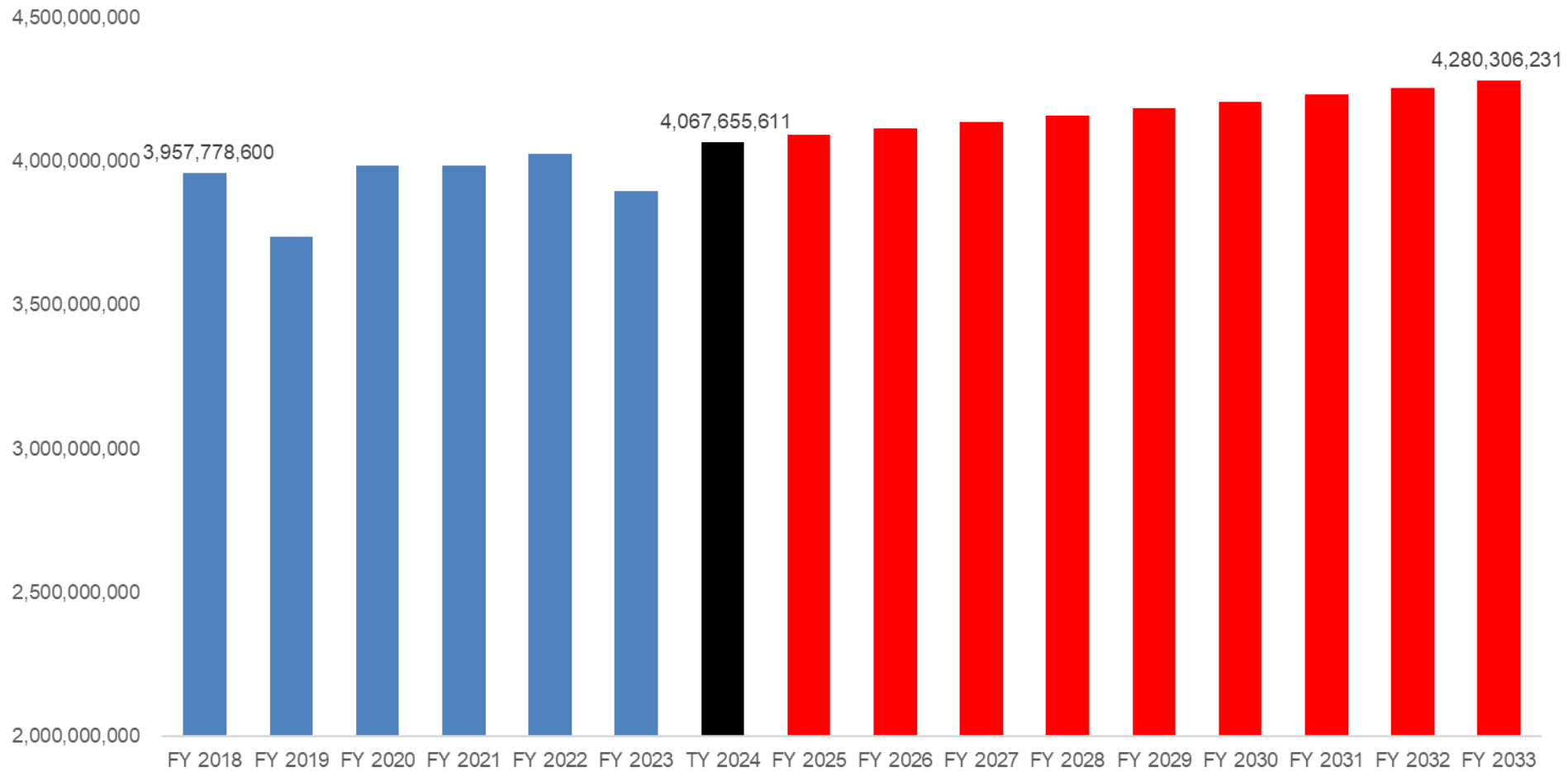


Water Accounts	Inside	Outside
Residential	20,860	3,207
Commercial & Industrial	2,408	106
Multi Housing Apts/Condos	752	69
Public Services/Institutional	635	8
Town of Combes	1	1
City of Primera		1
City of Palm Valley		1
East Rio Hondo		1
Military Hwy WSC		1
	24,656	3,395
TOTAL		28,051

