

General Manager's Comments

Supply Project Funding – 2025 Rate Adjustment

South Brazos County has no commercially viable groundwater sources. For the last three decades, water for development has been brought in from elsewhere. First it was purchased from the cities, who both have wellfields north of town and transmission lines to bring it down. Any additional water for development had to be negotiated from the City of College Station. Then we developed the Nunn-Jones wellfield in east Brazos County, which allowed the freedom to grow for several years. The next step was to add a surface water treatment plant on the Navasota River – enough water rights were acquired to allow a future expansion of the plant without needing to find more (a good thing, since there are no more available). In the 2010s, we turned back to the cities. This time, the City of Bryan partnered with us – they had far more water rights than they could use in any given year, and groundwater politics were starting to get out of control, so they signed a water supply contract with us that allowed them to exercise their production permits more completely. Since then, all the water we have used to add connections has come from Bryan. In the meantime, Bryan has also been growing, and the extra water rights they had are no longer extra. Occasionally they've been forced, in recent years, to restrict the amount of water we can draw on high usage days. Early in our partnership with Bryan, this would not have been a concern, as the connection with Bryan was largely just supplemental. These days, it is crucial.

We outgrew our supply with Bryan years ago. The next step in the plan to increase supply laid out in the 2017 Master Plan was to expand the surface water treatment plant. Directly after that, it was planned to add wells and a transmission line to bring water from north of Bryan (the earliest version of this supply project). In 2019, the Board of Directors made the choice to re-order the plan. Not only was a surface water expansion just as expensive as a northern well field, there was a lack of future expandability. As soon as the plant upgrade was complete, the northern well field would have to be built to keep up with projected development. The lynchpin for the decision was the groundwater politics climate – the groundwork for the Upwell transport project was already underway, and Vista Ridge was put online that year. The Board saw the urgency of developing our groundwater and compared that with the fact that we would retain our excess surface water rights indefinitely as long as we kept paying for them. They made the decision to move forward with a groundwater project, with the intent of having it online by June of 2024, the first date when the City of Bryan could provide us a 2-year notice that our supply contract was terminated. Water rights were purchased from local landowners and a project consisting of three wells, a treatment plant, and a pipeline was drawn up which was designed to deliver 6,000 gpm at first and which can be expanded up to over 12,000 gpm when additional wells are added in the future.

In the 6 years since, two were spent chasing low interest financing from TWDB, which never materialized though we were encouraged to apply for it. Another year was spent applying for and receiving the full estimated cost of the project through another funding program at the TWDB. The design for the project was funded by a short term loan taken out in 2021, so it was largely complete by the time the TWDB funding was landed. Another year was lost waiting for the federal agencies to complete their reviews, so that the TWDB did not begin their programmatic review until February of 2024. It is now July of 2025, and we have finally put one of three contracts in the project out for bid, hopefully soon followed by another.

However, in the 6 years since, the estimated cost of the project has ballooned. In addition to the normal inflation in costs seen over any 6-year period, we also experienced massive inflation in the construction industry caused by the COVID-19 supply chain disaster. The full project was estimated at just over \$45 million in 2019 – today in 2025 the total is just over \$102 million. The shortfall in funding was identified in 2023 after an update to the engineer's cost estimates. The Board of Directors at the time was hesitant to seek additional funding, and so had a number of alternates designed-in so that the cost could be reduced to match the level of funding that was available when the project was put out for bid.

The result was an undersized project that included a much smaller pipeline, only one well, smaller process equipment, and huge costs needed to connect the other two wells in the future. On top of that, the reduced pipeline would only have the capacity to transport the production from the three Simsboro wells. This meant the only way to expand supply from that project in the future would be to build a parallel pipeline, at a much greater cost.

We currently, as of July 2025, have nearly 9,400 additional planned connections in new proposed subdivisions, most of which are intended to be made available in the next 10 years. That will require an additional 5,640 gpm of production beyond what we can produce now. Technically right now we have a small production deficit, so the additional 6,000 gpm we will bring online with the supply project will be completely accounted for within the decade. 10 years from now, we will need to add more supply, whether we build the full project or the reduced project. If we build the full project, all that will mean is drilling a well and connecting it to the wellfield collection line. If we build the reduced project, we will have to drill a well *and* add another pipeline – except that pipeline will cost far more than \$60 million the second time around.

