

Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: January 19, 2016

TEAM MANAGER: Caaren Skrobarczyk

APPLICANT	City of Strawn
TYPE OF ASSISTANCE	\$1,645,000 Loan \$ 700,000 Loan Forgiveness
LEGAL PLEDGE	Ad valorem tax and surplus revenues of water and wastewater system

STAFF RECOMMENDATION

Approve No Action

ACTION REQUESTED

Approve by resolution, a request from the City of Strawn (Eastland, Erath and Palo Pinto Counties) for: a.) financial assistance in the amount of \$2,345,000, consisting of a \$1,645,000 loan and \$700,000 in loan forgiveness from the Drinking Water State Revolving Fund to finance planning, design, acquisition and construction of water wells and transmission lines and, b.) a waiver of the requirement for consistency with the 2012 State Water Plan.

PROJECT

Urgent Need Groundwater Supply Improvement
Project Number 62677

BACKGROUND

The City of Strawn (City) in Palo Pinto County needs a supplemental ground water supply because the surface water supply has become unreliable in drought conditions. The project proposes to drill new water wells in the Trinity Aquifer (Antlers Formation) in Eastland County and install transmission lines as a part of a regional supply solution to the unreliable surface water supply.

The proposed project includes installing a pump station and an 8-inch pipeline north along Highway 16 to the City's existing distribution system. The project is intended to benefit the cities of Strawn, Mingus and Gordon in Palo Pinto County, and Barton WSC in Palo Pinto and Erath counties. The water could be distributed to each entity through existing interconnects.

FINANCIAL

Key Issues

None.

COMMITMENT PERIOD: ONE (1) YEAR TO EXPIRE ON JANUARY 31, 2017

Pledge and Repayment

The City is pledging ad valorem taxes and surplus revenues from the water and wastewater system for the repayment of the proposed loans.

In 2014, the City did not produce sufficient annual net revenues available for the proposed debt service. Including the proposed loans, the City's average annual debt service requirement is \$100,729. Assuming no growth in the number of connections or other potential revenue sources, the City will need to increase its average monthly water and wastewater bills for the proposed debt service by an estimated \$14.60 in 2016, and then an additional \$16.25 through 2023. This is a total projected increase of \$30.85.

Alternatively, the City could levy an interest and sinking fund tax rate. A rate of \$0.328 would be required in 2016, with additional increases to a maximum rate of \$0.651 in 2031. These projections assume no growth in the tax base and a 90% collection rate, compared to their recent historical performance of average annual growth in the tax base of 9.73%, and over 99% collection rate.

In addition, the City could implement a combination of water rate and tax rate increases to produce sufficient revenues for the repayment of the proposed debt service. The City anticipates using water rate increases, which was assumed for purposes of the financial review of the proposed financing.

Principal Forgiveness

The City's project qualifies for Urgent Need funding in the Drinking Water State Revolving Fund, which is up to \$500,000 in loan forgiveness. The City also qualifies for Very Small Systems funding in the Drinking Water State Revolving Fund, which is up to \$200,000 in loan forgiveness for systems that serve a population under 1,000.

Cost Savings

Based on a 30-year maturity and current interest rates, the City could save approximately \$321,045 over the life of the loan. The City is also saving \$1,203,181 in loan forgiveness.

Internal Risk Score

Staff assigns a 2C to the City, and the proposed project to be funded by the Texas Water Development Board. This means that the City's payment capacity is sufficient.

The City's socioeconomic indicators are below the State of Texas (State) overall. The City's population has decreased at an average annual rate of 3.16% since 2000, compared to a rate of 1.60% for the population of the State overall. The City's average median household income is \$40,000, 77% of the median for the State overall. The unadjusted, unemployment rate for Palo Pinto County was 5.1% in September 2015, compared to 4.4% for the State, and the national rate of 4.9%. The City has a 24.8% poverty rate compared to the State average of 17.6%.

The City's financial health is weak. The City's current outstanding per capita debt totals \$1,158, and would increase to \$4,536 with the proposed financing. This is considered to be a high level of debt. The City maintains approximately 1 month of cash operating expenses in the form of

liquid net assets in the utility system. This is a low level of liquidity. For determination of an appropriate internal risk score, the benchmark is 2 to 3 months of cash operating expenses. The City holds an additional 2 months of liquid net assets in restricted accounts.

The City's water and wastewater system net revenues available for debt service declined from an average of \$43,602 from 2011 to 2013 to -\$14,024 in 2014. The decline is attributed to a general decline in revenues of approximately 3% annually, and an increase in expenses of approximately 8% annually. Current net revenues of the water and wastewater system that are available for debt service do not provide coverage of the proposed debt service.