Wastewater Accounts	Inside	Outside
Residential	17,933	1,194
Commercial & Industrial Inside	1,882	22
Multi Housing Apts/Condos Inside	670	54
Public Services/Institutional Inside	393	7
Town of Combes		1
City of Primera		1
	20,878	1,279
TOTAL		22,157

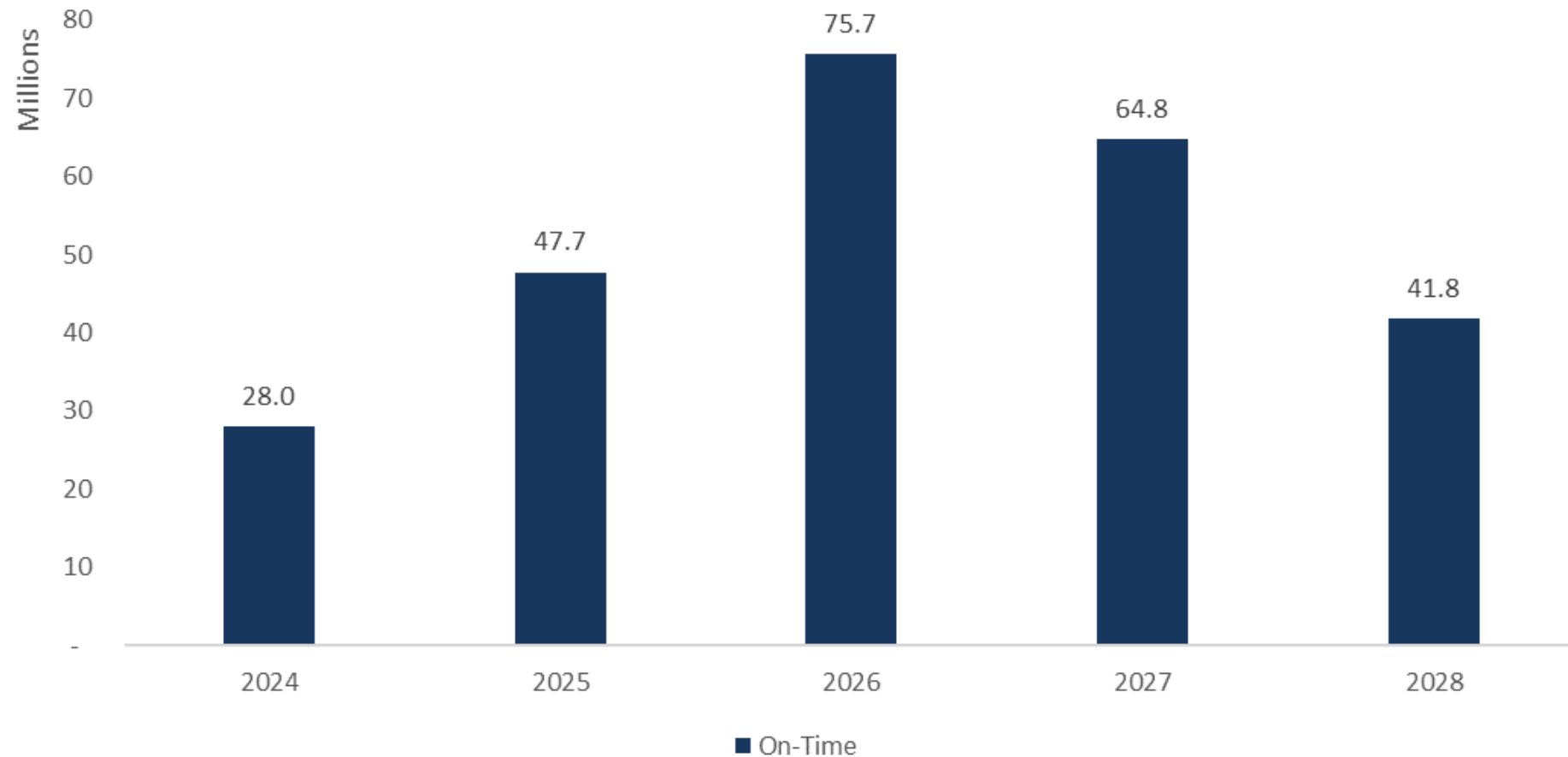
10-year forecast is to show annual growth rate in both water and wastewater accounts of 1-1.5% (300-400 new accounts per year)

