

Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: January 19, 2016

TEAM MANAGER: Luis Farias

APPLICANT	Upper Trinity Regional Water District
TYPE OF ASSISTANCE	\$46,000,000 Loan
LEGAL PLEDGE	First Lien on Pledged Revenues of the Northeast Regional Water Reclamation System

STAFF RECOMMENDATION

Approve No Action

ACTION REQUESTED

Approve, by resolution, a request from the Upper Trinity Regional Water District (Fannin, Collin, Cooke, Dallas, Denton, Grayson, and Wise Counties) for a \$46,000,000 loan from the Texas Water Development Fund to finance the planning, design, and construction of an expansion to the existing Riverbend Wastewater Reclamation Plant.

PROJECT

Riverbend Wastewater Reclamation Plant Expansion
Project Number 21757

BACKGROUND

The Upper Trinity Regional Water District (District) service area is one of the fastest growing regions of North Texas. The District provides wastewater service on a wholesale basis to 25 member entities: 21 cities and towns, 1 utility authority, and 3 special districts. Wastewater flow projections indicate that, by 2035, the Northeast Region Reclamation System's (System) water reclamation plants (WRP) must have sufficient treatment capacity to handle a peak flow of 54.5 million gallons per day (mgd). Currently, the combined peak flow capacity of the Riverbend, Peninsula, and Doe Branch (under construction) water reclamation plants is 17.8 mgd.

As part of the District's Master Plan Update for the Northeast Region Water Reclamation System, the Riverbend Water Reclamation Plant (WRP) project will expand the plant in two phases. The first phase will increase capacity of the system from 2 mgd to 4 mgd and the second phase will increase capacity to 5.7 mgd (Build-out). The expansion includes improvements to the influent pump station, new headworks, a new aeration blower facility, new filter basins with cloth media filters and administration building, and electrical improvements. The District is requesting funds only for the first phase of the plant expansion which will provide treatment from diverted flows from the Doe Branch WRP. The proposed project will

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

serve 8 of the 25 District customers. The District anticipates financing the remaining phase of the expansion with Texas Water Development Board (TWDB) funds.

FINANCIAL

Key Issues

The District is primarily a wholesale water supplier and wastewater treatment provider. The System includes two existing reclamation plants, the Riverbend and the Peninsula, with the Doe Branch scheduled to be complete by early 2016. The largest customer of the System is Providence Village Water Control and Improvement District, representing 28% of total revenues.

Pledge and Repayment

The District has three sources of revenues, the regional treated water system, the water reclamation systems, and the nonpotable water system. The District is pledging a first lien on the pledged revenues of the System for the repayment of the proposed loan. The revenues from the System consist of the revenues from the Riverbend Plant and the Doe Branch Plant for water reclamation.

The District charges a volume based wastewater charge and a fixed operation and maintenance charge based on subscribed capacity. The current wastewater volume base charge is \$1.50 per 1,000 gallons for members and \$1.61 per 1,000 gallons for customers of the Riverbend Plant. The operation and maintenance charge is currently \$390,000 a year per subscribed capacity. The Doe Branch plant is still under construction and customers are currently charged \$4.11 per 1,000 gallons.

Utilizing a no-growth scenario for net system revenues, current revenues are insufficient for the repayment of the proposed loan. However, the District plans to increase rates annually to meet the current and proposed debt service. The District increased rates by 12% for fiscal year (FY) 2016, and is planning smaller annual increases throughout the life of the loan.

Deferred Loans

The District is requesting funding from the Texas Water Development Fund (DFund) program with a deferred repayment option. The District anticipates that the second phase of the expansion will be completed by mid-2018, and is requesting approximately 7 years of deferred principal payments with a 30 year term.

The District and their ratepayers will benefit from the financial flexibility of the DFund program. This benefit is a result of the ability to structure the loan in a way that provides a principal payment deferment of 7 years. Therefore, the current ratepayers do not have to pay the full cost today for infrastructure that is not needed until sometime in the future. The deferment is intended to allow for population growth to assist in paying the full amount of debt service over time.

Internal Risk Score

Staff assigns a 2B to the District, and the proposed project to be funded by the TWDB. This means that the District's payment capacity is adequate.

