Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: January 22, 2018 TEAM MANAGER: Luis Farias

APPLICANT	City of Ladonia
TYPE OF ASSISTANCE	$2,810,000 Obligation and $300,000 Principal Forgiveness
LEGAL PLEDGE	Combination Tax and Surplus Revenues of the Waterworks and Sewer System

STAFF RECOMMENDATION

☒ Approve ☐ No Action

ACTION REQUESTED

Approve by resolution, a request from the City of Ladonia (Fannin County) for $3,110,000 in financial assistance consisting of $2,810,000 in financing and $300,000 in principal forgiveness from the Drinking Water State Revolving Fund for construction of water system improvements.

PROJECT

Distribution Lines & System Improvements
Project Number 62616

BACKGROUND

The City of Ladonia (City) is located in Fannin County and serves approximately 300 water and 240 wastewater customers. The City's distribution system is comprised of approximately 19.7 miles of 1 to 8-inch diameter cast iron and asbestos cement pipe.

The City's distribution system's aging cast iron and asbestos cement pipe has frequent breaks resulting in extremely highwater loss of up to 40 percent. Additionally, the paint on the elevated storage tank has deteriorated severely and the ground storage tank at Well No. 2 leaks excessively and the booster pumps are undersized and inefficient. The City will also replace the well house at Well No. 1 which is severely deteriorated.

In December 2013, the City received funds from the Texas Water Development Board to complete the planning and design of the proposed project. These phases of the project are complete and now the City proposes to replace approximately 3.5 miles of existing water line, repaint an existing elevated storage tank, construct a new well house at Well No. 1, and construct a new welded steel ground storage tank and add new high efficiency booster pumps at Well No. 2. The proposed project will assist the City in mitigating its real water loss.

COMMITMENT PERIOD: SIX (6) MONTHS TO EXPIRE JULY 31, 2018.

FINANCIAL

Key Issues

None.

Pledge and Repayment

The City is pledging ad valorem taxes and surplus revenues of the waterworks and sewer system for the repayment of the proposed loan. The City's current combined average monthly water and wastewater rate is $57.42. The City collects an interest and sinking fund tax (I&S) at a rate of $0.1772 per $100 of assessed valuation. The City intends to repay the debt with a combination of tax rate increases and water and sewer system rate increases.

To generate sufficient revenues to meet the existing and proposed debt service in the first year of principal repayment, the City plans to increase the monthly base rate for water and sewer service by $20, as well as make increases to the tiered rates. The new rate structure, with increases to the base and tiered rate, results in an average monthly bill of $82.01. The City will then do incremental increases to both the I&S tax rate and the system base rate in future years. The I&S tax rate may need to increase to a maximum of $0.2419, and the monthly water and sewer bill may need to increase by an additional $6.48 in year 2032 to meet the existing and proposed debt service. This is a total increase of $31.07 to the current monthly water and sewer bill.

If the City were to use only water and sewer rate increases to meet the proposed debt service, the current monthly water and sewer bill may need to increase by a total of $32.76. However, at this time the City plans to increase the I&S tax rate and system rates to meet the proposed debt service.

Principal Forgiveness

The City is eligible for $300,000 in principal forgiveness as a very small system.

Cost Savings

Based on a 30-year maturity and current interest rates, the City could save approximately $512,228 over the life of the obligations. The City is also saving $300,000 in principal forgiveness.

Internal Risk Score

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

The results of the City's financial sustainability indicators are weak. These more heavily weighted risk score indicators show the City's short-term and long-term ability to repay the debt. The revenues available for debt service in the first year of principal repayment represent 0.56 times the existing and proposed debt service. As mentioned above, the City plans to increase system rates and the tax rate to meet the 1.1 times coverage requirement. The City must show coverage prior to closing on the financing. In addition, the City's level of reinvestment in the assets of the utility's infrastructure is moderate with as asset condition ratio of 12 years. An asset condition ratio of 12 to 24 years is considered typical.

The operating income of the system has been decreasing in recent years due to increased expenses related to unexpected system repairs, and some billing and record keeping issues. The City is currently undergoing a project to fix the billing and administrative issues, and the proposed project will address the water system and reduce expenditures. In addition, the top ten customers of the system account for a sizable percentage of the total revenues, with the top user accounting for 35 percent of the revenues. This is a high concentration of revenues; however, the top user is a housing authority that has been in operation since 1954.