Historical and Forecast Water Consumption



Water consumption is forecast to increase at rate of 0.57% annually

Adopted CIP Scenario for FY2024 – 2028

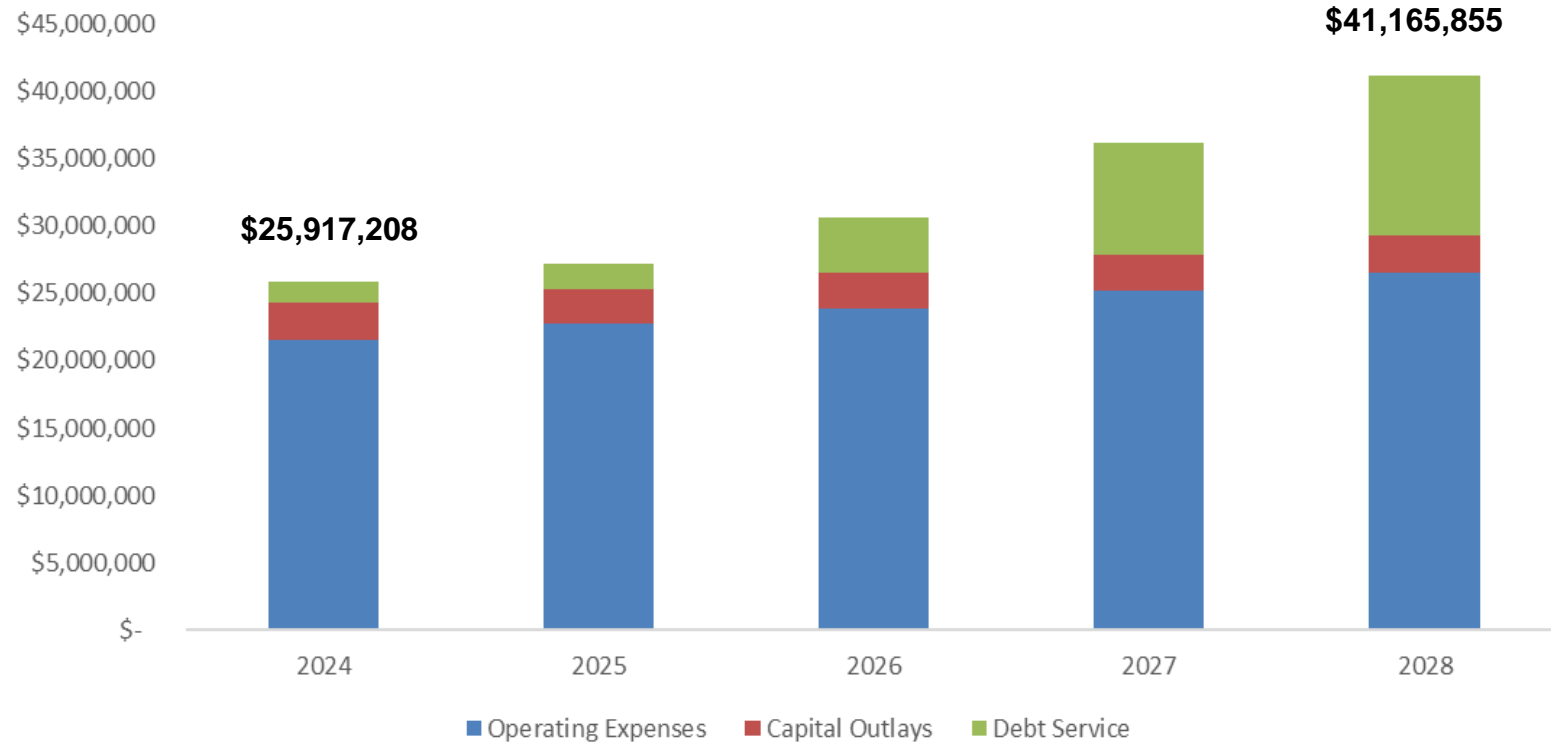


Total CIP 2024-2028 = \$258,048,000

Total CIP 2024-2033 = \$314,295,000



Forecast Cost of Service



CIP = \$258.0 million

New Debt = \$210.6 million

Fund Drawdown = \$10.0 million

**Bond Term = 30 Years
Interest = 4.0%**

**EDAP Term = 20 Years
Interest = 4.0%**

Most operating costs increase 3-5% per year



PROPOSED RATE PLAN

Recommended Scenario | “On Time” CIP

Inverted Block Rate Plan with Higher Base Charge



	Current	Proposed Rate Plan		Forecast Rates		
		Effective May-24	Effective Jan-25	Effective Jan-26	Effective Jan-27	Forecast Jan-28
Water Rates -- Residential & Commercial Inside						
Monthly Minimum Charge						
5/8"	\$ 7.93	\$ 9.91	\$ 12.39	\$ 15.49	\$ 19.36	\$ 23.23
1"	10.07	13.16	17.16	22.34	29.04	34.85
1 1/2"	14.56	19.85	26.86	36.15	48.40	58.08
2"	33.02	43.35	56.77	74.20	96.80	116.16
3"	49.17	65.92	87.98	116.94	154.88	185.86
4"	112.87	192.55	305.02	461.68	677.61	813.13
6"	231.80	378.39	583.79	868.24	1,258.42	1,510.11
8"	426.15	746.45	1,200.27	1,834.35	2,710.45	3,252.54
Residential Volume Rate Per 1,000 Gal						
- 3,000	1.65	1.30	1.30	1.30	1.30	1.30
3,001 10,000	0.06	1.80	1.98	2.18	2.40	2.61
10,001 20,000	-	2.55	2.81	3.09	3.39	3.70
20,001 Above	-	3.05	3.36	3.69	4.06	4.42
Commercial Volume Rate Per 1,000 Gal						
