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Memorandum

To: Randel Kirk, General Manager, Mountain Peak Special Utility District
From: Dave Yanke, President, NewGen Strategies and Solutions, LLC
Cari Anderson, Senior Consultant, NewGen Strategies and Solutions, LLC
Date: March 20, 2025
Re: Impact Fee Analysis

Mountain Peak Special Utility District (Mountain Peak SUD) retained NewGen Strategies and Solutions, LLC (NewGen) to conduct a Water Cost of Service and Rate Design Study (Study) as well as an Impact Fee Analysis (Analysis). The Impact Fee Analysis incorporates the most recent capital improvement plan (CIP) and Land Use Assumption Plan (LUA) that was recently adopted by the Mountain Peak SUD Board of Directors. NewGen's Project Team (Project Team) took into consideration what was to be funded through current customers as well as what could be attributed to new growth through the conduct of an Impact Fee Analysis (Analysis) in order to ensure Mountain Peak SUD's financial integrity.¹

Impact Fees

An impact fee is a charge used "...to generate revenue for funding or recouping the costs of capital improvements or facility expansions necessitated by and attributable to the new development."² To determine the impact fee for Mountain Peak SUD, the Project Team relied on the requirements set forth in Texas Local Government Code Chapter 395 (LGC 395) which authorizes and provides guidance to political subdivisions implementing such fees. Without enacting an impact fee following LGC 395, the fee charged would need to utilize the following methodology: "charging up to three times the cost of connecting a standard residential customer to the water system" (e.g., the cost of a standard connection multiplied by up to three = the connection fee).³ The fee currently charged by Mountain Peak SUD is \$6,500 per connection. This fee does not currently provide sufficient revenue to fund the projects necessary to support new growth and would ultimately lead to current customers subsidizing projects related to growth through retail rate increases.

¹ Upon adoption of a new impact fee by the Mountain Peak SUD Board of Directors, NewGen will finalize the Water Cost of Service and Rate Design Study within 60 days.

² Per LGC 395.001 (4)

³ Per Texas Water Code Section 49.212(d)(2)(A) "...does not exceed three times the actual costs to the district for such tap or connection..."

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Impact Fee Adoption Process

LGC 395 describes the process through which impact fees can be implemented, calling for a strict timeline with necessary oversight from qualified professionals. Mountain Peak SUD employed the use of both NewGen and an engineering firm (Childress Engineers) to undertake this process.

The Project Team conducted multiple meetings with Mountain Peak SUD representatives and Childress Engineers to review their capital needs and growth assumptions. A key part of this process was the creation and refinement of both a Land Use Assumption Plan (LUA) and Capital Improvement Plan (CIP), described in more detail later in this memo. A public hearing for the approval of these documents was conducted during the Board's meeting on December 10, 2024. These plans were then used in the Project Team's calculation of the proposed impact fee. Most recently, Mountain Peak SUD provided notice of the upcoming hearing regarding the impact fee to be recommended by NewGen.

As part of this process, a Capital Improvements Advisory Committee (Committee) was created and appointed to assist and advise Mountain Peak SUD in the impact fee process. Per LGC 395.058, at least 40% of the members of this committee must consist of representatives from real estate, development, or other building industries who do not work for the water utility.

Land Use Assumptions & Capital Improvement Plan

The LUA is "... a description of the service area and projections of changes in land uses, densities, intensities, and populations in the service area over at least a 10-year period."⁴ The annual connection growth is assumed to be 710 new connections per year or 7,100 expected new service units in the 10-year period. This is approximately a 6% annual growth rate.

The CIP prepared by a qualified engineer provides a listing of the projects scheduled to be completed in a 10-year period and their associated costs. It also, and most importantly, identifies the percentage of each project that can be attributed to new developments. The total amount planned to be spent over the 10-year period is \$221,926,853⁵ as shown in Table 1. This is further detailed in Schedule 2. The CIP identifies whether cash and/or debt financing will be used in funding the projects, which is then incorporated into the Impact Fee Analysis to develop assumptions about interest earnings, fund balances, and applicable credits.