The City's utility system rates are considered affordable based on a current household cost factor of 1.98%. However, because of the required rate increases to repay the proposed loan, the projected household factor with the proposed debt is 2.90%. A projected household cost factor of less than 2% for water and wastewater services is considered affordable.

The City's socioeconomic indicators are below the State overall, and historically the City's financial performance has been marginal with low liquidity and revenues available for debt service. The City's level of debt with the proposed funding is expected to be high. In addition, the average monthly bill for the City's utility system customers with the additional debt is considered unaffordable. The City is assigned a risk score of 2C.

LEGAL

Key Issues

The City requested a consistency waiver from the Brazos Region G Planning Group. The Group provided support for the waiver. The proposed strategy has been approved and included in the 2016 Regional Water Plan. Since the 2017 State Water Plan has not been finalized, a consistency waiver for the 2012 State Water Plan is needed.

Conditions

Standard Drinking Water State Revolving Fund, tax-exempt, tax and surplus revenues conditions, and further conditioned as follows:

- Water rights certifications;
- Executed loan forgiveness agreement;
- Standard emergency discovery; and
- Return surplus funds.

Attachments: 1. Project Data Summary
 2. Debt Service Schedule
 3. Engineering/Environmental
 4. Project Budget
 5. Resolution (16-)
 6. Water Conservation Review
 7. Location Map
 8. Letter Requesting Waiver
 9. Letter from Brazos G Regional Planning Group

Project Data Summary

Applicant	City of Strawn
Program	Drinking Water State Revolving Fund
Commitment Code	L1000499; LF1000500
Project Number	62677
Intended Use Plan Year	2016
Fund Number	951
Type of Pledge	3- Combo Tax and Rev
Revenue Pledge Level	Third
Legal Description	\$1,645,000 Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Proposed Series 2016; \$700,000 Loan Forgiveness
Tax-exempt or Taxable	Tax-exempt
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay = Escrow
Population	487
Rural	Yes
Water Connections	363
Wastewater Connections	292
Qualifies as Disadvantaged	No
Disadvantaged Level	6
Clean Water State Revolving Fund Type	N/A
Financial Managerial & Technical Complete	No
SWIFT Financing Type	N/A
SWIFT Characteristic	N/A
Funding Phase Code	Planning, Design, Acquisition and Construction
Pre-Design	Yes
Project Consistent with Water Plan	No
Water Conservation Plan	Adopted
Water Rights Certification Required	No
Internal Risk Score	2C
External Ratings (for SRF rates)	
Standard and Poor's	Non-Rated
Moody's	Non-Rated
Fitch	Non-Rated
Special Issues	None

Project Team

Team Manager	Caaren Skrobarczyk
Financial Analyst	Dain Larsen
Engineering Reviewer	Lee Wimberley
Environmental Reviewer	Jean Devlin
Attorney	Joe Reynolds

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
City of Strawn

\$1,645,000 Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Proposed Series 2016

Dated Date: 3/1/2016
 Delivery Date: 3/1/2016
 First Interest: 8/1/2016
 First Principal: 2/1/2018
 Last Principal: 2/1/2047
 Fiscal Year End: 09/30
 Required Coverage: 1.1

Source: DWSRF
 Rate: 2.60%
 Insurance: No
 Case: Tax and Revenue
 Admin.Fee: \$ 36,198
 Admin. Fee Payment Date: 3/1/2016
 Total Assessed Valuation: \$ 23,189,960