Volume Charge	1.65	1.83	2.01	2.22	2.44	2.66
Fuel Cost Adjustment	0.06	-	-	-	-	-

NOTE: Outside city rates set at 50.0% premium



Recommended Scenario | “On Time” CIP

Inverted Block Rate Plan with Higher Base Charge



		Current	Proposed Rate Plan		Forecast Rates		
			Effective May-24	Effective Jan-25	Effective Jan-26	Effective Jan-27	Forecast Jan-28
Wastewater Rates - Residential & Comm Inside							
Monthly Minimum Charge							
	5/8"	6.18	7.73	9.66	12.07	15.09	18.86
	1"	9.44	11.80	14.75	18.44	23.05	28.81
	1 1/2"	21.41	26.76	33.45	41.82	52.27	65.34
	2"	25.77	32.21	40.27	50.33	62.92	78.64
	3"	52.97	66.21	82.77	103.46	129.32	161.65
	4"	134.60	168.25	210.31	262.89	328.61	410.77
	6"	276.08	345.10	431.38	539.22	674.02	842.53
	8"	439.33	549.16	686.45	858.07	1,072.58	1,340.73
Volume Rate Per 1,000 Gal							
	Volume Charge	3.66	4.06	4.51	5.01	5.56	6.06
	Fuel Cost Adjustment	0.11	-	-	-	-	-
Wastewater Rates - Residential & Comm Outside							
	5/8"	20.50	20.50	20.50	20.50	22.63	28.29
	1"	20.50	20.50	22.13	27.66	34.57	43.21
	1 1/2"	21.41	40.14	50.18	62.72	78.41	98.01
	2"	25.77	48.32	60.40	75.50	94.37	117.97
	3"	52.97	99.32	124.15	155.19	193.98	242.48
	4"	134.60	252.38	315.47	394.34	492.92	616.15
	6"	276.08	517.65	647.06	808.83	1,011.04	1,263.79
	8"	439.33	823.74	1,029.68	1,287.10	1,608.87	2,011.09
Volume Rate Per 1,000 Gal							
	Volume Charge	3.66	6.09	6.76	7.51	8.33	9.08
	Fuel Cost Adjustment	0.11	-	-	-	-	-

