

ESTRADA • HINOJOSA

INVESTMENT BANKERS

September 2, 2022

Mr. Peter Zanoni
City Manager
City of Corpus Christi, Texas
1201 Leopard Street
Corpus Christi, Texas 78401

Mr. Zanoni:

You've asked us to provide an opinion regarding the impact of implementing a \$1.1 billion Utility CIP over a three-year period from FY 2023 to FY 2025 on the City's Water, Wastewater, Stormwater, and Gas system.

From a macro perspective, we believe that Net Revenues for the Utility System (Water, Wastewater, Stormwater, and Gas) will have to increase from the most recent 2021 Audited report, which resulted in \$98.966 million, a combined 57% increase over 3 years starting in 2024 in order to fund proposed CIP and maintain the City's 1.4x debt coverage ratio on all their Utility Revenue debt due to increase by \$65.469 million in new debt service payments by 2026. In 2022, the City paid \$69.205 in debt service.

Increasing rates for FYE 2023 will be our preference, and we believe staff is already recommending such rate adjustments. 2022 FYE results are still not complete so an increase in Net Revenues would also affect our projected needed revenue adjustments.

Additionally, maintaining 1.4x debt coverage ratio provides the City with the ability to maintain its current ratings from Moody's, S&P, and Fitch which help secure the lowest borrowing costs. A sizable CIP may make some rating agencies anxious considering the volatile markets we find ourselves and our ability to execute it.

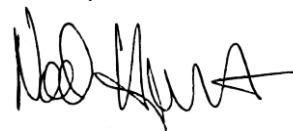
Weather, Inflation, Supply chain, Performance from Construction providers, Financial Markets volatility are just a few of the factors that can affect not only the implementation of the CIP, but the debt model that we use to forecast required Net Revenues to pay Debt Service.

I think is important to note that the City has never issued debt on any of its credits, GO or Utility, unless it meets all of its covenants with bond holders, conforms to City Council policy objectives, and—as importantly—sustain its valued credit ratings.

The CIP, like a budget, is a managing tool which provides general information of its needs and in no way does the CIP encourages or commits the City to borrow the amount identified. City staff monitors revenues of the System and adjusts CIP according to the demands required by the System.

Again, if the City were to fund for all of its needed Utilities CIP as presented by staff, we believe rate increases will be required. Staff has also provided that in 2023 an 8% increase for Water along with 10% for Sewer will be needed. We strongly believe, that the earlier the City increases user rates the better, so staff proposal to increase rates for FY 2024 as provided will be helpful in the City's attempts to fund CIP and maintain the desired 1.4x debt coverage ratio of Debt Service by Net Revenues.

Sincerely,



Noe Hinojosa, Jr.
President and CEO

ESTRADA HINOJOSA & COMPANY, INC.
600 N. Pearl Street • Suite 2100, South Tower • Dallas, Texas 75201
(214) 658-1670 • (800) 676-5352 • Fax (214) 292-8849
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