

**TO:** Board Members

**THROUGH:** Kevin Patteson, Executive Administrator

**FROM:** Les Trobman, General Counsel  
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**DATE:** April 1, 2016

**SUBJECT:** Financial Assistance through the State Water Implementation Fund for Texas  
Prioritization and Structure for the 2016 Funding Cycle

**RECOMMENDATION**

The Executive Administrator (EA) recommends approval of the 2016 prioritization list, the amount of funds available for applications by category, the financing structure and terms of subsidy, and proceeding with the invitation of applications for financial assistance through the State Water Implementation Fund for Texas (SWIFT) program.

**BACKGROUND**

In 2013, the 83rd Texas Legislature passed House Bill 4 and Senate Joint Resolution 1 providing for the creation of the SWIFT and the State Water Implementation Revenue Fund for Texas (SWIRFT). House Bill 1025 authorized a \$2 billion supplemental appropriation from the state’s Economic Stabilization Fund, and Proposition 6, approved by voters on November 5, 2013, created a constitutionally dedicated fund. This investment and the financing program, referred to as the SWIFT program, was designed to support approximately \$27 billion in funding for water supply projects over 50 years to assist communities in developing adequate water supplies during times of drought. The 2012 State Water Plan provided the analysis of water supply project needs upon which the SWIFT projections were initially based.

The SWIFT program is designed to encourage implementation of water plan projects through advantageous funding options such as: low-interest loans, extended repayment terms, repayment deferral, and incremental repurchase terms for projects with state ownership aspects. The program is leveraged through the issuance of SWIRFT revenue bonds and the appropriated funds are utilized to bridge the difference between the SWIRFT revenue bonds and the repayment options provided to TWDB’s underlying borrowers in the program.

**Our Mission** : **Board Members**

To provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas :

- : Bech Bruun, Chairman | Kathleen Jackson, Board Member | Peter Lake, Board Member
- : Kevin Patteson, Executive Administrator

The first cycle of SWIFT funding began in November 2014, with the Board adoption of program rules and the solicitation of projects. Utilizing a strategic planning model developed specifically for SWIFT, the initial scenarios identified the availability of an estimated \$8 billion for project funding within the first decade. It is important to note that modeling scenarios are based on estimates of the amounts and types of funding anticipated to be requested. Active management of the SWIFT program will entail periodic re-evaluations of all modeling criteria and updated conditions in order to adjust parameters as necessary to preserve the program's corpus and ensure capacity at anticipated levels.

The inaugural 2015 SWIFT funding cycle was a tremendous success as evidenced by the initial interest of over \$5.5 billion in project costs submitted during the solicitation phase. Ultimately, the Board prioritized and invited over \$4 billion in applications to fund water supply projects represented in the 2012 State Water Plan.

<b>2015 SWIFT Funding Cycle</b>
<b>\$5,544,479,495 received in abridged applications</b>
<b>100% of eligible applications invited totaling \$4,092,696,713</b>
<b>Ultimately, \$3,793,370,000 in project funding</b>
<b>\$810,410,000 in SWIRFT Revenue Bonds issued</b>
<b><i>Turns Planning into Projects</i></b>

### **2016 SWIFT FUNDING CYCLE**

On November 9, 2015, the EA presented a preliminary, proposed financing structure for the 2016 SWIFT funding cycle and recommended the 2016 funding cycle utilize projects in the approved 2016 Regional Water Plans and the pending 2017 State Water Plan. Abridged applications were solicited beginning December 1, 2015 and those applications were due by February 5, 2016. The financing structure proposed was very similar to that of the prior cycle with slight modifications to subsidy levels. The funding target for the 2016 cycle was recommended at \$1 billion which included approximately \$355 million in multi-year commitments from the previous cycle.

Pursuant to 31 Texas Administrative Code (TAC) §363.1303, the EA is required to provide a prioritization of abridged applications to the Board for approval as soon as practicable following the receipt of abridged applications, as well as the amount of funds requested and the priority for funding of each application. The Board is then required to identify the amount of funds available for applications by category, establish the structure of financing, the terms of any subsidy, and consider applications according to the prioritization criteria outlined in 31 TAC §363.1304. TWDB rules require complete applications to be submitted within 30 days after the date of the Board meeting at which the applicant's project received priority for funding during the abridged application process.

Should the Board approve the EA's recommendations contained herein and offer invitations to apply, complete applications for financial assistance will be due May 11, 2016.