The total population of Denton County has increased by approximately 38% from 2004 to 2013, compared to a State rate of 18% over the same period. The assessed valuation of taxable property in Denton County has increased at an average annual rate of 5% since 2010. Similarly, the average median household income of the 8 customers of the System served by the District is \$75,937, which is 146% of the median income for the State overall of \$51,900.

The System's per capita debt level, based on the population of the total service area, is \$342, and would increase to \$1,194 with the proposed debt, which is low for similar sized systems. However, the total population of the service area and number of connections to the System is projected to increase substantially over the next few years.

The System's net revenues have increased at an average annual rate of 7.25% over the last five years. Management is attentive in its oversight of the District's budgets and wastewater rates, and adjusts rates annually to meet current and future obligations. In addition, the contracts between the District and participants of the System require the participants to pay their share of operation and maintenance expenses, and debt service payments, and for the required reserve amounts to be on deposit in the reserve fund.

The District's socioeconomic indicators and operating trends are positive, however, there are some weaknesses in the financial position of some of the participating entities. Therefore, the District is assigned a risk score of 2B.

LEGAL

Key Issues

None

CONDITIONS

Standard Water Development Fund, tax-exempt, and revenue conditions and further conditioned as follows:

- Pre-design funding;
- Notification prior to actions altering the legal status of the District;
- TWDB approval of any conveyance and assumption of the Obligations; and

- Attachments:
1. Project Data Summary
 2. Debt Service Schedule
 3. Engineering/Environmental Review
 4. Project Budget
 5. Resolutions (16-)
 6. Water Conservation Review
 7. Location Map

Project Data Summary

Authority	Upper Trinity Regional Water District
Program	Water Development Fund
Commitment Code	L1000459
Project Number	21757 – Riverbend WW Reclamation Plant Expansion
Intended Use Plan Year	N/A
Fund Number	371
Type of Pledge	2- Revenue
Revenue Pledge Level	First
Legal Description	\$46,000,000 Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Bonds, Proposed Series 2016
Tax-exempt or Taxable	Tax-exempt
Refinance	No
Outlay Requirement	No
Disbursement Method	Escrow
Outlay Type	N/A
Population	54,046
Rural	No
Water Connections	N/A
Wastewater Connections	8 Wholesale Customers
Qualifies as Disadvantaged	No
Disadvantaged Level	9
Clean Water State Revolving Fund Type	N/A
SWIFT Financing Type	N/A
SWIFT Project Type	N/A
Financial Managerial & Technical Complete	N/A
Funding Phase Code	Planning, Design and Construction
Pre-Design	Yes
Project Consistent with Water Plan	N/A
Water Conservation Plan	Adopted
Water Rights Certification Required	No
Internal Risk Score	2B
External Ratings (for SRF rates)	
Standard and Poor's	BBB+
Moody's	Baa1
Fitch	Non-Rated
Special Issues	None

Project Team

Team Manager	Luis Farias
Financial Analyst	Ben Munguia
Engineering Reviewer	Joe Koen
Environmental Reviewer	Kathy Calnan
Attorney	Annette Mass

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY

Upper Trinity Regional Water District

Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Bonds, Series 2016

Dated Date: 6/1/2016
Delivery Date: 6/1/2016
First Interest: 2/1/2017
First Principal: 8/1/2023
Last Principal: 8/1/2045
Fiscal Year End: 09/30
Required Coverage: 1.0

Source: WDF
Rate: 4.22%
Insurance: No
Case: Revenue
Admin.Fee: \$ -
Admin. Fee Payment Date: N/A