FISCAL YEAR	REQUIRED TAX RATE	TAX REVENUES WITH COLL. @ 90%	PROJECTED NET SYSTEM REVENUES	PROJECTED TOTAL REVENUES	CURRENT DEBT SERVICE	PRINCIPAL PAYMENT	INTEREST RATE	\$1,645,000 ISSUE		TOTAL DEBT SERVICE	COVERAGE			
								INTEREST PAYMENT	TOTAL PAYMENT					
2016	-	-	67,181	67,181	44,996	-	0.00%	16,052	16,052	61,048	1.10			
2017	-	-	90,921	90,921	44,099	-	0.00%	38,524	38,524	82,623	1.10			
2018	-	-	134,916	134,916	44,202	40,000	0.40%	38,444	78,444	122,646	1.10			
2019	-	-	134,916	134,916	44,266	40,000	0.64%	38,236	78,236	122,502	1.10			
2020	-	-	134,916	134,916	43,291	40,000	0.93%	37,922	77,922	121,213	1.11			
2021	-	-	134,916	134,916	44,316	40,000	1.26%	37,484	77,484	121,800	1.11			
2022	-	-	134,916	134,916	44,263	40,000	1.52%	36,928	76,928	121,191	1.11			
2023	-	-	137,966	137,966	44,171	45,000	1.66%	36,251	81,251	125,422	1.10			
2024	-	-	137,966	137,966	44,040	45,000	1.79%	35,474	80,474	124,514	1.11			
2025	-	-	137,966	137,966	43,870	45,000	1.91%	34,642	79,642	123,512	1.12			
2026	-	-	137,966	137,966	44,661	45,000	2.02%	33,758	78,758	123,419	1.12			
2027	-	-	137,966	137,966	44,374	45,000	2.11%	32,828	77,828	122,202	1.13			
2028	-	-	137,966	137,966	44,048	45,000	2.20%	31,859	76,859	120,907	1.14			
2029	-	-	137,966	137,966	43,683	50,000	2.28%	30,794	80,794	124,477	1.11			
2030	-	-	137,966	137,966	44,279	50,000	2.35%	29,636	79,636	123,915	1.11			
2031	-	-	137,966	137,966	44,797	50,000	2.42%	28,444	78,444	123,241	1.12			
2032	-	-	137,966	137,966	44,237	50,000	2.48%	27,219	77,219	121,456	1.14			
2033	-	-	137,966	137,966	43,638	55,000	2.53%	25,903	80,903	124,541	1.11			
2034	-	-	137,966	137,966	-	55,000	2.57%	24,500	79,500	79,500	1.74			
2035	-	-	137,966	137,966	-	55,000	2.61%	23,076	78,076	78,076	1.77			
2036	-	-	137,966	137,966	-	55,000	2.64%	21,632	76,632	76,632	1.80			
2037	-	-	137,966	137,966	-	60,000	2.67%	20,105	80,105	80,105	1.72			
2038	-	-	137,966	137,966	-	60,000	2.70%	18,494	78,494	78,494	1.76			
2039	-	-	137,966	137,966	-	60,000	2.72%	16,868	76,868	76,868	1.79			
2040	-	-	137,966	137,966	-	65,000	2.75%	15,158	80,158	80,158	1.72			
2041	-	-	137,966	137,966	-	65,000	2.77%	13,364	78,364	78,364	1.76			
2042	-	-	137,966	137,966	-	65,000	2.78%	11,561	76,561	76,561	1.80			
2043	-	-	137,966	137,966	-	70,000	2.79%	9,681	79,681	79,681	1.73			
2044	-	-	137,966	137,966	-	70,000	2.80%	7,724	77,724	77,724	1.78			
2045	-	-	137,966	137,966	-	75,000	2.81%	5,690	80,690	80,690	1.71			
2046	-	-	137,966	137,966	-	75,000	2.81%	3,583	78,583	78,583	1.76			
2047	-	-	137,966	137,966	-	90,000	2.81%	1,265	91,265	91,265	1.51			
			\$	4,281,823	\$	795,231	\$	1,645,000	\$	783,095	\$	2,428,095	\$	3,223,326

AVERAGE (MATURITY) LIFE	18.3 YEARS
NET INTEREST RATE	2.602%
COST SAVINGS	\$ 1,524,226
AVERAGE ANNUAL REQUIREMENT	\$100,729



**Strawn
62677 Urgent Need Groundwater Supply
Improvements
Engineering and Environmental Review**

Engineering:

Key Issues:

The City of Strawn and neighboring communities are in urgent need of alternative water supplies to reduce the impact of the current historic drought on the surface water supplies. This groundwater project will provide an alternate supply to Strawn, Mingus, Gordon, and Barton WSC and potentially other entities as well through existing connections. The project will also prevent severe economic distress for the entities.

Project Need/Description

The City of Strawn in Palo Pinto County needs a supplemental ground water supply because the surface water supply has become unreliable in drought conditions. The project proposes to drill new water wells in the Trinity Aquifer (Antlers Formation) in Eastland County and install transmission lines as a part of a regional supply solution to the unreliable surface water supply.

The Urgent Need project consists of drilling up to two or more wells in the Antlers Formation of the Trinity Aquifer. The expected depths of the wells are 300 to 400 feet. It is expected that at least 200 gallons per minute of water supply will be available from the wells in this formation. Available aquifer data indicates that groundwater should be available within an area south of Strawn and approximately three miles north of the town of Desdemona along Highway 16. Other potential locations exist further east, to the south of Gordon. The proposed project includes installing a pump station and an 8-inch pipeline north along Highway 16 to the City of Strawn's existing distribution system. The project is intended to benefit the cities of Strawn, Mingus and Gordon in Palo Pinto County, and Barton WSC in Palo Pinto and Erath counties. The water could be distributed to each entity through existing interconnects.

