



November 9, 2023

Dear Mr. President and Board Members,

This Budget Message for 2024 is the first to be presented to the Board. The purpose of my letter to the Board is to outline significant issues, challenges, and context for the budget itself. The budget is more than just numbers; it represents a commitment from the board and an outline of the budget's impact on the customers. The 2024 Budget represents a year that will see the following goals accomplished by the Board. They are.

- Approval of the TWDB grant submittal for \$3.3 million.
- Approval of the Membership Fees for SPWSC customers
- The acquisition of the Smith Family Utility system
- Approval of a 2024 Operating Budget
- Approval of a 2024 Capital Budget
- Discussion of tentative Utility Rates for the SPWSC customers

The 2024 Budget represents a split year of the cost being at the current level and then being adjusted in May 2024 to show the fiscal demands of the SPWSC after the acquisition of the Smith Family Systems. At that time, all operating and maintenance costs and revenue collection for the system will be the responsibility of the SPWSC. In addition, prior to our taking possession of the system, the Board will have to approve new rates for all four systems. The budget, as presented, provides an outline of the anticipated cost for 2024 and the revenue needed to cover all operating and debt service costs.

The 2024 Budget, as presented, shows the following revenue and expenditures for 2024.

WFX Loan	\$181,022.00
System Revenue	\$353,331.00
Total	\$534,354.00

Operating Budget	\$329,898.00
Debt Service	\$80,411.00
Total	\$410,309.00
Balance	\$124,044.00

MAJOR EXPENSE CATEGORIES IN 2024

All expense categories for 2023 before the creation of the SPWSC are based on monthly fillings to the PUC by the Central States Utilities. Many of the numbers are incomplete and do not show a complete twelve-month period. In addition, Central States has provided no customer billing census data, which has made rate projections for 2024 difficult.

The major categories in the 2024 budget that are not in the 2023 budget are as follows.

- Contract Operations, Billing, and Customer Service \$123,000.00 (\$15,000/Monthly)
- System Manager \$60,000.00
- Renewal and Replacement \$30,547.00
- Debt Service \$80,411.00

Contact Operations based on a proposal from the current Operator, it is the staff's intent to Market Test these numbers before finalization.'

Depreciation is a new number to the 2024 Budget but is a required item to set aside funds to fix and update wear and tear to system infrastructure. systematically

Renewal and Replacement are established to address emergency or critical needs as they arise.

Debt Service is the amount budgeted to pay back loans from WFX for Pre-Development dollars and all Acquisition Costs for the Smith Family assets.

FINANCIAL IMPACT FOR SPWSC RATEPAYERS

Once we have ownership of the Smith Family system, the current operating budget will be set to cover all costs outlined in the 2024 budget. The rates that must be set will be required to cover all operational costs, including depreciation, R&R, and debt service. These items will have to be funded to satisfy the TWDB grant application and to ensure that the SPWSC can maintain the systems and their assets. These rates do not have to be approved now but will come for consideration and approval prior to acquisition. In addition, the final acquisition cost is unknown at this time, but an estimated cost has been included in the 2024 budget.

Currently, based on the budget as presented, it will require an estimated rate increase of 88 percent upon acquisition.

The following table outlines the rate adjustments for May 2024

Current Rates		Comparison of Current and Post-Acquisition Budget Items			POST Acquisition	
Current Average Rate Calculation		Budget Items Impacting Sustainability and Rates:			Post Acquisition Average Rate Calculation	
		Current Costs	Budget Item	Post Acquisition		
Flat Rate	\$57.96	\$7,392.00	Contract Operations (Includes Operations, Customer Service & Billing)	\$15,000.00	Flat Rate	\$75.00
Temporary Manager Fee	\$12.00	\$0	Depreciation	\$0 to \$22,473.00	Temporary Manager Fee	\$0
Rate per 1,000 gallons - \$2.25	\$12.81	\$0	Acquisition Costs & Operational Loan (Debt Service)	\$10,051.00	Rate Per 1,000 gallons - \$14.25	\$81.07
Average Usage (gallons per month =5,693) ¹		\$0	Renewal & Replacement Fund	\$5,382.00	Average Usage (gallons per month =5,693) ¹	
Bill for Average Monthly Usage	\$82.77	\$0	Legal Services	\$3,000.00	Bill for Average Monthly Usage	\$156.07