The City's socioeconomic indicators are below the state overall. The City's population has decreased at an average annual rate of 1.91 percent since 2010, compared to an increase at an annual rate of 1.72 percent for the population of the state overall. However, the number of connections to the system have remained stable over the past five years. The City's median household income is $28,750, 53 percent of the median for the state overall. The average, unadjusted, unemployment rate for Fannin County was 2.7 percent in October 2017, compared to 3.5 percent in the state overall.

Including the projected rate increase, the utility system rates are high with a projected household cost factor of 3.69 percent for water and wastewater services. The industry benchmark for the household cost factor is 2 percent for the two services. The system does maintain adequate reserves with unrestricted cash and short-term investments of approximately 93 days of the operating expenses of the utility system. This is considered to be a moderate level of liquidity. Any amount between 30 and 150 days is a moderate level of liquidity.

The City currently has very little debt outstanding, but with the proposed financing, the utility system self-supporting debt compared to operating revenues will be high at 8.65. A debt to operating revenues ratio of 4 to 6 is considered typical for utility systems. The tax-supported debt will represent 3.38 percent of the total assessed valuation of the City. A ratio of 5 percent is high, and over 12 percent is not recommended.

The City's socioeconomic indicators are below the state overall and the financial indicators are weak; however, the City has shown their commitment for the project by approving an overall plan to address the system's issues and repay the debt. The City is assigned a risk score of 2C.

LEGAL

<u>Key Issues</u>

None.

<u>Conditions</u>

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

- Principal forgiveness agreement;

- Return of surplus principal forgiveness funds;
- Useful life certification; and
- Emergency discovery.

Attachments: 1. Project Data Summary
2. Debt Service Schedule
3. Engineering/Environmental Review
4. Project Budget
5. Resolution (18-)
6. Water Conservation Review
7. Location Map

Project Data Summary

Responsible Authority	City of Ladonia
Program	Drinking Water State Revolving Fund
Commitment Code	L1000707 and LF1000722
Project Number	62616
Intended Use Plan Year	2018
Fund Number	951
Type of Pledge	3- Combo Tax and Rev
Revenue Pledge Level	Third
Legal Description	$2,810,000 Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2018; $300,000 Principal Forgiveness Agreement
Tax-exempt or Taxable	Tax-exempt
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay = Escrow
Population	621
Rural	Yes
Water Connections	300
Wastewater Connections	240
Qualifies as Disadvantaged	Yes
Disadvantaged Level	9
Clean Water State Revolving Fund Type	N/A
SWIFT Financing Type	N/A
SWIFT Characteristic	N/A
Financial Managerial & Technical Complete	No
Funding Phase Code	Construction
Pre-Design	No
Project Consistent with Water Plan	Yes
Water Conservation Plan	Adopted
Water Rights Certification Required	No
Internal Risk Score	2C
External Ratings (for SRF rates)	
Standard and Poor's	Non-Rated
Moody's	Non-Rated
Fitch	Non-Rated
Special Issues	None

Project Team

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

Attachment 2

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
City of Ladonia

$2,810,000 City of Ladonia, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2018

Dated Date:	**3/15/2018**	**Source:**	**DWSRF**
Delivery Date:	**3/15/2018**	**Rate:**	**1.97%**
First Interest:	**8/15/2018**	**Insurance:**	**No**
First Principal	**8/15/2018**	**Case:**	**-**
Last Principal:	**8/15/2047**	**Admin.Fee:**	**$59,143**
Fiscal Year End:	**09/30**	**Admin. Fee Payment Date:**	**3/15/2018**
Required Coverage:	**1.1**	**Total Assessed Valuation:**	**$12,469,558**