Project Schedule:

Project Task	Schedule Date
Closing	3/1/2016
Engineering Feasibility Report Completion (End of Planning Phase)	5/31/2016
Design Phase Complete	6/15/2016
Start of Construction	8/15/2016
Construction Completion	3/15/2017

Environmental Section:

Key Issues:

None known at this time.

Environmental Summary:

Pursuant to the requirements of 31 Texas Administrative Code (TAC) §371.41, all financial assistance shall be conditioned to read that funding for acquisition and design costs for specific project elements will not be released until the environmental review has been completed and a favorable Finding of No Significant Impact (FNSI) has been issued. A subsequent Affirmation of Commitment will be necessary for this loan in order to comply with the National Environmental Policy Act.



**Project Budget
Summary
Strawn
62677 - Urgent Need
Groundwater Supply
Improvements**

Budget Items	TWDB Funds	Total
Construction		
Construction	\$1,696,372.00	\$1,696,372.00
Subtotal for Construction	\$1,696,372.00	\$1,696,372.00
Basic Engineering Services		
Basic Engineering Other (Describe)	\$20,000.00	\$20,000.00
Construction Engineering	\$26,000.00	\$26,000.00
Planning	\$104,000.00	\$104,000.00
Subtotal for Basic Engineering Services	\$150,000.00	\$150,000.00
Special Services		
Environmental	\$25,000.00	\$25,000.00
Inspection	\$90,000.00	\$90,000.00
Permits	\$10,000.00	\$10,000.00
Surveying	\$20,000.00	\$20,000.00
Subtotal for Special Services	\$145,000.00	\$145,000.00
Fiscal Services		
Bond Counsel	\$22,430.00	\$22,430.00
Financial Advisor	\$26,500.00	\$26,500.00
Fiscal/Legal	\$1,000.00	\$1,000.00
Issuance Costs	\$1,500.00	\$1,500.00
Loan Origination Fee	\$36,198.00	\$36,198.00
Subtotal for Fiscal Services	\$87,628.00	\$87,628.00
Other		
Land/Easements Acquisition	\$150,000.00	\$150,000.00
Subtotal for Other	\$150,000.00	\$150,000.00
Contingency		
Contingency	\$116,000.00	\$116,000.00
Subtotal for Contingency	\$116,000.00	\$116,000.00
Total	\$2,345,000.00	\$2,345,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF
\$2,345,000 TO CITY OF STRAWN
FROM THE DRINKING WATER STATE REVOLVING FUND
THROUGH THE PROPOSED PURCHASE OF
\$1,645,000 CITY OF STRAWN, TEXAS TAX AND WATERWORKS AND SEWER
SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION,
PROPOSED SERIES 2016
AND
\$700,000 IN LOAN FORGIVENESS

(16-)

WHEREAS, the City of Strawn (City) has filed an application for financial assistance in the amount of \$2,345,000 from the Drinking Water State Revolving Fund (DWSRF) to finance the planning, acquisition, design and construction of certain water system improvements identified as Project No. 62677; and

WHEREAS, the City seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of \$1,645,000 City of Strawn, Texas Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Proposed Series 2016 (together with all authorizing documents (Obligations)), and the execution of a Loan Forgiveness Agreement in an amount of \$700,000, all as is more specifically set forth in the application and in recommendations of the TWDB's staff; and

WHEREAS, the City has offered a pledge of ad valorem taxes and surplus revenues of the City's water and sewer system as sufficient security for the repayment of the Obligations; and

WHEREAS, the loan is approved for funding under the TWDB's pre-design funding option, and initial and future releases of funds are subject to 31 TAC Chapter 371; and

WHEREAS, the City is requesting a waiver of the requirement that the project be addressed in a manner that is consistent with the state water plan because surface water sources are unreliable, and the project has received the support of Regional Water Planning Region G, finding that the project will not be a material deviation from the Regional Water Plan; and

WHEREAS, the TWDB hereby finds:

1. that the revenue and/or taxes pledged by the City will be sufficient to meet all the Obligations assumed by the City, in accordance with Texas Water Code § 15.607;
2. that the application and assistance applied for meet the requirements of the Safe Drinking Water Act, 42 U.S.C. §§ 300f *et seq.* as well as state law, in accordance with Texas Water Code § 15.607;

3. that the City has adopted and implemented a water conservation program for the more efficient use of water that will meet reasonably anticipated local needs and conditions and that incorporates practices, techniques or technology prescribed by the Texas Water Code and TWDB's rules;
4. that a current water audit required by Texas Water Code § 16.0121 and 31 TAC § 358.6 has been completed by the City and filed with the TWDB in accordance with Texas Water Code § 16.053(j);
5. that the City meets the definition of a small water system in accordance with 31 TAC § 371.1(60) and the current Intended Use Plan, and is therefore eligible for subsidy through the DWSRF;
6. that the conditions, as described above, warrant a waiver of the requirements that the TWDB determine that the needs to be addressed by the project will be addressed in a manner that is consistent with the State Water Plan, and with the approved Regional Water Plan that includes the area that will benefit from the proposed project; and
7. that the project is an Emergency Relief Project under 31 TAC § 371.40(7) and § 371.51.

