

Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: November 17, 2016

TEAM MANAGER: Nancy Richards

APPLICANT	City of Pearland
TYPE OF ASSISTANCE	\$159,500,000 Multi-Year Loan Commitment
LEGAL PLEDGE	First Lien on Net Revenues of the Water and Sewer System

STAFF RECOMMENDATION

Approve No Action

ACTION REQUESTED

Approve by resolution, a request from the City of Pearland (Brazoria County) for a \$159,500,000 multi-year loan commitment from the Drinking Water State Revolving Fund to finance the planning, acquisition, design, and construction of a surface water treatment plant.

PROJECT

Surface Water Treatment Plant
Project Number 62712

BACKGROUND

Due to continued and sustained growth in residential, commercial, and industrial sectors within the City of Pearland (City), the City is proposing to utilize Texas Water Development Board funds to construct a new surface water treatment plant to treat raw water from the Gulf Coast Water Authority’s American Canal.

FINANCIAL

Key Issues

The City closed on a \$61,200,000 Clean Water State Revolving Fund loan on August 4, 2016.

Multi-Year Commitment	Expiration Date
\$ 22,250,000 Series 2017	November 30, 2017
\$8,650,000 Series 2018	November 30, 2018
\$106,000,000 Series 2019	November 30, 2019
\$22,600,000 Series 2020	November 30, 2020

Pledge and Repayment

The City is pledging net revenues of the water and sewer system for the repayment of the proposed loan. The City's current combined average monthly water and wastewater rate is \$52.93. Current system revenues are generating sufficient revenues to meet current and proposed debt service for the Series 2017 debt of \$22,250,000. The City will review its need to increase the average monthly bill each year of the multi-year loan.

Cost Savings

Based on a 30-year maturity and current interest rates, the City could save approximately \$3,458,510 over the life of the \$22,250,000 Series 2017 loan.

Internal Risk Score

Staff assigns a 2A 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 strong.

The City scored high on the indicators that show its financial sustainability. The City raised their monthly water and sewer rates in fiscal year 2015 to generate revenues to provide stronger coverage of all debt service. The results of the City's financial indicators are strong. The current revenue available for debt service provides 1.32 times coverage of the City's existing and proposed debt service in the first year of principal repayment.

The City also scored high on an indicator of its overall health, excluding the performance of the utility system. Overall, the City has been able to retain its revenues as evidenced by an increase in the fund balance over the last five years relative to revenues.

The City's median household income of \$94,653 is well above the State median income of \$52,576. The average annual cost of water and wastewater service is well below the standard used by the utility industry and municipal credit rating agencies of 2% of the median household income for two services. Because of the City's good position on the cost of services to its customer base, it has flexibility to increase rates to meet debt service requirements, including any required rate increase for future multi-year releases. The average annual cost of water and wastewater service for a household at the median level of income is 0.67% of the household income.

In addition, the City's population has increased at an annual rate of 7% since 2000, compared to an increase at an overall annual rate of 3.5% for the State.

The City maintains respectable liquidity with cash and short-term investments equivalent to 34 days of operating expenses. Any amount between 30-149 days is considered to be adequate level of liquidity. Adequate liquidity provides greater stability to a utility system by providing the resources needed to cover short-term, unplanned needs.

The total projected debt per capita including the proposed loans is \$3,058. The City's debt paid with ad valorem tax revenues represents approximately 3.90% of the total taxable value of properties in the City. A ratio of 5% is high, and over 12% is not recommended.

The City's socioeconomic indicators are high and system debt will increase under the multi-year commitment, but the City produces substantial net revenues in the utility system and scores highly on the heavily weighted financial rating indicators. The City is assigned a risk score of 2A.

Legal

None.

Conditions

Standard, tax-exempt, and net revenue conditions and further conditions as follows:

- Water rights certification;
- Useful life certification; and,
- Standard emergency conditions.