FISCAL YEAR	PROJECTED NET SYSTEM REVENUES	CURRENT DEBT SERVICE	PRINCIPAL PAYMENT	INTEREST RATE	\$46,000,000 ISSUE		TOTAL DEBT SERVICE	COVERAGE
					INTEREST PAYMENT	TOTAL PAYMENT		
2017	3,465,955	1,043,215	-	0.00%	2,264,733	2,264,733	3,307,948	1.05
2018	3,639,253	1,457,415	-	0.00%	1,941,200	1,941,200	3,398,615	1.07
2019	3,821,216	1,453,915	-	0.00%	1,941,200	1,941,200	3,395,115	1.13
2020	4,012,276	1,449,810	-	0.00%	1,941,200	1,941,200	3,391,010	1.18
2021	4,212,890	1,455,770	-	0.00%	1,941,200	1,941,200	3,396,970	1.24
2022	4,423,535	1,442,115	-	0.00%	1,941,200	1,941,200	3,383,315	1.31
2023	4,644,712	1,445,098	250,000	4.22%	1,941,200	2,191,200	3,636,298	1.28
2024	4,876,947	1,441,350	500,000	4.22%	1,930,650	2,430,650	3,872,000	1.26
2025	5,120,795	1,436,248	700,000	4.22%	1,909,550	2,609,550	4,045,798	1.27
2026	5,376,834	1,439,749	750,000	4.22%	1,880,010	2,630,010	4,069,759	1.32
2027	5,645,676	1,446,462	800,000	4.22%	1,848,360	2,648,360	4,094,822	1.38
2028	5,971,415	1,441,169	1,660,000	4.22%	1,814,600	3,474,600	4,915,769	1.21
2029	6,150,557	1,439,216	1,720,000	4.22%	1,744,548	3,464,548	4,903,764	1.25
2030	6,335,074	1,445,540	1,785,000	4.22%	1,671,964	3,456,964	4,902,504	1.29
2031	6,525,126	1,434,635	1,855,000	4.22%	1,596,637	3,451,637	4,886,272	1.34
2032	6,720,880	1,446,386	1,930,000	4.22%	1,518,356	3,448,356	4,894,742	1.37
2033	6,922,507	1,160,385	2,010,000	4.22%	1,436,910	3,446,910	4,607,295	1.50
2034	7,130,182	1,153,590	2,095,000	4.22%	1,352,088	3,447,088	4,600,678	1.55
2035	7,344,087	1,160,232	2,185,000	4.22%	1,263,679	3,448,679	4,608,911	1.59
2036	7,564,410	943,531	2,275,000	4.22%	1,171,472	3,446,472	4,390,003	1.72
2037	7,791,342	942,219	2,370,000	4.22%	1,075,467	3,445,467	4,387,686	1.78
2038	8,025,082	939,375	2,475,000	4.22%	975,453	3,450,453	4,389,828	1.83
2039	8,045,181	-	2,580,000	4.22%	871,008	3,451,008	3,451,008	2.33
2040	8,125,633	-	2,690,000	4.22%	762,132	3,452,132	3,452,132	2.35
2041	8,206,889	-	2,810,000	4.22%	648,614	3,458,614	3,458,614	2.37
2042	8,288,958	-	2,935,000	4.22%	530,032	3,465,032	3,465,032	2.39
2043	8,371,848	-	3,070,000	4.22%	406,175	3,476,175	3,476,175	2.41
2044	8,455,566	-	3,205,000	4.22%	276,621	3,481,621	3,481,621	2.43
2045	8,540,122	-	3,350,000	4.22%	141,370	3,491,370	3,491,370	2.45
		\$ 29,017,425	\$ 46,000,000		\$ 40,737,629	\$ 86,737,629	\$ 115,755,054	

AVERAGE (MATURITY) LIFE	20.99 YEARS
NET INTEREST RATE	4.220%
AVERAGE ANNUAL REQUIREMENT	\$3,991,554



**Upper Trinity Regional WD
21757 Riverbend WW Reclamation
Plant Expansion
Engineering and Environmental Review**

Engineering:

Key Issues:

Riverbend Water Reclamation Plant (WRP) will increase capacity from 2 mgd to 4 mgd. The current Texas Commission on Environmental Quality Texas Pollutant Discharge Elimination System (TPDES) Permit expires in October 1, 2016. The TPDES permit Capacity for Interim II Phase is 3 mgd. The District is currently working on a permit amendment.

The applicant has considered innovative and alternative methods of treatment in their application and will evaluate alternatives in greater detail through the Planning phase of the project.

Project Need/Description

Need: The Upper Trinity Regional Water District (District) service area is one of the fastest growing regions of North Texas. The District provides wastewater service on a wholesale basis to 25 Member entities; 21 cities and towns, 1 utility authority, and 3 special districts. Wastewater flow projections indicate that, by 2035, the Northeast Region Reclamation System WRPs must have sufficient treatment capacity to handle a peak flow of 54.5 million gallons per day (mgd). Currently, the combined peak flow capacity of the Riverbend, Peninsula, and Doe Branch (under construction) WRPs is 17.8 mgd.

