



Citizens Utility Advisory Board

Chairperson: Mr. Michael Markowicz

Members: Ms. Elizabeth Trevino Amaya, Ms. Liz Dobbins, Mr. Paul Jensen, Mr. John Bilodeau, and Councilmember Matthew Mendoza (*ex-officio*)

August 12, 2025

The Honorable Mayor Jane Hughson and Members of City Council
630 East Hopkins Street
San Marcos, Texas 78666

RE: Citizens Utility Advisory Board's FY2026 Utility Rate Adjustment Recommendations

Dear Honorable Mayor Hughson and Members of Council:

At the July 30th, 2025, and August 12, 2025, CUAB meetings, the Citizens Utility Advisory Board ("CUAB") received presentations and materials related to the proposed FY2026 budget and the 5-year forecasted outlook based on the rate model and cost of service study, which included proposed user rate increases in electric, water and wastewater utility services. Presentations at the May 29th and July 9th CUAB meetings introduced a Utility Financial Policy that provides written guidance striving to strengthen the financial performance of San Marcos Utilities, while also achieving a long-term positive outlook.

Information was presented at the July 30th, 2025, and August 12, 2025, CUAB meetings related to user rates for electric, water and wastewater utility services. CUAB reviewed the rate model presented by City staff and discussed the proposed FY2026 budget, and by a 4 to 1 vote, recommend that Council approve (i) a 13.5% rate adjustment for electric, including an individual adjustment to the base rate of 6.69% and creation of a new Community Benefit fee of 6.81%, which will result in a net 4.4% total effective rate increase, (ii) a 10.8% rate adjustment for water, including an individual adjustment to the base rate of 3.5% and creation of a new Community Benefit fee of 7.3%, and (iii) a 9.7% rate adjustment for wastewater, including an individual adjustment to the base rate of 3.0% and creation of a new Community Benefit fee of 6.7%. The water and wastewater rate adjustments result in a net 10.4% total effective rate increase for those services.

The electric rate adjustment is only the fourth since 2014 and still places San Marcos within the average for rates in the area for both residential and commercial customers. The increase will allow the Electric Fund to (i) change the trajectory of the declining fund balance accelerated by inflationary costs and little to no rate increases in prior years to support additional debt service needs placed on the fund year after year, (ii) it allows the Electric fund to meet required bond covenants of 1.20 for the budgetary year, (iii) alleviates financial risk to the Electric fund if there is an unexpected decline in sales or increase in material, (iv) places the Electric fund in a financially stable environment to pursue small periodic rate adjustments moving forward which will minimize the burden placed on customers in future years, and lastly (v) puts the Electric Fund on track to improve its BBB+ bond rating.

The water and wastewater rate adjustments are consistent with the Utility's Financial Policy, the goal to increase cash reserves and improve the debt service coverage ratio, and a multi-year plan comprised of smaller periodic adjustments.

We sincerely appreciate the opportunity to serve our community and respectfully request you consider adoption of these recommendations.

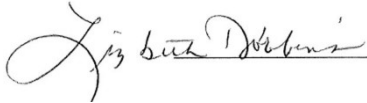
Sincerely,

San Marcos Citizens Utility Advisory Board*

Elizabeth Trevino-Amaya (opposed)



Paul Jensen



Lizbeth Dobbins



Michael Markowicz



John Bilodeau

**The Citizens Utility Advisory Board consists of 5 voting members, with a City Council Member appointed as a non-voting, ex-officio member. A majority of the voting membership of the board members constitute a quorum.*