### **SUMMARY OF ABRIDGED APPLICATIONS RECEIVED**

Financial assistance workshops were held across the state in December 2015 and January 2016 in anticipation of the February 5, 2016 deadline for SWIFT abridged applications. Additionally, Board members and staff presented information about SWIFT at various conferences and meetings in efforts to inform potential applicants of the program's benefits and timelines. This outreach effort resulted in another round of abridged applications that were well in excess of expectations.

Forty abridged applications totaling over \$2.3 billion were received by the deadline. The abridged applications received reflect a wide range of project types from capacity expanding projects, transmission lines and additional wells to conservation programs, reuse projects, and aquifer storage and recovery. Both rural and urban entities are represented as well as large regional projects. Several existing customers from the 2015 cycle submitted funding requests for additional needs and one requested to accelerate their multi-year commitment schedule.

The EA's initial review identified six abridged applications (Harris County Municipal Utility District No. 50, Creedmoor-Maha Water Supply Corporation, FHLM Water Supply Corporation, and Loop 360 Water Supply Corporation (3 projects)) as ineligible. The projects submitted are not recommended water management strategies in the regional and state water plans as defined under 31 TAC §363.1302(19). These four entities were notified of the determination and provided guidance regarding eligibility for other Texas Water Development Board (TWDB) financial assistance programs.

During the review period, several entities withdrew their abridged applications from prioritization consideration. The City of Groveton, Houston County Water Control & Improvement District No. 1, Lower Valley Water District, Midland County Fresh Water Supply District No. 1 and Midland County Utility District requested that their projects not be prioritized for this cycle of SWIFT funding. These entities were provided guidance regarding eligibility for other TWDB financial assistance programs.

The EA did not prioritize the Central Texas Regional Water Supply Corporation (Corporation) application due to lack of information sufficient to establish eligibility. Pursuant to 31 TAC §363.1303(a), to be considered for prioritization, an applicant must provide adequate information to establish that the applicant qualifies for funding. Based on the information submitted by the Corporation and information gathered from other sources, the EA cannot determine that the applicant is eligible for funding. The EA has reached out to the applicant for clarifying information but has not received responses. In an effort to fully evaluate the abridged application, the EA has reviewed information available from public sources such as a contract on the website of San Antonio Water System (SAWS) between SAWS and Abengoa Vista Ridge L.L.C. and the Corporation's articles of incorporation obtained from the Secretary of State's office. Additional information from various media indicates that a third party is taking over the majority of the contract which will need additional approval by SAWS. Due to the uncertainty and lack of requested information regarding the applicant status and eligibility, the EA did not prioritize the Corporation's abridged application. As with all applicants not considered for this round of funding, the Corporation will be provided with guidance regarding eligibility for

subsequent SWIFT funding cycles and information on other TWDB financial assistance programs.

Based on the EA's review of all abridged applications received for the 2016 SWIFT funding cycle, there are currently 28 applications eligible to be invited for SWIFT funding totaling \$1,317,144,477.

**Prioritization and Amount of Funds Requested**

Pursuant to rule, 31 TAC §363.1304 relating to prioritization criteria, was applied to the applications as follows:

Highest Consideration (Maximum Points-50)	Additional Consideration (Maximum Points-50)
Serves a large population (30)	Local financial contribution (5)
Assists a diverse urban and rural population (30)	Financial capacity to repay (2)
Provides regionalization (30)	Emergency need for the project (5)
Meets high percentage of water users' needs (30)	Readiness to proceed with the project (8) Effect on water conservation (15) Priority given by regional water planning group (15)

In summary, the prioritized list of SWIFT abridged applications consists of:

- 28 eligible applications, representing 25 entities
- **\$600,649,370 Requested in year 2016**
- \$1,317,144,477 Total - Includes multi-year commitments (2016-2022)
- \$1,136,394,477 Low-Interest Loans
- \$250,000 Deferred Loans
- \$180,500,000 Board Participation
- \$8,090,000 Agricultural projects
- \$196,516,920 Conservation projects
- \$241,980,456 Reuse projects
- \$6,866,391 Rural projects
- \$31,621,847 Existing multi-year commitment schedule change for 2016

The complete list of eligible applications with their prioritization is found in Attachment No. 1.

**Financing Structure and Terms of Subsidy**

Three types of funding categories for the SWIFT program are outlined in the statute: 1) below market interest rate loans; 2) deferred loan repayments of principal and interest for developmental costs, and 3) incremental repurchase for an acquired facility.