Project Description: As part of the Master Plan Update for the Northeast Region Water Reclamation System, Phase I of the Riverbend WRP Expansion will expand the plant from 2 mgd to 4 mgd, to provide treatment from diverted flows from the Doe Branch WRP. The expansion includes improvements to the influent pump station, new headworks, a new aeration blower facility, new filter basins with cloth media filters and administration building, and electrical improvements.

Project Schedule:

Project Task	Schedule Date
Engineering Feasibility Report Completion (End of Planning Phase)	10/30/2015
Closing	6/1/2016
Design Phase Complete	11/1/2016
Start of Construction	1/1/2017
Construction Completion	7/31/2018

Environmental Section:

Key Issues:

None known at this time.

Environmental Summary:

As set forth in the preliminary environmental information submitted by the applicant, there are no known environmental, social, or permitting issues that would preclude construction of the project. Based on this initial environmental review, it is not anticipated that the proposed project's primary environmental impacts should be significant or adverse, nor should they affect project implementation.

Pursuant to the requirements of 31 Texas Administrative Code §363.14 all financial assistance shall be conditioned to read that funding for design and construction costs for specific project elements will not be released until the environmental review has been completed and a favorable environmental determination has been issued.



Curent Budget Summary
Upper Trinity Regional WD
21757 - Riverbend WW
Reclamation Plant Expansion

Budget Items	Description	WDF L1000459 (Application)	
		TWDB Funds	Total
Construction			
Construction		\$30,459,494.00	\$30,459,494.00
Subtotal for Construction		\$30,459,494.00	\$30,459,494.00
Basic Engineering Services			
Construction Engineering		\$401,065.00	\$401,065.00
Design		\$2,873,958.00	\$2,873,958.00
Subtotal for Basic Engineering Services		\$3,275,023.00	\$3,275,023.00
Special Services			
Application		\$15,500.00	\$15,500.00
Environmental		\$5,500.00	\$5,500.00
Geotechnical		\$47,459.00	\$47,459.00
O&M Manual		\$65,482.00	\$65,482.00
Permits		\$4,816.00	\$4,816.00
Project Management (by engineer)	Additional Meetings	\$9,127.00	\$9,127.00
	TCEQ Coordination Meeting	\$4,886.00	\$4,886.00
Special Service Other (Describe)	ADA Review Submittal	\$10,791.00	\$10,791.00
	Additional Submittals & RFIs	\$19,881.00	\$19,881.00
	CMAR Preconstruction Contract	\$26,902.00	\$26,902.00
	Electrical System Study	\$24,766.00	\$24,766.00
	Existing Blower Evaluation Study	\$3,362.00	\$3,362.00
	Meetings, Record Drawings, Submittals	\$11,200.00	\$11,200.00
Surveying		\$41,977.00	\$41,977.00
Subtotal for Special Services		\$291,649.00	\$291,649.00
Fiscal Services			
Bond Counsel		\$191,600.00	\$191,600.00
Bond Reserve Fund		\$1,554,768.00	\$1,554,768.00
Capitalized Interest		\$1,895,130.00	\$1,895,130.00
Financial Advisor		\$97,500.00	\$97,500.00
Issuance Costs		\$26,669.00	\$26,669.00
Subtotal for Fiscal Services		\$3,765,667.00	\$3,765,667.00
Other			
Administration		\$6,318,504.00	\$6,318,504.00
Subtotal for Other		\$6,318,504.00	\$6,318,504.00
Contingency			
Contingency		\$1,889,663.00	\$1,889,663.00
Subtotal for Contingency		\$1,889,663.00	\$1,889,663.00
Total		\$46,000,000.00	\$46,000,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE TO
THE UPPER TRINITY REGIONAL WATER DISTRICT
FROM THE FINANCIAL ASSISTANCE ACCOUNT OF
THE TEXAS WATER DEVELOPMENT FUND II
THROUGH THE PROPOSED PURCHASE OF
\$46,000,000 UPPER TRINITY REGIONAL WATER DISTRICT
NORTHEAST REGIONAL WATER RECLAMATION SYSTEM REVENUE BONDS,
PROPOSED SERIES 2016

(16-)

WHEREAS, the Upper Trinity Regional Water District, located in Denton County, Texas, (District) has filed an application for financial assistance in the amount of \$46,000,000 from the Financial Assistance Account of the Texas Water Development Fund II, established by Texas Water Code § 17.959 to finance wastewater system improvements, identified as Project No. 21757; and