Table 1
Proposed Capital Improvement Costs

	Source of Funds	Year	Cost in Service Area	% Growth Related
JCSUD 16" Transmission Line US 67	Cash	2023	\$3,053,585	26%
JCSUD 16" Transmission Line (US 67 to JCSUD 30")	Cash	2023	1,159,268	26%
Upgrade Well Pump @ Plant 8	Cash	2024	600,000	100%

⁴ Per LGC 395.001 (5)

⁵ This value includes financial consulting and engineering fees that are recoverable through the impact fee per LGC 395.012 (2) (4)

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	Source of Funds	Year	Cost in Service Area	% Growth Related
Upgrade Well Pump @ Plant 9	Cash	2024	750,000	100%
CR 109 12" Water Line	Cash	2024	1,700,000	85%
30" Mansfield Transmission Line	New Debt	2025	21,100,000	20%
Mansfield 10.0 MGD Pump Station 10	New Debt	2025	28,160,000	20%
V.V. Jones 30" Relocation	New Debt	2025	7,550,000	39%
FM 157 to CR 213 12" Water Line	New Debt	2025	1,540,000	100%
CR 501 & 502 20" Water Line	Cash/New Debt	2025	5,340,000	70%
Trinity Well (Heirloom)	New Debt	2025	4,000,000	100%
Trinity Well (Heirloom)	New Debt	2025	4,000,000	100%
Trinity Well (Heirloom)	New Debt	2025	4,000,000	100%
Trinity Well (Heirloom)	New Debt	2025	4,000,000	100%
Trinity Well (Heirloom)	New Debt	2026	4,000,000	100%
Trinity Well (Heirloom)	New Debt	2026	4,000,000	100%
Trinity Well (Heirloom)	New Debt	2026	4,000,000	100%
Trinity Well (Heirloom)	New Debt	2026	4,000,000	100%
2.0 MG Heirloom Elevated Tank 1	Cash/New Debt	2026	12,080,000	100%
2.0 MGD Pump Station (Heirloom)	New Debt	2026	7,560,000	100%
Well Supply Line (Heirloom)	New Debt	2026	1,233,000	100%
2.0 MGD Pump Station (Heirloom)	New Debt	2027	7,560,000	100%
Well Supply Line (Heirloom)	New Debt	2027	1,233,000	100%
Trinity Well (Blue Grass)	New Debt	2026	4,000,000	100%
1.0 MGD Pump Station (Blue Grass)	New Debt	2026	4,890,000	100%
Pump Station 8 - 4.3 MGD Upgrade	New Debt	2027	9,040,000	100%
24" Mansfield Transmission Line, Ph 2	Cash/New Debt	2029	15,000,000	50%
10.0 MGD Pump Station (Newton Cemetery)	Cash/New Debt	2029	19,250,000	50%
Mountain 30" Transmission/Distribution Line	Cash/New Debt	2029	12,380,000	50%
Heirloom 24" Transmission/Distribution Line	New Debt	2029	7,800,000	50%
0.5 MG Elevated Tank (Heirloom)	New Debt	2030	4,674,000	50%
2.0 MG Elevated Tank (Blue Grass)	New Debt	2030	12,080,000	50%
NewGen Consulting Fees	New Debt	2025	114,000	100%
Childress Engineering Fees	New Debt	2025	80,000	100%
Total			\$221,926,853	

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Recoverable Project Costs & Maximum Assessable Fee

In addition to considering the portion of project costs that can be attributed to growth, there must also be a plan for awarding credit for the future revenue generated (via retail rates) by that growth (i.e. the new customers). This can be done by providing credit for "...the portion of ad valorem tax and utility service revenue..."⁶; or alternatively crediting 50% of the total cost needed per the CIP and calculated as shown in Schedule 1.

By taking the recoverable CIP costs and financing costs less the existing impact fee fund balance divided by the projected new service units during the 10-year period, the Project Team calculated a maximum impact fee of \$22,837 per new service unit. It was then determined that the proposed impact fee should be 76% of the maximum pre-credit fee, or \$17,265 per new service unit as shown in Schedule 1 (and consistent with LGC 395). Schedule 1 shows the calculation of the gross impact fee, and then after adjusting for the "credit" of retail rate revenues generated by the new customers, the impact fee that can be charged per LGC 395, which is \$17,265.