The bottom line was, the reduced project would have been a bad investment. Rather than the pain of a rate increase, we would have kicked the can down the road and forced our future selves to make the painful investment at a much higher cost. The full project is the right investment, as painful as a rate increase might be.

There are, of course, other options that have been considered. One of those is to build nothing. We clearly have enough water right now to serve the connections we have adequately. We could declare a 'moratorium on new connections' and just stick our heads in the sand and go about our business. We'll certainly endure a few lawsuits from developers, which may or may not be successful, and which will be expensive either way. We will likely face consequences from the Public Utilities Commission (PUC), probably in the form of a transfer of unserved portions of our service area to other entities. There will certainly be an outcry from the real-estate related industries, likely culminating in tremendous political pressure to build the infrastructure and start setting taps again. The most likely outcome of this option is that we change our minds down the road and build more supply anyway, and at the inflated costs of the future.

Another option is to throw in the towel and give the system to one or both cities. This option makes a lot of sense in terms of cost-efficiency for the customer, at least for the more suburban WSUD customer. However, it is possible that an arrangement like this would put many of our rural customers in a situation where they have no say in their water system. People living outside city limits are unable to participate in city elections and will therefore have no representation in the decisions made about their water supply.

Some customers would benefit more than others, and there are many complicated decisions that would need to be made to ensure that rural customers would continue to get the same level of water service. Additionally, there is no guarantee that a merger would result in lower water rates, or less need for infrastructure immediately, it is essentially just the “I give up” option – the problems we have will still need to be fixed by someone.

Not really an option, but an alternative that has been discussed is to abandon or postpone this project and convince the TWDB to let us use the existing funding to expand the surface water treatment plant to meet immediate needs. The same problem sinks this one just like it sinks any other alternative project – we are out of time. We had several years of growth left in our existing water supply when we started this back in 2019. Beyond that we have been able to accommodate even more growth by making our existing system more efficient and by adding elevated storage, but most of those tricks have been used now. The developments on the books are coming, and we don’t have the water to serve them. The cities have both been growing over the same period, and they’ve used all their water up too. We just don’t have time to start over and design a new project without a ‘moratorium on new connections’, especially if we have to go through two years of government review before we can build anything.

The fastest, most cost effective way to increase supply to accommodate the coming growth is to build this project. The only way to build this project is to find additional funding to cover the \$60 million shortfall. The fastest way to do that is a public bond issuance, just like we’ve used for multiple projects in the past. The only way to get approval for the bonds is to show that our revenues are sufficient to guarantee the debt service. The only way to show that we have sufficient revenue to service the debt is to increase water rates.

Since the beginning of this year we’ve had a rate consultant engaged to determine the bare minimum rate increase we will need to satisfy all of the requirements for public debt. The end product of this effort is the rate adjustment we need to approve at the upcoming meeting.

The proposed rate increase consists of a total of \$19.50 added to the minimum over two years, as well as increases to each of the volumetric rates, also over two years. The best way to understand a rate increase is the bill impact: The majority of current customers use between 5 and 10 thousand gallons each month. Those customers will see a monthly increase of about \$13 the first year and \$12 the second year. A customer who uses 30,000 gallons will see about \$22 the first year and \$21 the second year. Impacts are higher at higher usage levels.

For most customers, the increase will be approximately equivalent to the cost of a fast food meal each month – not insignificant, but offering tremendous value. For this additional monthly expense: we double our community’s access to drinking water; we get the ability to produce water during power outages; we become water-independent from other entities so that our community no longer has to worry about our water supply being cut off in the middle of the summer; we can double the number of new homes we can accommodate in the area, on the timeframe that the developers need, and we will be able to expand our water supply by simply adding another well any time we need to. It won’t be the end of infrastructure improvements, but it cures our deficits and sets us up with options for expanding supply further so that we won’t get behind in the future, and most of the year it will provide redundancy that will allow us to rehabilitate all of the existing production infrastructure that has been working so hard the last few years.

No one wants the pain of raising rates, and no one wants the pain of paying higher rates. Unfortunately, it's not about what we want, it's about what we need. We are here to make responsible decisions about our community's water system. Any decision other than raising rates enough to build this project as designed would be an irresponsible decision that will cost us far more money in the long term.

-Campbell Young
General Manager, WSUD