Based on an analysis of the strategic planning model and funding requests, the EA has prepared a recommendation for Board consideration for the 2016 SWIFT funding cycle. The EA recommends the structure and terms listed below:

**Low-Interest Loans:**

- Below market interest rate loans
- Loan terms up to 30 years
- 35% Interest Rate Subsidy for 20 year loans
- 25% Interest Rate Subsidy for 21 to 25 year loans
- 20% Interest Rate Subsidy for 26 to 30 year loans

**Deferred Loans:**

- For developmental costs
- Deferral of principal and interest up to 8 years or end of scheduled construction, whichever is sooner
- Loan terms up to 30 years
- No Interest Rate Subsidy

**Board Participation:**

- Long term fixed-rate structured financing through temporary TWDB ownership interest in the project
- Terms generally up to 34 years
- No Interest Rate Subsidy

**Multi-year Commitments:**

- Continue offering the multi-year commitment financing option. Any applicable subsidies will be applied for a maximum of five funding year cycles from the time of initial Board commitment.

Interest rates are set at time of closing and are based upon the TWDB cost of funds less the applicable subsidy.

**Funds Available by Category and Invitations**

As staff evaluated the capacity for SWIFT based on the existing commitments and the new 2016 requests, the focus remained on the 10 year planning horizon. This time period is critical as the number of projects and type of funding offered in the first decade will have capacity/subsidy implications on the future of the program. The goal was to create a balance between funding current demand while preserving future capacity and protecting the corpus of the SWIFT.

A key issue in implementing the SWIFT program has been the ability to offer applicants multi-year commitments. Multi-year commitments, which are also utilized in other TWDB programs, accommodate the need of entities to fund projects over a longer timeframe and assist the TWDB with managing demand. This is especially important in SWIFT considering the size of some of the larger water supply projects. Applicants wishing to utilize this aspect of the program submitted both a request for the total amount needed for their project and a schedule showing the projected need in future years. Entities that received multi-year Board commitments in the prior funding cycle are required to confirm their schedules annually and did so at the same time the 2016 abridged applications were due. Only one existing multi-year commitment requested a

change in its original schedule. The City of Houston requested an acceleration of their funding needs in years 2016 through 2020.

Based on the capacity analysis and funding requests, the EA recommends that all eligible 2016 SWIFT abridged applications be invited to submit full applications for funding.

In addition, the EA recommends approval of the City of Houston’s request to change its existing multi-year commitment schedule only for the calendar year 2016 disbursement. The EA recommends that reconsideration of approval of the subsequent years’ request (2017-2020) be made at the next SWIFT cycle in order to better evaluate program capacity based on final commitment amounts and new abridged applications.

Based on the above, the total invitation amount for the 2016 SWIFT funding cycle is estimated to be \$1,317,144,477 which includes multi-year commitments for years 2016 through 2022. The categories of funding can be found on Attachment No. 1. The total amount requested for year 2016 is \$600,649,370.

In addition, to accommodate the needs of the City of Houston’s existing multi-year commitment schedule change, \$31,621,847 will be moved forward into the 2016 anticipated funding amount. This amount will be adjusted from the City’s subsequent scheduled commitment amounts.

**IMPLEMENTATION**

The EA will continue to work with SWIFT applicants as we move into the full application phase. Every effort is being made to assist applicants with the time schedules necessary to achieve the goal of delivering project funds prior to the end of calendar year 2016.

Below is a proposed schedule for the implementation of the SWIFT program.

<p>4/11/16</p>	<p>Board approves prioritization of abridged applications</p> <p>Board identifies amount of funds available by category, establishes the structure of financing, and the subsidy terms</p> <p>Invitations extended to submit applications for financial assistance</p>
<p>5/11/16</p>	<p>Entities submit complete applications</p>
<p>Summer 2016</p>	<p>2017 State Water Plan adopted</p> <p>Board considers and approves full applications</p> <p>Board authorizes TWDB bond sale, selects co-managing underwriters and approves a Not to Exceed Amount</p> <p>Execution of Financing Agreements with borrowers</p>

Fall 2016	TWDB bond sale
	Board sets interest rates
	Funds Transfer Agreement ratification
Winter 2016	TWDB bond closing
	Borrowers' loan closings
Winter 2016 - Spring 2017	Solicitation of Abridged Applications for the 2017 round of funding

**SUMMARY**

Based on the above analysis, the EA recommends Board approval of:

- 1) Prioritization of 2016 SWIFT abridged applications as set forth in Attachment No. 1.
- 2) \$1,317,144,477 in available funding for 2016 SWIFT applications by category as set forth in Attachment No. 1.
- 3) \$31,621,847 in available funding for year 2016 representing a multi-year commitment schedule change to the City of Houston's 2015 SWIFT commitment.
- 4) Structure and terms of funding as follows:
  - Low-Interest Loans – 20 to 30 year loans
    - 35% interest rate subsidy for 20 year loans
    - 25% interest rate subsidy for 21 to 25 year loans
    - 20% interest rate subsidy for 26 to 30 year loans
  - Deferred Loans – 20 to 30 year loans
    - No interest rate subsidy
  - Board Participation – 30 to 35 years
    - No interest rate subsidy

For multi-year commitments, the above subsidies will be applicable for a maximum of five funding year cycles from the time of Board commitment.

- 5) Authorization of the EA to invite applications for funding for the amounts and terms as evidenced in Attachment No. 1. Full applications will be due by May 11, 2016.
- 6) Identify timeframes for the 2017 SWIFT funding cycle solicitation of Abridged Applications as Winter 2016 through Spring 2017.

After receipt of the completed 2016 applications, the EA will review and recommend projects for funding at the earliest time possible. As a result of the detailed analysis, the total funding and timing requested may change from the above numbers prior to the time of Board consideration. Should there be any change, the EA will detail the differences and make recommendations to the Board based on these changes.

Attachment No. 1



State Water Implementation Fund for Texas  
2016 Abridged Applications - Prioritization