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

Responsible Authority	City of Pearland
Program	Drinking Water State Revolving Fund
Commitment Codes	LM17100563 LM18100563 LM19100563 LM20100563
Project Number	62712
Intended Use Plan Year	2016
Fund Number	951
Type of Pledge	2
Revenue Pledge Level	First
Legal Description	\$22,250,000 City of Pearland, Texas Water and Sewer System Revenue Bonds Proposed Series 2017 \$8,650,000 Proposed Series 2018 \$106,000,000 Proposed Series 2019 \$22,600,000 Proposed Series 2020
Tax-Exempt or Taxable	Tax-Exempt
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay =Escrow
Population	103,449
Rural	No
Water Connections	39,096
Wastewater Connections	39,096
Qualifies as Disadvantaged	N/A
Disadvantaged Level	No
Clean Water State Revolving Fund Type	N/A
Financial, Managerial and Technical Review Complete?	Yes
SWIFT Financing Type	N/A
SWIFT Project Type	N/A
Phase Committing	Planning, Acquisition, Design, and Construction
Pre-Design	Yes
Project Consistent with Water Plan	Yes
Water Conservation Plan	Adopted
Water Rights Certification Required	Yes
Internal Risk Score	2A
External Ratings	
Standard and Poor's	AA-
Moody's	Aa2
Fitch	AA-
Special Issues	Multi-Year Funding

Project Team

Team Manager	Nancy Richards
Financial Analyst	Charles R. Nichols
Engineering Reviewer	Jeff Dunsworth
Environmental Reviewer	Jean Devlin
Attorney	Annette Mass

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
City of Pearland

\$22,250,000 Waterworks and Sewer Revenue Bonds, Proposed Series 2017

Dated Date:	4/1/2017	Source:	DWSRF
Delivery Date:	4/1/2017	Rate:	0.88%
First Interest:	10/1/2017	Insurance:	No
First Principal:	4/1/2018	Case:	-
Last Principal:	4/1/2047	Admin.Fee:	\$489,609
Fiscal Year End:	09/30	Admin. Fee Payment Date:	4/1/2017
Required Coverage:	1.0		

FISCAL YEAR	PROJECTED NET SYSTEM REVENUES	CURRENT DEBT SERVICE	PRINCIPAL PAYMENT	INTEREST RATE	\$22,250,000 ISSUE			TOTAL DEBT SERVICE	COVERAGE
					INTEREST PAYMENT	TOTAL PAYMENT	TOTAL DEBT		
2018	11,434,098	7,785,000	650,000	0.88%	195,800	845,800	8,630,800	1.32	
2019	11,434,098	7,960,000	655,000	0.88%	190,080	845,080	8,805,080	1.30	
2020	11,434,098	8,150,000	665,000	0.88%	184,316	849,316	8,999,316	1.27	
2021	11,434,098	8,405,000	670,000	0.88%	178,464	848,464	9,253,464	1.24	
2022	11,434,098	8,460,000	675,000	0.88%	172,568	847,568	9,307,568	1.23	
2023	11,434,098	8,680,000	680,000	0.88%	166,628	846,628	9,526,628	1.20	
2024	11,434,098	7,860,000	685,000	0.88%	160,644	845,644	8,705,644	1.31	
2025	11,434,098	8,130,000	695,000	0.88%	154,616	849,616	8,979,616	1.27	
2026	11,434,098	8,625,000	700,000	0.88%	148,500	848,500	9,473,500	1.21	
2027	11,434,098	8,940,000	705,000	0.88%	142,340	847,340	9,787,340	1.17	
2028	11,434,098	9,275,000	710,000	0.88%	136,136	846,136	10,121,136	1.13	
2029	11,434,098	9,610,000	715,000	0.88%	129,888	844,888	10,454,888	1.09	
2030	11,434,098	9,925,000	725,000	0.88%	123,596	848,596	10,773,596	1.06	
2031	11,434,098	10,245,000	730,000	0.88%	117,216	847,216	11,092,216	1.03	
2032	11,434,098	6,300,000	735,000	0.88%	110,792	845,792	7,145,792	1.60	
2033	11,434,098	6,510,000	745,000	0.88%	104,324	849,324	7,359,324	1.55	
2034	11,434,098	6,715,000	750,000	0.88%	97,768	847,768	7,562,768	1.51	
2035	11,434,098	3,840,000	755,000	0.88%	91,168	846,168	4,686,168	2.44	
2036	11,434,098	3,040,000	765,000	0.88%	84,524	849,524	3,889,524	2.94	
2037	11,434,098	2,635,000	770,000	0.88%	77,792	847,792	3,482,792	3.28	
2038	11,434,098	2,305,000	775,000	0.88%	71,016	846,016	3,151,016	3.63	
2039	11,434,098	2,340,000	785,000	0.88%	64,196	849,196	3,189,196	3.59	
2040	11,434,098	1,700,000	790,000	0.88%	57,288	847,288	2,547,288	4.49	
2041	11,434,098	1,700,000	795,000	0.88%	50,336	845,336	2,545,336	4.49	
2042	11,434,098	1,700,000	805,000	0.88%	43,340	848,340	2,548,340	4.49	
2043	11,434,098	1,700,000	810,000	0.88%	36,256	846,256	2,546,256	4.49	
2044	11,434,098	1,700,000	820,000	0.88%	29,128	849,128	2,549,128	4.49	
2045	11,434,098	1,705,000	825,000	0.88%	21,912	846,912	2,551,912	4.48	
2046	11,434,098	-	830,000	0.88%	14,652	844,652	844,652	13.54	
2047	11,434,098	-	835,000	0.88%	7,348	842,348	842,348	13.57	
		\$ 165,940,000	\$ 22,250,000		\$ 3,162,632	\$ 25,412,632	\$ 191,352,632		