NewGen recommends that Mountain Peak SUD approve the maximum impact fee of \$17,265 for a standard 5/8-inch living unit equivalent (LUE) connection, with the impact fee adjusted for larger meters based on the "meter equivalency" factor as documented by the American Water Works Association in its M-1 Manual. This will allow Mountain Peak SUD to appropriately recover costs related to capital projects that can be attributed to new development and help to ensure the financial stability of the water utility as it plans for future growth over the next ten years. It is important to note that if the Mountain Peak Board of Directors desires to implement less than the maximum impact fee amount of \$17,265 they can elect to do that as allowed by LGC 395.

⁶ Per LGC 395.014 (7)(A)

Mountain Peak Impact Fee Analysis

Impact Fee Model Impact Fee Summary Table

		Update
0	Existing Fund Balance	\$ 4,000,000
1	Existing Number of Service Units	7,900
2	Total Number of Services Units for Planning Period	15,000
3	Additional Service Units Added During Planning Period (Line 2 - Line 1)	7,100
4	Total Cost of the Water Capital Recovery Fee CIP	\$ 221,926,853
5	Recoverable Cost for Capital Recovery Fee Planning Period	\$ 137,346,842
6	Percent Recoverable for Water Capital Recovery Fee Planning Period (Line 5 / Line 4)	61.89%
7	Financing Costs (From Financial Analysis)	\$ 54,211,589
8	Interest Earnings (From Financial Analysis)	\$ (25,419,185)
9	Recoverable Cost of Water Capital Recovery Fee and Financing Costs Less Balance	\$ 162,139,246
10	Pre-Credit Maximum Fee (Line 9 / Line 3)	\$ 22,837
11	Credit for Utility Revenues (From Financial Analysis)	\$ (39,556,868)
12	Recoverable Cost of Water Capital Recovery Fee and Financing (Line 9 + Line 11)	\$ 122,582,379
13	Maximum Assessable Fee ⁽¹⁾ (Line 12 / Line 3)	\$ 17,265

Mountain Peak Impact Fee Analysis
 Capital Improvement Plan for Impact Fees
 Impact Fee Project Funding