NOW, THEREFORE, based on these findings, the TWDB resolves as follows:

1. for the reasons stated above, the TWDB hereby waives the requirements of Texas Water Code § 16.053(j), pursuant to Texas Water Code § 16.053(k); and
2. a commitment is made by the TWDB to the City of Strawn for financial assistance in the amount of \$2,345,000 from the Drinking Water State Revolving Fund through the TWDB's proposed purchase of \$1,645,000 City of Strawn, Texas Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Proposed Series 2016 and the execution of a Loan Forgiveness Agreement in the amount of \$700,000. This commitment will expire on January 31, 2017.

Such commitment is conditioned as follows:

Standard Conditions

1. this commitment is contingent on a future sale of bonds by the TWDB or on the availability of funds on hand;
2. this commitment is contingent upon the issuance of a written approving opinion of the Attorney General of the State of Texas stating that all of the requirements of the laws under which said Obligations were issued have been complied with; that said Obligations were issued in conformity with the Constitution and laws of the State of Texas; and that said Obligations are valid and binding obligations of the City;
3. this commitment is contingent upon the City's compliance with all applicable requirements contained in 31 TAC Chapter 371;

4. the Obligations must provide that the Obligations can be called for early redemption only in inverse order of maturity, and on any date beginning on or after the first interest payment date which is 10 years from the dated date of the Obligations, at a redemption price of par, together with accrued interest to the date fixed for redemption;
5. the City, or an obligated person for whom financial or operating data is presented to the TWDB in the application for financial assistance either individually or in combination with other issuers of the City's Obligations or obligated persons, will, at a minimum, regardless of the amount of the Obligations, covenant to comply with requirements for continuing disclosure on an ongoing basis substantially in the manner required by Securities and Exchange Commission (SEC) in 17 CFR § 240.15c2-12 (Rule 15c2-12) and determined as if the TWDB were a Participating Underwriter within the meaning of such rule, such continuing disclosure undertaking being for the benefit of the TWDB and the beneficial owners of the City's Obligations, if the TWDB sells or otherwise transfers such Obligations, and the beneficial owners of the TWDB's bonds if the City is an obligated person with respect to such bonds under SEC Rule 15c2-12;
6. the Obligations must contain a provision requiring the City to levy a tax and/or maintain and collect sufficient rates and charges to produce system revenues in an amount necessary to meet the debt service requirements of all outstanding obligations and to maintain the funds established and required by the Obligations;
7. the Obligations must include a provision requiring the City to use any loan proceeds from the Obligations that are determined to be surplus funds remaining after completion of the project for the following purposes as approved by the Executive Administrator: (1) to redeem, in inverse annual order, the Obligations owned by the TWDB; (2) deposit into the Interest and Sinking Fund or other debt service account for the payment of interest or principal on the Obligations owned by the TWDB; or (3) eligible project costs as authorized by the Executive Administrator;
8. the Obligations must contain a provision that the TWDB may exercise all remedies available to it in law or equity, and any provision of the Obligations that restricts or limits the TWDB's full exercise of these remedies shall be of no force and effect;
9. loan proceeds are public funds and, as such, the Obligations must include a provision requiring that these proceeds shall be held at a designated state depository institution or other properly chartered and authorized institution in accordance with the Public Funds Investment Act, Government Code, Chapter 2256, and the Public Funds Collateral Act, Government Code, Chapter 2257;
10. loan proceeds shall not be used by the City when sampling, testing, removing or disposing of contaminated soils and/or media at the project site. The Obligations shall include an environmental indemnification provision wherein the City agrees to indemnify, hold harmless and protect the TWDB from any and all claims, causes of action or damages to the person or property of third parties arising from the sampling, analysis, transport, storage, treatment and disposition of any contaminated sewage sludge,

contaminated sediments and/or contaminated media that may be generated by the City, its contractors, consultants, agents, officials and employees as a result of activities relating to the project to the extent permitted by law;