AVERAGE (MATURITY) LIFE	16.15 YEARS
NET INTEREST RATE	0.880%
COST SAVINGS	\$3,458,510
AVERAGE ANNUAL REQUIREMENT	\$6,378,421

Disclaimer: This is a working document and is provided as a courtesy. All information contained herein, including the proposed interest rate, is subject to change upon further review of the TWDB in accordance with 31 Texas Administrative Code Chapters 363, 371, 375, or 384, as applicable.

**Pearland
62712 10 MGD Surface Water Treatment Plant
Engineering and Environmental Review**

Engineering:

Key Issues:

None known at this time.

Project Need/Description

NEED: Due to continued and sustained growth in residential, commercial and industrial sectors within the City of Pearland (City), the City requires additional potable water to meet the growing demand. The City currently receives potable water from the City of Houston’s Southeast Water Purification Plant (SEWPP) and from ground water wells. As there is no additional source water available from the SEWPP, the new Plant will be beneficial in efforts to implement a diversification of source water.

DESCRIPTION: TWDB funds will be used for planning, acquisition, design and construction with pilot testing, of a 10 MGD Surface Water Treatment Plant (Plant) including 36” diameter transmission lines to various points and the replacement of existing aging customer water meters. The Plant will treat raw water from the Gulf Coast Water Authority (GCWA) canal for distribution throughout the City’s water system. The project activities are scheduled over a five year period with new potable water capacity available by 2022. The City currently has agreements in place with GCWA to access 10 MGD of raw water from the American Canal.

Project Schedule:

Project Task	Schedule Date
Closing	4/01/2017
Engineering Feasibility Report Completion (End of Planning Phase)	10/01/17
Design Phase Complete	10/20/2018
Start of Construction	2/17/2019
Construction Completion	8/7/2022

Environmental Section:

Key Issues:

None known at this time.

Environmental Summary:

As set forth in the preliminary 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. Some portions of the proposed project require regulatory agency coordination. For this reason, the environmental review was segmented.

A Categorical Exclusion (CE) for the water meters replacement project was issued on September 2, 2016. As required by 31 Texas Administrative Code (TAC) §371.41, Subchapter E, environmental review of the proposed water meters replacement project has been completed. The proposed water meters replacement project is in compliance with the National Environmental Policy Act.

A full environmental review for the construction of a 10 million gallon per day (MGD) surface water treatment plant (WTP) has been proposed. Specifically, the project includes the construction of a pilot plant, raw water intake, reservoir, raw water pump station, pre-treatment, final treatment, disinfection, chemical feed systems, ground storage, distribution pumping system, three to five major transmission lines of varying sizes from the WTP to various distribution points, and associated right-of-way and easements. Pursuant to the requirements of 31 Texas Administrative Code (TAC) §371.41, all financial assistance shall be conditioned to read that funding for acquisition, design, and construction 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.