Capital Project Name	Funding Source	Year	Cost In Service Area	Developer Funded Portion	Escalated Cost In Service Area	Percent Attributed To New Growth (2023-2032)	Impact Fee Cost	Existing	Proposed	Non-Debt Funded	Fee Cost
1 JCSUD 16" Transmission Line US 67	Cash	2023	\$ 3,053,585		\$ 3,053,585	26%	\$ 793,932	\$ -	\$ -	\$ 793,932	\$ 793,932
2 JCSUD 16" Transmission Line (US 67 to JCSUD 30")	Cash	2023	1,159,288		1,159,288	25%	301,410	-	-	301,410	301,410
3 Upgrade Well Pump @ Plant 8	Cash	2024	600,000		600,000	100%	600,000	-	-	600,000	600,000
4 Upgrade Well Pump @ Plant 9	Cash	2024	750,000		750,000	100%	750,000	-	-	750,000	750,000
5 CR 109 12" Water Line	Cash	2024	1,700,000		1,700,000	85%	1,445,000	-	-	1,445,000	1,445,000
6 30" Mansfield Transmission Line	New Debt	2025	21,100,000		21,100,000	20%	4,220,000	-	4,220,000	-	4,220,000
7 Mansfield 10.0 MGD Pump Station 10	New Debt	2025	28,160,000		28,160,000	20%	5,632,000	-	5,632,000	-	5,632,000
8 V.V. Jones 30" Relocation	New Debt	2025	7,550,000		7,550,000	39%	2,944,500	-	2,944,500	-	2,944,500
9 FM 157 to CR 213 12" Water Line	New Debt	2025	1,540,000		1,540,000	100%	1,540,000	-	1,540,000	-	1,540,000
10 CR 501 & 502 20" Water Line	Cash/New Debt	2025	5,340,000	2,670,000	5,340,000	70%	3,738,000	-	1,669,000	1,869,000	3,738,000
11 Trinity Well (Heirloom)	New Debt	2025	4,000,000		4,000,000	100%	4,000,000	-	4,000,000	-	4,000,000
12 Trinity Well (Heirloom)	New Debt	2025	4,000,000		4,000,000	100%	4,000,000	-	4,000,000	-	4,000,000
13 Trinity Well (Heirloom)	New Debt	2025	4,000,000		4,000,000	100%	4,000,000	-	4,000,000	-	4,000,000
14 Trinity Well (Heirloom)	New Debt	2025	4,000,000		4,000,000	100%	4,000,000	-	4,000,000	-	4,000,000
15 Trinity Well (Heirloom)	New Debt	2026	4,000,000		4,000,000	100%	4,000,000	-	4,000,000	-	4,000,000
16 Trinity Well (Heirloom)	New Debt	2026	4,000,000		4,000,000	100%	4,000,000	-	4,000,000	-	4,000,000
17 Trinity Well (Heirloom)	New Debt	2026	4,000,000		4,000,000	100%	4,000,000	-	4,000,000	-	4,000,000
18 Trinity Well (Heirloom)	New Debt	2026	4,000,000		4,000,000	100%	4,000,000	-	4,000,000	-	4,000,000
19 2.0 MG Heirloom Elevated Tank 1	Cash/New Debt	2026	12,080,000	6,040,000	12,080,000	100%	12,080,000	-	6,040,000	6,040,000	12,080,000
20 2.0 MGD Pump Station (Heirloom)	New Debt	2026	7,560,000		7,560,000	100%	7,560,000	-	7,560,000	-	7,560,000
21 Well Supply Line (Heirloom)	New Debt	2026	1,233,000		1,233,000	100%	1,233,000	-	1,233,000	-	1,233,000
22 2.0 MGD Pump Station (Heirloom)	New Debt	2027	7,560,000		7,560,000	100%	7,560,000	-	7,560,000	-	7,560,000
23 Well Supply Line (Heirloom)	New Debt	2027	1,233,000		1,233,000	100%	1,233,000	-	1,233,000	-	1,233,000
24 Trinity Well (Blue Grass)	New Debt	2026	4,000,000		4,000,000	100%	4,000,000	-	4,000,000	-	4,000,000
25 1.0 MGD Pump Station (Blue Grass)	New Debt	2026	4,890,000		4,890,000	100%	4,890,000	-	4,890,000	-	4,890,000
26 Pump Station 8 - 4.3 MGD Upgrade	New Debt	2027	9,040,000		9,040,000	100%	9,040,000	-	9,040,000	-	9,040,000
27 24" Mansfield Transmission Line, Ph 2	Cash/New Debt	2029	15,000,000	7,500,000	15,000,000	50%	7,500,000	-	3,750,000	3,750,000	7,500,000
28 10.0 MGD Pump Station (Newton Cemetery)	Cash/New Debt	2029	19,250,000	9,625,000	19,250,000	50%	9,625,000	-	4,812,500	4,812,500	9,625,000
29 Mountain 30" Transmission/Distribution Line	Cash/New Debt	2029	12,380,000	6,190,000	12,380,000	50%	6,190,000	-	3,095,000	3,095,000	6,190,000
30 Heirloom 24" Transmission/Distribution Line	New Debt	2029	7,800,000		7,800,000	50%	3,900,000	-	-	3,900,000	3,900,000
31 0.5 MG Elevated Tank (Heirloom)	New Debt	2030	4,674,000		4,674,000	50%	2,337,000	-	-	2,337,000	2,337,000
32 2.0 MG Elevated Tank (Blue Grass)	New Debt	2030	12,080,000		12,080,000	50%	6,040,000	-	-	6,040,000	6,040,000
33 NewGen Consulting Fees	Cash	2025	114,000		114,000	100%	114,000	-	-	114,000	114,000
34 Childress Engineering Fees	Cash	2025	80,000		80,000	100%	80,000	-	-	80,000	80,000
Total			\$ 221,926,853		\$ 221,926,853		\$ 137,346,842	\$ -	\$ 50,943,000	\$ 86,403,842	\$ 137,346,842