11. prior to closing, the City shall submit documentation evidencing the adoption and implementation of sufficient system rates and charges or, if applicable, the levy of an interest and sinking tax rate sufficient for the repayment of all system debt service requirements;
12. prior to closing, and if not previously provided with the application, the City shall submit executed contracts for engineering and, if applicable, financial advisor and bond counsel contracts, for the project that are satisfactory to the Executive Administrator. Fees to be reimbursed under the contracts must be reasonable in relation to the services performed, reflected in the contract, and acceptable to the Executive Administrator;
13. prior to closing, when any portion of the financial assistance is to be held in escrow or in trust, the City shall execute an escrow or trust agreement, approved as to form and substance by the Executive Administrator, and shall submit that executed agreement to the TWDB;
14. the Executive Administrator may require that the City execute a separate financing agreement in form and substance acceptable to the Executive Administrator;
15. the TWDB retains the option to purchase the Obligations in separate lots and/or on an installment basis, with delivery of the purchase price for each installment to be paid against delivery of the relevant installment of Obligations as approved by the Executive Administrator;

Conditions Related To Tax-Exempt Status

16. the City's bond counsel must prepare a written opinion that states that the interest on the Obligations is excludable from gross income or is exempt from federal income taxation. Bond counsel may rely on covenants and representations of the City when rendering this opinion;
17. the City's bond counsel opinion must also state that the Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the City when rendering this opinion;
18. the Obligations must include a provision prohibiting the City from using the proceeds of this loan in a manner that would cause the Obligations to become "private activity bonds" within the meaning of § 141 of the Internal Revenue Code of 1986, as amended (Code) and the Treasury Regulations promulgated thereunder (Regulations);
19. the Obligations must provide that no portion of the proceeds of the loan will be used, directly or indirectly, in a manner that would cause the Obligations to be "arbitrage

bonds” within the meaning of § 148(a) of the Code and Regulations, including to acquire or to replace funds which were used, directly or indirectly, to acquire Nonpurpose Investments (as defined in the Code and Regulations) which produce a yield materially higher than the yield on the TWDB’s bonds that are issued to provide financing for the loan (Source Series Bonds), other than Nonpurpose Investments acquired with:

- a. proceeds of the TWDB’s Source Series Bonds invested for a reasonable temporary period of up to three (3) years after the issue date of the Source Series Bonds until such proceeds are needed for the facilities to be financed;
 - b. amounts invested in a bona fide debt service fund, within the meaning of § 1.148-1(b) of the Regulations; and
 - c. amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed the least of maximum annual debt service on the Obligations, 125% of average annual debt service on the Obligations, or 10 percent of the stated principal amount (or, in the case of a discount, the issue price) of the Obligations;
20. the Obligations must include a provision requiring the City take all necessary steps to comply with the requirement that certain amounts earned on the investment of gross proceeds of the Obligations be rebated to the federal government in order to satisfy the requirements of § 148 of the Code. The Obligations must provide that the City will:
- a. account for all Gross Proceeds, as defined in the Code and Regulations, (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and retain all records of such accounting for at least six years after the final Computation Date. The City may, however, to the extent permitted by law, commingle Gross Proceeds of its Loan with other money of the City, provided that the City separately accounts for each receipt and expenditure of such Gross Proceeds and the obligations acquired therewith;
 - b. calculate the Rebate Amount, as defined in the Code and Regulations, with respect to its Loan, not less frequently than each Computation Date, in accordance with rules set forth in § 148(f) of the Code, § 1.148-3 of the Regulations, and the rulings thereunder. The City shall maintain a copy of such calculations for at least six years after the final Computation Date;
 - c. as additional consideration for the making of the Loan, and in order to induce the making of the Loan by measures designed to ensure the excludability of the interest on the TWDB’s Source Series Bonds from the gross income of the owners thereof for federal income tax purposes, pay to the United States the amount described in paragraph (b) above within 30 days after each Computation Date;

- d. exercise reasonable diligence to assure that no errors are made in the calculations required by paragraph (b) and, if such error is made, to discover and promptly to correct such error within a reasonable amount of time thereafter, including payment to the United States of any interest and any penalty required by the Regulations;
21. the Obligations must include a provision prohibiting the City from taking any action that would cause the interest on the Obligations to be includable in gross income for federal income tax purposes;
22. the Obligations must provide that the City will not cause or permit the Obligations to be treated as “federally guaranteed” obligations within the meaning of § 149(b) of the Code;
23. the transcript must include a No Arbitrage Certificate or similar Federal Tax Certificate setting forth the City’s reasonable expectations regarding the use, expenditure and investment of the proceeds of the Obligations;
24. the transcript must include evidence that the information reporting requirements of § 149(e) of the Code will be satisfied. This requirement may be satisfied by filing an IRS Form 8038 with the Internal Revenue Service. In addition, the applicable completed IRS Form 8038 or other evidence that the information reporting requirements of § 149(e) have been satisfied must be provided to the Executive Administrator within fourteen (14) days of closing. The Executive Administrator may withhold the release of funds for failure to comply;
25. the Obligations must provide that neither the City nor a related party thereto will acquire any of the TWDB’s Source Series Bonds in an amount related to the amount of the Obligations to be acquired from the City by the TWDB;