WHEREAS, the District seeks financial assistance from the Texas Water Development Board (TWDB) in the amount of \$46,000,000 through the TWDB's purchase of \$46,000,000 Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Bonds, Proposed Series 2016 (together with all authorizing documents "Obligations"), all as is more specifically set forth in the application and in recommendations of the TWDB's staff; and

WHEREAS, the District has offered a pledge of a first lien on the Pledged Revenues of the Northeast Regional Water Reclamation System as sufficient security for the repayment of the Obligations; and

WHEREAS, the TWDB has considered all matters required by law and in particular the following:

1. the water quality needs of the waters into which effluent from the treatment works will be discharged, the benefit of the treatment works to such water quality needs, the relationship of the treatment works to the overall, statewide water quality needs, and the relationship of the treatment works to water quality planning for the state, in accordance with Texas Water Code § 17.275(1);
2. the availability of revenue to the political subdivision, from all sources, for the ultimate repayment of the cost of the treatment works, including interest, in accordance with Texas Water Code § 17.275(2);
3. that the District has not been designated, pursuant to Texas Water Code § 26.082, as a regional system to serve all or part of the waste disposal needs of a defined area, the development of such systems being the declared policy of the legislature, in accordance with Texas Water Code § 17.275(3);

WHEREAS, the TWDB hereby finds:

1. that the public interest will benefit from state assistance in the financing of this project, in accordance with Texas Water Code § 17.277(a);
2. that the District 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;
3. that the application and financial assistance requested meet the requirements of Texas Water Code, Chapter 17, Subchapters E, F, and L, and 31 TAC Chapter 363, Subchapter A; and
4. that any treatment works to be financed under the application will consider cost-effective innovative, nonconventional methods of treatment such as rock reed, root zone, ponding, irrigation, or other methods that may have been developed by the National Aeronautics and Space Administration or the Tennessee Valley Authority, in accordance with Texas Water Code § 17.189.

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

A commitment is made by the TWDB to the Upper Trinity Regional Water District for financial assistance in the amount of \$46,000,000 from the Financial Assistance Account of the Texas Water Development Fund II, to be evidenced by the TWDB's purchase of \$46,000,000 Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Bonds, Proposed Series 2016. 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 District;
3. this commitment is contingent upon the District's compliance with all applicable requirements contained in 31 TAC Chapter 363;
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 District, 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 District's Obligations or obligated persons, will, at a minimum, 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 District's Obligations, if the TWDB sells or otherwise transfers such Obligations, and the beneficial owners of the TWDB's bonds if the District is an obligated person with respect to such bonds under SEC Rule 15c2-12;
6. the Obligations must contain a provision requiring the District 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 District 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 District 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 District 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 District, 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 District 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 required under the TWDB's financial assistance program and not previously provided with the application, the District shall submit an executed engineering contract as appropriate for the project scope of work, and an executed financial advisor contract and executed bond counsel contract as appropriate for the work to be performed in obtaining the TWDB's financial assistance for the project, in a form and substance that are satisfactory to the Executive Administrator. Fees to be reimbursed under any consulting contract must be reasonable in relation to the services performed, must be reflected in the contract, and must be acceptable to the Executive Administrator;
13. prior to closing, when any portion of loan proceeds are to be held in escrow or in trust, the District shall execute an escrow agreement 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 District 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;
16. the Obligations must contain a covenant that the District will abide by all applicable construction contract requirements related to the use of iron and steel products and manufactured goods produced in the United States, as required by Texas Water Code § 17.183;

Conditions Related To Tax-Exempt Status

17. the District'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 District when rendering this opinion;
18. the District'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 District when rendering this opinion;
19. the Obligations must include a provision prohibiting the District 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);
20. 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;
21. the Obligations must include a provision requiring the District 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 District 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 District may, however, to the extent permitted by law, commingle Gross Proceeds of its loan with other money of the District, provided that the District 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 District 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;