Last Update: 10/20/2016

Budget Items	DWSRF LM17100563 (Application)		Remaining Multiyear Funds	
	TWDB Funds	Total	TWDB Funds	Grand Total
Construction				
Construction	\$10,510,391.00	\$10,510,391.00	\$107,170,171.00	\$117,680,562.00
Subtotal for Construction	\$10,510,391.00	\$10,510,391.00	\$107,170,171.00	\$117,680,562.00
Basic Engineering Services				
Construction Engineering	\$0.00	\$0.00	\$2,400,000.00	\$2,400,000.00
Design	\$8,250,000.00	\$8,250,000.00	\$6,709,658.00	\$14,959,658.00
Planning	\$500,000.00	\$500,000.00	\$0.00	\$500,000.00
Subtotal for Basic Engineering	\$8,750,000.00	\$8,750,000.00	\$9,109,658.00	\$17,859,658.00
Special Services				
Environmental	\$250,000.00	\$250,000.00	\$0.00	\$250,000.00
Geotechnical	\$200,000.00	\$200,000.00	\$0.00	\$200,000.00
Inspection	\$0.00	\$0.00	\$4,550,000.00	\$4,550,000.00
O&M Manual	\$0.00	\$0.00	\$580,000.00	\$580,000.00
Pilot Testing	\$1,000,000.00	\$1,000,000.00	\$0.00	\$1,000,000.00
Project Management (by engineer)	\$500,000.00	\$500,000.00	\$0.00	\$500,000.00
Surveying	\$200,000.00	\$200,000.00	\$0.00	\$200,000.00
Testing	\$0.00	\$0.00	\$470,000.00	\$470,000.00
Water Distribution Modeling	\$100,000.00	\$100,000.00	\$0.00	\$100,000.00
Subtotal for Special Services	\$2,250,000.00	\$2,250,000.00	\$5,600,000.00	\$7,850,000.00
Fiscal Services				
Fiscal/Legal	\$0.00	\$0.00	\$100,000.00	\$100,000.00
Loan Origination Fee	\$489,609.00	\$489,609.00	\$3,020,171.00	\$3,509,780.00
Subtotal for Fiscal Services	\$489,609.00	\$489,609.00	\$3,120,171.00	\$3,609,780.00
Other				
Land/Easements Acquisition	\$0.00	\$0.00	\$900,000.00	\$900,000.00
Subtotal for Other	\$0.00	\$0.00	\$900,000.00	\$900,000.00
Contingency				
Contingency	\$250,000.00	\$250,000.00	\$11,350,000.00	\$11,600,000.00
Subtotal for Contingency	\$250,000.00	\$250,000.00	\$11,350,000.00	\$11,600,000.00
Total	\$22,250,000.00	\$22,250,000.00	\$137,250,000.00	\$159,500,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE TO THE CITY OF
PEARLAND
IN THE FORM OF A MULTI-YEAR COMMITMENT
FROM THE DRINKING WATER STATE REVOLVING FUND
THROUGH THE PROPOSED PURCHASE OF
\$159,500,000 CITY OF PEARLAND, TEXAS,
WATER AND SEWER SYSTEM REVENUE BONDS
PROPOSED SERIES 2017
THROUGH PROPOSED SERIES 2020

(16-)

WHEREAS, the City of Pearland (City) has filed an application for financial assistance in the amount of \$159,500,000 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. 62712; and

WHEREAS, the City seeks financial assistance from the Texas Water Development Board (TWDB) in the form of a multi-year commitment through the TWDB's proposed purchase of \$159,500,000 City of Pearland, Texas, Water and Sewer System Revenue Bonds, Proposed Series 2017 through 2020 (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 City has offered a pledge of a first lien on net revenues of the water and sewer system as sufficient security for the repayment of the Obligations; and

WHEREAS, the commitment is approved for funding under the TWDB's pre-design funding option, and initial and future releases of funds are subject to 31 TAC § 371.13; 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 TWDB has approved a regional water plan for the region of the state that includes the area benefiting from the project and the needs to be addressed by the project will be addressed in a manner that is consistent with the approved regional and state water plans, as required by Texas Water Code § 16.053(j); and
4. that the Executive Administrator issued a Categorical Exclusion for one portion of the Project on September 2, 2016, such findings being subject to the standard emergency

discovery conditions for threatened and endangered species and cultural resources in the Project contract documents. The TWDB concurs with the environmental finding issued by the Executive Administrator.