Score	Entity Name	#	Project Name	Eligible Amount	Low-Interest Loan	Deferred Loan	Board Participation	2016	2017	2018	2019	2020	2021	2022	Agriculture Conservation	Reuse	Rural	
86	Austin, City of	11825	Advanced Metering Infrastructure	\$ 80,195,000	\$ 80,195,000	\$ -	\$ -	\$ 195,000	\$ 5,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 25,000,000	\$ 20,000,000	X			
86	North Harris County Regional Water District	11820	Transmission 2020 (Second Source)	\$ 117,855,000	\$ 117,855,000	\$ -	\$ -	\$ 67,950,000	\$ 12,425,000	\$ 37,480,000	\$ -	\$ -	\$ -	\$ -				
85	Central Harris County Regional Water Auth	11821	Transmission and Distribution Expansion	\$ 12,585,000	\$ 12,585,000	\$ -	\$ -	\$ 3,970,000	\$ -	\$ 3,550,000	\$ 5,065,000	\$ -	\$ -	\$ -				
85	North Harris County Regional Water District	11819	Internal 2020 Distribution System	\$ 107,820,000	\$ 107,820,000	\$ -	\$ -	\$ 13,930,000	\$ 93,890,000	\$ -	\$ -	\$ -	\$ -	\$ -				
84	Trophy Club Municipal Water District #1	11812	Increase Delivery Infrastructure from Ft. Worth	\$ 17,400,437	\$ 17,400,437	\$ -	\$ -	\$ 4,450,484	\$ 12,949,953	\$ -	\$ -	\$ -	\$ -	\$ -				
84	Central Harris County Regional Water Auth	11822	Shared Transmission	\$ 2,905,000	\$ 2,905,000	\$ -	\$ -	\$ 2,905,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
79	North Texas Municipal Water District	11832	Treatment and Treated Water Distribution Improvements	\$ 92,510,000	\$ 92,510,000	\$ -	\$ -	\$ 92,510,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
74	Schertz Seguin Local Government Corp	11797	Expanded Carrizo	\$ 66,500,000	\$ 36,000,000	\$ -	\$ 30,500,000	\$ 66,500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
70	El Paso (PSB), City of	11818	Groundwater Importation	\$ 150,000,000	\$ -	\$ -	\$ 150,000,000	\$ 100,000,000	\$ 50,000,000	\$ -	\$ -	\$ -	\$ -	\$ -				
68	Upper Guadalupe River Authority	11799	Off-Channel Surface Water Storage	\$ 250,000	\$ -	\$ 250,000	\$ -	\$ 250,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
67	San Antonio Water System	11836	SAWS Vista Ridge Integration	\$ 127,310,193	\$ 127,310,193	\$ -	\$ -	\$ 25,062,039	\$ 100,248,154	\$ 2,000,000	\$ -	\$ -	\$ -	\$ -				
61	San Angelo, City of	11801	Reclaimed Water Project	\$ 136,000,000	\$ 136,000,000	\$ -	\$ -	\$ 90,000,000	\$ 46,000,000	\$ -	\$ -	\$ -	\$ -	\$ -			X	
60	Austin, City of	11826	Direct Reuse Strategy	\$ 86,980,456	\$ 86,980,456	\$ -	\$ -	\$ 20,428,456	\$ 22,590,000	\$ 18,142,000	\$ 12,560,000	\$ 9,110,000	\$ 1,925,000	\$ 2,225,000			X	
55	Sabine River Authority	11823	Sabine River Authority Pump Station	\$ 85,000,000	\$ 85,000,000	\$ -	\$ -	\$ 35,000,000	\$ 50,000,000	\$ -	\$ -	\$ -	\$ -	\$ -		X		
50	United Irrigation District	11811	Off-Channel Storage Facility	\$ 8,090,000	\$ 8,090,000	\$ -	\$ -	\$ 8,090,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		X		
48	Bryan, City of	11835	Aquifer Storage & Recovery	\$ 18,000,000	\$ 18,000,000	\$ -	\$ -	\$ 3,500,000	\$ 14,500,000	\$ -	\$ -	\$ -	\$ -	\$ -				
43	Seabrook, City of	11824	Municipal Conservation & Water Loss Reduction	\$ 1,700,000	\$ 1,700,000	\$ -	\$ -	\$ 1,700,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		X		
39	Cleburne, City of	11834	West Loop Reuse	\$ 19,000,000	\$ 19,000,000	\$ -	\$ -	\$ 19,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			X	
36	Gastonia-Scurry Special Utility District	11800	Connect to Seagoville	\$ 6,000,000	\$ 6,000,000	\$ -	\$ -	\$ 6,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
34	Anthony, Town of	11796	Additional Groundwater Well	\$ 1,244,471	\$ 1,244,471	\$ -	\$ -	\$ 1,244,471	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			X	
28	Keller, City of	11816	Enhanced Water Loss Control and Conservation Program	\$ 12,000,000	\$ 12,000,000	\$ -	\$ -	\$ 12,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		X		
28	Pearland, City of	11817	City of Pearland Surface Water Treatment Plant	\$ 145,100,000	\$ 145,100,000	\$ -	\$ -	\$ 6,600,000	\$ -	\$ 16,500,000	\$ 35,000,000	\$ 55,000,000	\$ 32,000,000	\$ -				
27	Loop 360 Water Supply Corp	11837	Automated Control Filter Valves	\$ 300,000	\$ 300,000	\$ -	\$ -	\$ 300,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
25	Harris County Municipal Utility District #50	11829	Municipal Conservation & Water Loss Reduction	\$ 540,000	\$ 540,000	\$ -	\$ -	\$ 540,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		X	X	
25	Beeville, City of	11813	Chase Field project	\$ 4,777,000	\$ 4,777,000	\$ -	\$ -	\$ 1,442,000	\$ 3,335,000	\$ -	\$ -	\$ -	\$ -	\$ -				
23	Yoakum, City of	11833	Municipal Water Conservation: AMI Water Meter Upgrade	\$ 300,000	\$ 300,000	\$ -	\$ -	\$ 300,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		X	X	
21	Waco, City of	11810	Advanced Metering Infrastructure	\$ 12,000,000	\$ 12,000,000	\$ -	\$ -	\$ 12,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		X		
18	Cleveland, City of	11808	Municipal Conservation & Water Loss Reduction	\$ 4,781,920	\$ 4,781,920	\$ -	\$ -	\$ 4,781,920	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		X	X	
28 Total				\$ 1,317,144,477	\$ 1,136,394,477	\$ 250,000	\$ 180,500,000	\$ 600,649,370	\$ 410,938,107	\$ 71,172,000	\$ 44,125,000	\$ 54,110,000	\$ 81,925,000	\$ 54,225,000	1	8	3	4

Existing Multi-Year Commitments *	\$ 355,105,000	\$ 777,715,000	\$ 916,025,000	\$ 468,905,000	\$ 159,520,000	\$ 92,420,000	\$ 46,990,000
City of Houston - Requested Change	\$ 31,621,847						
Total Existing Multi-Year Commitments *	\$ 386,726,847						
<b>Total Multi-Year Commitments 2016-2020</b>	<b>\$ 987,376,217</b>	<b>\$ 1,188,653,107</b>	<b>\$ 987,197,000</b>	<b>\$ 513,030,000</b>	<b>\$ 213,630,000</b>	<b>\$ 174,345,000</b>	<b>\$ 69,593,153</b>

\* Multi-year commitments 2023-2025 not included from 2015 funding cycle.