22. the Obligations must include a provision prohibiting the District from taking any action that would cause the interest on the Obligations to be includable in gross income for federal income tax purposes;
23. the Obligations must provide that the District will not cause or permit the Obligations to be treated as “federally guaranteed” obligations within the meaning of § 149(b) of the Code;
24. the transcript must include a No Arbitrage Certificate or similar Federal Tax Certificate setting forth the District’s reasonable expectations regarding the use, expenditure and investment of the proceeds of the Obligations;
25. 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;
26. the Obligations must provide that neither the District 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 District by the TWDB;

Pledge Conditions For The Loan

27. the Obligations must require the District to increase its Reserve Fund, if and to the extent necessary, so that the Fund will contain an amount of money and investments equal to the Required Reserve Amount. Any increase in the Required Reserve Amount may be funded from Pledged Revenues or from proceeds from the sale of any Additional Bonds, or any other available source or combination of sources. All or any part of the Required Reserve Amount not funded initially and immediately after the delivery of any installment or issue of Additional Bonds shall be funded, within not more than five years from the date of such delivery, by deposit of Pledged Revenues in approximately equal monthly installments on or before the 25th day of each month. The District shall maintain in the Reserve Fund an amount of money and investments equal to the average annual principal and interest requirements of the Parity Bonds (the “Required Reserve Amount”);
28. if the District has existing revenue obligations with the same pledge of security as the proposed Obligations that will remain outstanding after any loan(s) made by the TWDB pursuant to this commitment, the lien or liens securing the Obligations issued to the TWDB shall be at least on a parity with lien or liens securing such outstanding obligations;
29. the Obligations must contain a provision that the District issue no "Additional Bonds" unless:

- a. the President and the Secretary of the District certify in writing that the District is not in default as to any covenant, condition, or obligation in connection with any Parity Bonds, and the resolutions authorizing same, and that the Interest and Sinking Fund and the Reserve Fund contain the amounts then required to be on deposit therein;
- b. an independent certified public accountant, or independent firm of certified public accountants, acting by and through a certified public accountant, signs a written certificate to the effect that, in his or her or its opinion, during either the next preceding fiscal year, or any twelve consecutive calendar month period out of the 18-month period immediately preceding the month in which the resolution authorizing the issuance of the then proposed Additional Bonds is passed, the Pledged Revenues were at least **1.00** times an amount equal to the average annual principal and interest requirements of the Parity Bonds and any Additional Bonds which are scheduled to be outstanding after the delivery of the then proposed Additional Bonds. It is specifically provided, however, that in calculating the amount of Pledged Revenues for the purposes of this subsection, if there has been any increase in the rates or charges for services of the System which is then in effect, but which was not in effect during all or any part of the entire period for which the Pledged Revenues are being calculated (hereinafter referred to as the "entire period") then the certified public accountant, or in lieu of the certified public accountant, a firm of consulting engineers, shall determine and certify the amount of Pledged Revenues as being the total of (i) the actual Pledged Revenues for the entire period, plus (ii) a sum equal to the aggregate amount by which the actual billings to customers of the System during the entire period would have been increased if such increased rates or charges had been in effect during the entire period;
- c. as an alternative to the requirements of paragraph (b) of this subsection, Additional Bonds may be issued if, based upon an opinion of legal counsel to the District, there are System Contracts then in effect pursuant to which the parties to such System Contracts are obligated to make minimum payments to the District at such times and in such amounts as shall be necessary to result in Pledged Revenues being sufficient to pay when due all principal of and interest on the Parity Bonds and the Additional Bonds proposed to be issued;
- d. provision shall be made in the resolution authorizing the issuance of such Additional Bonds for increasing the Reserve Fund to the Required Reserve Amount as required by the bond resolution with proceeds of the Additional Bonds, or other available source or combination of sources including Pledged Revenues, or both; and
- e. all calculations of average annual principal and interest requirements of any bonds or obligations made in connection with the issuance of any then proposed Additional Bonds shall be made as of the date of such Additional Bonds; and also in making calculations for such purpose, and for any other purpose under this Resolution, principal amounts of any bonds or obligations which must be redeemed prior to maturity pursuant to any applicable mandatory redemption requirements shall be deemed to be maturing amounts of principal of such bonds or obligations.

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

Special Conditions:

30. 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 363;
31. the District must notify the Executive Administrator prior to taking any actions to alter its legal status in any manner, such as by conversion to a conservation and reclamation district or a sale-transfer-merger with another retail public utility; and
32. the Obligations must include a provision requiring that, prior to any action by the District to convey its Obligations held by the TWDB to another entity, the conveyance and the assumption of the Obligations must be approved by the TWDB.