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

A commitment is made by the TWDB to the City of Pearland for financial assistance in the amount of \$159,500,000 from the Drinking Water State Revolving Fund through the TWDB's proposed purchase of \$159,500,000 City of Pearland, Texas, Water and Sewer System Revenue Bonds, Proposed Series 2017 through 2020 as follows:

- a) \$22,250,000 Proposed Series 2017, to expire on November 30, 2017;
- b) \$8,650,000 Proposed Series 2018, to expire on November 30, 2018;
- c) \$106,000,000 Proposed Series 2019, to expire on November 30, 2019;
- d) \$22,600,000 Proposed Series 2020, to expire on November 30, 2020.

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 remaining unused funds, which are those funds unspent after the original approved project is completed, for enhancements to the original project that are explicitly approved by the Executive Administrator or if no enhancements are authorized by the Executive Administrator, requiring the City to submit a final accounting and disposition of any unused funds;
8. 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 and completion of a final accounting 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) deposit into a reserve fund;
9. 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;
10. 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;
11. 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;
12. 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;

13. 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;
14. 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;
15. the Executive Administrator may require that the City execute a separate financing agreement in form and substance acceptable to the Executive Administrator;
16. 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

17. 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;
18. 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;
19. 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);
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 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;

22. 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;
23. 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;
24. 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;
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 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

27. the City shall submit outlay reports with sufficient documentation on costs on a quarterly or monthly basis in accordance with TWDB outlay report guidelines;
28. 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;
29. 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;

30. 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;
31. The Obligations 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 31 TAC § 371.4 and related State Revolving Fund Policy Guidelines;

Drinking Water State Revolving Fund Conditions

32. prior to or at closing, the City shall pay a 2.25% origination fee to the TWDB calculated pursuant to 31 TAC Chapter 371;
33. 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;
34. 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

35. the Obligations must require the accumulation of a reserve fund of no less than average annual debt service requirements, to be accumulated in equal monthly installments over the initial sixty (60) months following the issuance of the Obligations;
36. if the City 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;
37. the Obligations must contain a provision providing that the City may issue one or more series of Additional Bonds on a parity with the Outstanding Bonds and any Additional Bonds then Outstanding, payable from, and secured by a first lien on the Net Revenues of the System only if for either the preceding Fiscal Year or any consecutive 12-month period out of the 15-month period immediately preceding the month in which the bond ordinance authorizing such Additional Bonds is adopted, either: net revenues are certified by the Director of Finance of the City to have been equal to at least one hundred and forty percent (140%) of the Average Annual Principal and Interest Requirements on all Bonds

after giving effect to the issuance of the Additional Bonds to be issued; or net revenues, adjusted to give effect to any rate increase or annexation of territory placed into effect or consummated prior to the adoption of the ordinance authorizing the Additional Bonds to the same extent as if such rate increase or annexation had been placed into effect or consummated prior to the commencement of the Base Period, would have been equal to at least one hundred and forty percent (140%) of the Average Annual Principal and Interest Requirements on all Bonds, as certified by an independent consulting engineer or independent firm of consulting engineers;

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

Special Conditions:

38. 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;
39. 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;
40. prior to the release of funds, the City shall provide a schedule of the useful life of the project components prepared by an engineer as well as a certification by the applicant that the average weighted maturity of the obligations purchased by the TWDB does not exceed 120% of the average estimated useful life of the project, as determined by the schedule; and
41. for the portion of the Project that has received a Categorical Exclusion, the City must comply with all conditions as specified in the final environmental finding of the Executive Administrator, including the standard emergency discovery conditions for threatened and endangered species and cultural resources.

APPROVED and ordered of record this 17th day of November, 2016.

TEXAS WATER DEVELOPMENT BOARD

Bech K. Bruun, Chairman

DATE SIGNED: _____

ATTEST:

Jeff Walker, 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 Pearland, Brazoria County