1 Average monthly usage per CS submission to TCEQ-November 22 to June 2023

Percentage increase = 88%

This amount can be affected by adjustments in the final cost for acquisition and the lower cost for contract operations.

NEXT STEPS

1. The first action for the Board will be to approve a 2024 Budget. This approval process does not commit the Board to the rates outlined in the Budget.
2. Second, Set Membership Fees prior to Acquisition.
3. Third, before the acquisition of the Smith Family systems, the Board will have to hold Rate Hearings in March or April to consider the tariffs approved by the Board.
4. Fourth, the Board must amend the 2024 Budget to reflect the actual cost post-acquisition.

CONCLUSION

The Board has shown sound leadership in advancing the creation of the SPWSC and your continued involvement in pursuing the TWDB grant. Board guidance to staff has been critical for the amount of work accomplished. We stand ready to answer questions from the board and the public.

On behalf of all team members, I present the 2024 Budget for your consideration.

Respectfully,

A handwritten signature in blue ink, appearing to read "R. Sheets", with a long horizontal flourish extending to the right.

Robert E. sheets
System Manager

FY 2024 Tentative Operating Budget

• FY2023 Operating Budget Facts

- ✓ Details only those expenses for the South Plains WSC prior to acquisition of the four systems

• FY2024 Tentative Operating Budget Facts

- ✓ provides for a sustainable system with regular improvements
- ✓ increase in O&M expenditures
- ✓ increase in needed revenues
- ✓ adds renewal and replacement fund to address ongoing needs
- ✓ necessary to receive TWDB grant funding

OPERATING INCOME	
Beginning Balance	\$181,022
Water Revenue	\$353,331
Connection fees	
WFX Operational Funds	
Other Income	
TOTAL OPERATING INCOME	\$534,354
OPERATING EXPENSES	
System Management	\$60,000
Contract Operations (Patterson Professional Services)	\$123,500
Legal Fees (General Counsel)	\$36,000
WFX Grant Rate Impact / Modeling	\$7,222
Engineering Fees	\$18,000
Chemicals	\$2,380
Utilities	\$12,894
Insurance	\$4,200
Rents / Posting /Advertising / Website	\$3,000
Regulatory Fees	\$3,339
Lab Fees	\$2,129
Travel	\$18,000
Depreciation (30 Year Ramp Up - Monthly)	\$0
R&R Fund (10% of Gross Revenues)	\$35,333
Miscellaneous expense	\$3,900
TOTAL OPERATING EXPENSES	\$329,898
NET REVENUES AVAILABLE FOR DEBT SERVICE	\$204,455
Debt Service	
System Acquisition Costs	\$22,204
WFX - Anticipatory Note	\$58,207
DEBT SERVICE TOTAL	\$80,411
Debt Service Coverage (From Net Revenues)	2.54
OPERATING NET INCOME	\$124,044
NON OPERATING REVENUES (EXPENSES)	
CU Loan Repayment	(\$210,000)
TWDB Funding - GRANTS	\$1,376,200
TWDB Funding - LOAN	\$0
Grant Administrative Application Support	(\$100,000)
Program and Grant Management (5% of Grant)	(\$58,310)
Construction Management (5% of Grant)	(\$58,310)
General Counsel (2%)	(\$23,324)
Capital Improvements Funding	(\$926,256)
TOTAL NON OPERATING REVENUES (EXPENSES)	\$0
CHANGE IN NET POSITION	\$124,044
Connections	283
Average Bill	\$156.07