NOTE: Outside city commodity rates set at 50.0% premium, outside city base charge held constant until 50% premium



Impact on Monthly Customer Charges



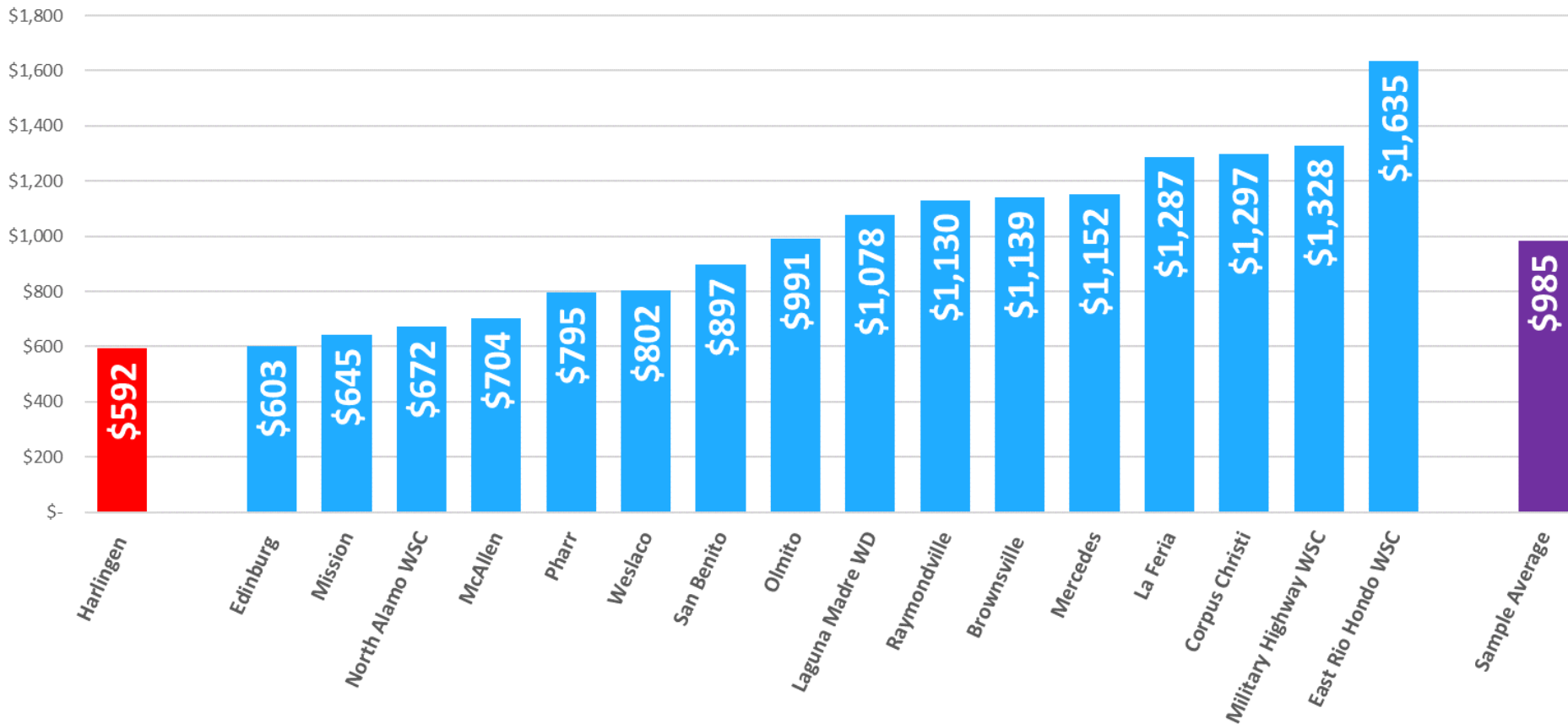
		Current	Proposed Rate Plan		Forecast Rates		
			Effective May-24	Effective Jan-25	Effective Jan-26	Effective Jan-27	Forecast Jan-28
Residential Monthly Charge							
3,000 Gal W	Total	\$ 30.55	\$ 33.73	\$ 39.48	\$ 46.48	\$ 55.02	\$ 64.16
3,000 Gal WW	Increase -- \$		3.18	5.75	7.00	8.54	9.14
10,000 Gal W	Total	50.06	54.45	62.35	71.73	82.90	94.55
5,000 Gal WW	Increase -- \$		4.39	7.90	9.38	11.17	11.65
20,000 Gal W	Total	67.16	79.95	90.40	102.59	116.84	131.55
5,000 Gal WW	Increase -- \$		12.79	10.45	12.18	14.25	14.71
Commercial Monthly Charge							
20,000 Gal W	Total	\$ 168.39	\$ 193.44	\$ 227.52	\$ 268.97	\$ 319.59	\$ 369.07
20,000 Gal WW	Increase -- \$		25.05	34.08	41.45	50.63	49.48
40,000 Gal W	Total	277.99	311.32	358.00	413.40	479.47	543.34
40,000 Gal WW	Increase -- \$		33.33	46.68	55.40	66.07	63.87