APPROVED and ordered of record this, the 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.

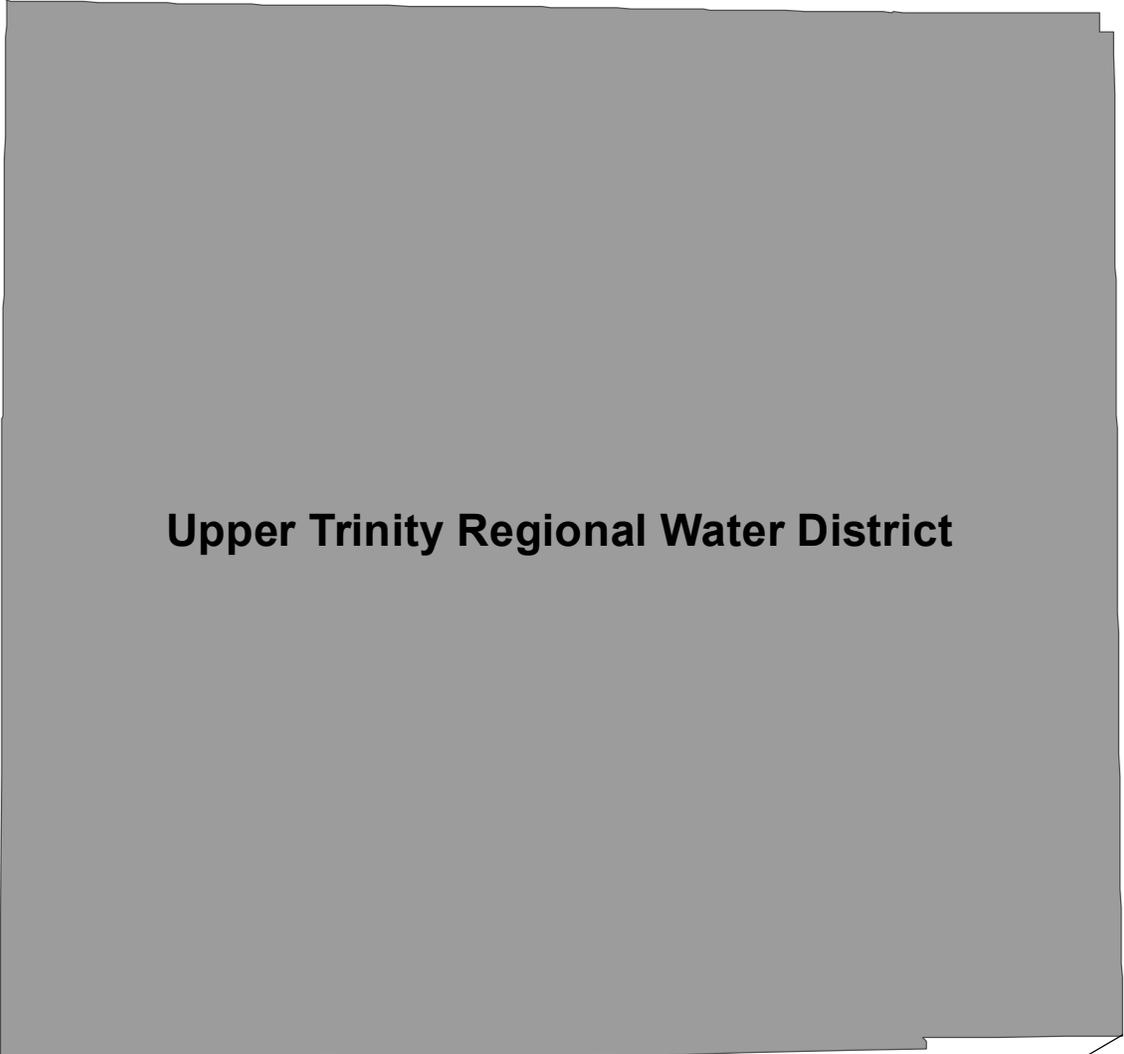
Total baseline GPCD is the amount of all water purchased or produced by the utility divided by the service area population and then divided by 365.

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.

**Upper Trinity Regional Water District,
Denton County**



Upper Trinity Regional Water District