State Revolving Fund Conditions

26. the City shall submit outlay reports with sufficient documentation on costs on a quarterly or monthly basis in accordance with TWDB outlay report guidelines;
27. the Obligations must include a provision stating that all laborers and mechanics employed by contractors and subcontractors for projects shall be paid wages at rates not less than those prevailing on projects of a similar character in the locality in accordance with the Davis-Bacon Act, and the U.S. Department of Labor’s implementing regulations. The City, all contractors, and all sub-contractors shall ensure that all project contracts mandate compliance with Davis-Bacon. All contracts and subcontracts for the construction of the project carried out in whole or in part with financial assistance made available as provided herein shall insert in full in any contract in excess of \$2,000 the contracts clauses as provided by the TWDB;
28. the Obligations must include a provision stating that the City shall provide the TWDB with all information required to be reported in accordance with the Federal Funding

Accountability and Transparency Act of 2006, Pub. L. 109-282, as amended by Pub. L. 110-252. The City shall obtain a Data Universal Numbering System (DUNS) Number and shall register with System for Award Management (SAM), and maintain current registration at all times during which the Obligations are outstanding;

29. the Obligations shall provide that all loan proceeds will be timely and expeditiously used, as required by 40 CFR § 35.3135(d), and also shall provide that the City will adhere to the approved project schedule;
30. The Obligations and Loan Forgiveness Agreement must contain a covenant that the City will abide by all applicable construction contract requirements related to the use of iron and steel products produced in the United States, as required by the 2014 Federal Appropriations Act and related State Revolving Fund Policy Guidelines;

Drinking Water State Revolving Fund Conditions

31. prior to or at closing, the City shall pay a 2.25% origination fee to the TWDB calculated pursuant to 31 TAC Chapter 371;
32. prior to closing, the Texas Commission on Environmental Quality, must make a determination, the form and substance of which is satisfactory to the Executive Administrator, that the City has demonstrated the necessary financial, managerial, and technical capabilities to proceed with the project or projects to be funded with the proceeds of these Obligations;
33. prior to release of funds for professional consultants including, but not limited to, the engineer, financial advisor, and bond counsel, as appropriate, the City must provide documentation that it has met all applicable state procurement requirements as well as all federal procurement requirements under the Disadvantaged Business Enterprises program;

Pledge Conditions for the Loan

34. the Obligations must contain a provision that provides as follows:
 - a. if system revenues are actually on deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of taxes which otherwise would have been required to be levied and collected may be reduced to the extent and by the amount of revenues then on deposit in the Interest and Sinking Fund; or
 - b. if surplus revenues are based upon budgeted amounts:
 - i. the Obligations must include a requirement that the City transfer and deposit in the Interest and Sinking Fund each month an amount of not less than 1/12th of the annual debt service on the Obligations until the amount

on deposit in the Interest and Sinking Fund equals the amount required for annual debt service on the Obligations; further, that the ordinance authorizing the issuance of the Obligations must include a requirement that the City shall not transfer any funds from the City's pledged system revenues to any fund other than the Interest and Sinking Fund until such time as an amount equal to the annual debt service on the Obligations for the then-current fiscal year has been deposited in the Interest and Sinking Fund;

- ii. the Obligations must include a requirement that for each year the Obligations are outstanding, and prior to the time taxes are to be levied for such year, the City shall establish, adopt, and maintain an annual budget that provides for either the monthly deposit of sufficient surplus pledged revenues and/or tax revenues, the monthly deposit of any other legally available funds on hand at the time of the adoption of the annual budget, or a combination thereof, into the Interest and Sinking Fund for the repayment of the Obligations; and
- iii. the Obligations must include a requirement that the City shall at all times maintain and collect sufficient rates and charges in conjunction with any other legally available funds so that after payment of the costs of operating and maintaining the system, it produces revenues in an amount not less than 1.10 times debt service requirements of all outstanding Obligations of the City and other obligations of the City which are secured in whole or in part by the pledged revenues, for which the City is budgeting the repayment of such Obligations, or the City shall provide documentation which evidences the levy and collection of an ad valorem tax rate dedicated to the Interest and Sinking Fund, in conjunction with any other legally available funds, sufficient for the repayment of debt service requirements;