Typical Residential Use Case | Total Annual Charges



Total Annual Charges | Water & Wastewater Service
Typical Use Case (4Mo Low-Use | 5Mo Mid-Use | 3Mo High Use)



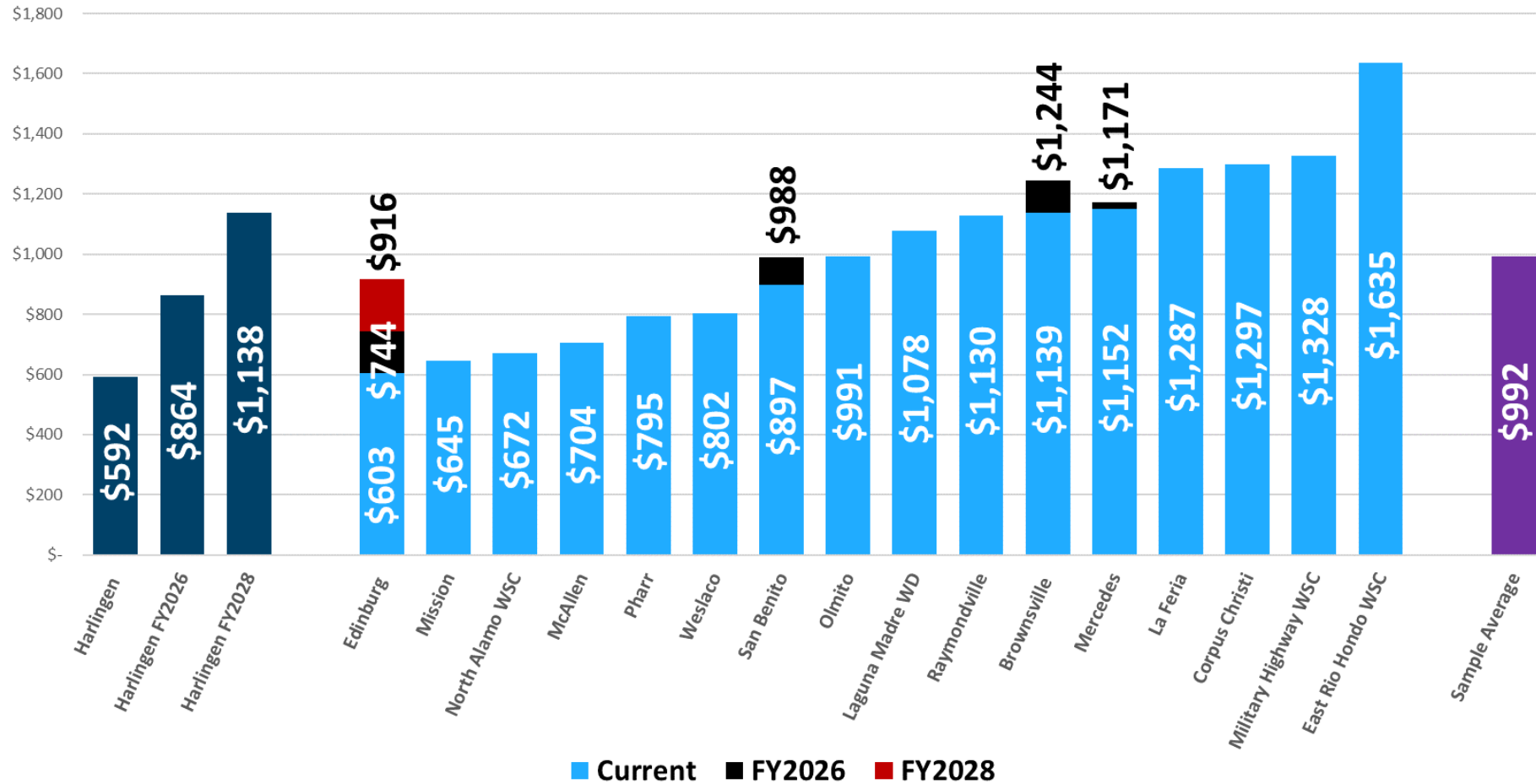
*Based on March 2024 rates



Typical Residential Use Case | Total Annual Charges Forecast



Total Annual Charges and FY 2026-2028 Forecast | Water & Wastewater Service
 Typical Use Case (4Mo Low-Use | 5Mo Mid-Use | 3Mo High Use)



*Based on March 2024 rates

NOTE: Edinburg, San Benito, Brownsville and Mercedes have multi year rate plans; Chart shows current and projected 2026/2028 charges where applicable



- Wholesale customers currently paying below cost rate
- Adjustment to cost-of-service rate would cause “rate shock”
- Recommend phasing in cost-of-service rate over a 5-year period
- Many wholesale contracts will expire shortly – now is a good time to renegotiate new wholesale rate



“Lifeline” Rate – Housing Authority Rebate Analysis



- HHA rebate was approved by the Commission
- Approximately 1,000 HWWS residential customers receive benefits from Harlingen Housing Authority (HHA)
- The rebate is intended to help offset rate increases for HHA customers
- The rate plan will phase in a \$25 rebate for HHA customers over the next 5 years (in \$5 increments each year)
- Estimated effect of the HHA rebate on other customers:
 - a 5-cent increase in water volume rate for all tiers for inside city customers in FY 2024 (a 7.5-cent increase for outside city customers)
 - additional 1% increase in sewer volume rate in FY 2025 through FY 2027

Rate Plan Scenario Metrics

	2024	2025	2026	2027	2028
Water & Sewer Fund Balance Drawdown	(3,102,923)	(3,005,800)	(2,016,533)	(1,900,833)	33,367
Water & Sewer Ending Fund Balance	18,191,500	16,741,394	16,827,344	16,422,380	18,336,643
Debt Coverage Ratio	0.99	3.23	2.16	1.51	1.40
Days of Fund Balance	256	225	200	166	163
Use of Impact Fees to Fund CIP	1,100,000	2,800,000	2,800,000	2,800,000	2,800,000

The background image shows a complex industrial facility, likely a water treatment plant, with various pipes, tanks, and machinery. The entire image is overlaid with a semi-transparent blue filter. The word "SUMMARY" is centered in white, bold, uppercase letters.

SUMMARY

Presentation Summary Benefits of Rate Plan



- Will enable the utility to remain financially sound
- Will preserve AA Bond rating
- Will enable \$260 million in capital funding to improve the quality and reliability of service
- Will ensure that rates pay all costs of providing service with no subsidies
- Will result in rates that remain competitive compared to other RGV utilities





QUESTIONS & DISCUSSION