PROVIDED, however, the commitment is subject to the following special conditions:

Special Conditions:

- 35. prior to the release of funds for the costs of planning, engineering, architectural, legal, title, fiscal, or economic investigation, studies, surveys, or designs for that portion of a project that proposes surface water or groundwater development, the Executive Administrator must either issue a written finding that the City has the right to use the water that the project financed by the TWDB will provide or a written determination that a reasonable expectation exists that such a finding will be made before the release of funds for construction;
- 36. prior to the release of construction funds for that portion of a project that proposes surface water or groundwater development, the Executive Administrator must have issued a written finding that the City has the right to use the water that the project

financed by the TWDB will provide;

37. prior to closing, the City shall execute a Loan Forgiveness Agreement in a form and substance acceptable to the Executive Administrator;
38. the Loan Forgiveness Agreement must include a provision stating that the City shall return any loan forgiveness funds that are determined to be surplus funds in a manner determined by the Executive Administrator; and
39. prior to the release of acquisition, design, and construction funds, the City shall complete the consultations required by the Endangered Species Act and the National Historic Preservation Act.

APPROVED and ordered of record this 19th day of January, 2016.

TEXAS WATER DEVELOPMENT BOARD

Bech K. Bruun, Chairman

DATE SIGNED: _____

ATTEST:

Kevin Patteson
Executive Administrator

WATER CONSERVATION REVIEW

Entity: _____

Review date: _____

WATER CONSERVATION PLAN DATE: **Approvable** **Adopted**

	Total GPCD	Residential GPCD	Water Loss GPCD	Water Loss Percent
Baseline				
5-year Goal				
10-year Goal				

WATER LOSS AUDIT YEAR:

Total water loss (GPCD): _____ Total water loss (percent): _____ Wholesale Water
 Total no. of connections: _____ Length of mains (miles): _____ Connections per mile: _____
 If > 16 connections per mile and > 3,000 connections, Infrastructure Leakage Index (ILI): _____

WATER LOSS THRESHOLDS:

	Apparent Loss Gallons per connection per day	Real Loss Gallons per mile per day	Real Loss Gallons per connection per day	Apparent Threshold Gallons per connection per day	Real Threshold Gallons per mile per day	Real Threshold Gallons per connection per day
If population ≤ 10K, connections/mile < 32 :						
If population ≤ 10K, connections/mile ≥ 32 :						
If population > 10K :						

Does the applicant meet Water Loss Threshold requirements? Yes No NA

ADDITIONAL INFORMATION:

STAFF NOTES AND RECOMMENDATIONS:

DEFINITIONS

Adopted refers to a water conservation plan that meets the minimum requirements of the water conservation plan rules and has been formally approved and adopted by the applicant's governing body.

Apparent loss refers to unauthorized consumption, meter inaccuracy, billing adjustments, and waivers.

Approvable refers to a water conservation plan that substantially meets the minimum requirements of the water conservation plan rules but has not yet been adopted by the applicant's governing body.

Best Management Practices are voluntary efficiency measures that save a quantifiable amount of water, either directly or indirectly, and that can be implemented within a specific time frame.

GPCD means gallons per capita per day.

Infrastructure Leakage Index (ILI) is the current annual real loss divided by the unavoidable annual real loss (theoretical minimum real loss) and only applies to utilities with more than 5,000 connections, average pressure greater than 35 psi, and a connection density of more than 32 connections per mile. The **ILI** is recommended to be less than 3 if water resources are greatly limited and difficult to develop, between 3 and 5 if water resources are adequate to meet long-term needs but water conservation is included in long-term water planning, and between 5 and 8 if water resources are plentiful, reliable, and easily extracted. The **ILI** is recommended as a benchmarking tool, but until there is increased data validity of the variables used in the calculation, the **ILI** should be viewed with care.

NA means not applicable.

Produced water is the total amount of water purchased or produced by the utility.

Real loss comes from main breaks and leaks, storage tank overflows, customer service line breaks, and leaks.

Residential GPCD is the amount of water per capita used solely for residential use and ideally includes both single and multi-family customer use.

Total baseline GPCD is the amount of all water purchased or produced by the utility divided by the service area population and then divided by 365.

Total water loss is the sum of the apparent and real water losses.

Water loss is the difference between the input volume and the authorized consumption within a water system. Water Loss consists of real losses and apparent losses.

Water Loss Thresholds are levels of real and apparent water loss determined by the size and connection density of a retail public utility, at or above which a utility receiving financial assistance from the Texas Water Development Board must use a portion of that financial assistance to mitigate the utility's system water loss.

City of Strawn, Palo Pinto & Erath County