FISCAL YEAR	REQUIRED TAX RATE	TAX REVENUES WITH COLL. @ 90%	PROJECTED NET SYSTEM REVENUES	PROJECTED TOTAL REVENUES	CURRENT DEBT SERVICE	$2,810,000 ISSUE PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	TOTAL DEBT SERVICE	COVERAGE
2018	$0.177	$19,886	$113,258	$133,144	$22,105	$35,000	1.97%	$23,065	$58,065	$80,170	1.66
2019	0.226	25,363	113,258	138,621	21,941	25,000	1.97%	54,668	79,668	101,609	1.36
2020	0.224	25,150	113,258	138,408	21,712	45,000	1.97%	54,175	99,175	120,887	1.14
2021	0.242	27,125	113,258	140,383	21,414	45,000	1.97%	53,289	98,289	119,703	1.17
2022	0.242	27,147	113,258	140,405	21,057	45,000	1.97%	52,402	97,402	118,459	1.19
2023	0.242	27,125	113,258	140,383	20,657	45,000	1.97%	51,516	96,516	117,173	1.20
2024	0.242	27,125	113,258	140,383	20,224	50,000	1.97%	50,629	100,629	120,853	1.16
2025	0.242	27,125	113,258	140,383	-	70,000	1.97%	49,644	119,644	119,644	1.17
2026	0.242	27,125	113,258	140,383	-	70,000	1.97%	48,265	118,265	118,265	1.19
2027	0.242	27,125	113,258	140,383	-	75,000	1.97%	46,886	121,886	121,886	1.15
2028	0.242	27,125	113,258	140,383	-	75,000	1.97%	45,409	120,409	120,409	1.17
2029	0.242	27,125	113,258	140,383	-	75,000	1.97%	43,931	118,931	118,931	1.18
2030	0.242	27,125	113,258	140,383	-	75,000	1.97%	42,454	117,454	117,454	1.20
2031	0.242	27,125	113,258	140,383	-	80,000	1.97%	40,976	120,976	120,976	1.16
2032	0.242	27,125	136,570	163,695	-	105,000	1.97%	39,400	144,400	144,400	1.13
2033	0.242	27,125	136,570	163,695	-	110,000	1.97%	37,332	147,332	147,332	1.11
2034	0.242	27,125	136,570	163,695	-	110,000	1.97%	35,165	145,165	145,165	1.13
2035	0.242	27,125	136,570	163,695	-	115,000	1.97%	32,998	147,998	147,998	1.11
2036	0.242	27,125	136,570	163,695	-	115,000	1.97%	30,732	145,732	145,732	1.12
2037	0.242	27,125	136,570	163,695	-	120,000	1.97%	28,467	148,467	148,467	1.10
2038	0.242	27,125	136,570	163,695	-	120,000	1.97%	26,103	146,103	146,103	1.12
2039	0.242	27,125	136,570	163,695	-	125,000	1.97%	23,739	148,739	148,739	1.10
2040	0.242	27,125	136,570	163,695	-	125,000	1.97%	21,276	146,276	146,276	1.12
2041	0.242	27,125	136,570	163,695	-	130,000	1.97%	18,814	148,814	148,814	1.10
2042	0.242	27,125	136,570	163,695	-	130,000	1.97%	16,253	146,253	146,253	1.12
2043	0.242	27,125	136,570	163,695	-	135,000	1.97%	13,692	148,692	148,692	1.10
2044	0.242	27,125	136,570	163,695	-	135,000	1.97%	11,032	146,032	146,032	1.12
2045	0.242	27,125	136,570	163,695	-	140,000	1.97%	8,373	148,373	148,373	1.10
2046	0.242	27,125	136,570	163,695	-	140,000	1.97%	5,615	145,615	145,615	1.12
2047	0.242	27,125	136,570	163,695	-	145,000	1.97%	2,857	147,857	147,857	1.11
				$4,573,527	$149,110	$2,810,000		$1,009,149	$3,819,149	$3,968,259	

AVERAGE (MATURITY) LIFE	**18.23 YEARS**
NET INTEREST RATE	**1.970%**
COST SAVINGS	**$ 987,524**
AVERAGE ANNUAL REQUIREMENT	**$132,275**

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.

Texas Water Development Board

Attachment 3

Ladonia
62616 Distribution Lines & System Improvements
Engineering and Environmental Review

Engineering:

Key Issues:

None

Project Need/Description

Project Need: The City of Ladonia's (City)'s distribution system is comprised of aging cast iron and asbestos cement pipe that has frequent breaks and water loss of up to 40%. The elevated storage tank, well house at Well No. 1, ground storage tank at Well No. 2 and booster pumps are deteriorated and in need of repair or replacement.

Project Description: In December 2013, the City received funds from the Texas Water Development Board to complete the planning and design of the proposed project. The City has completed the planning and design phases and proposes to replace approximately 18,470 feet of existing water line, repaint an existing elevated storage tank, construct a new well house at Well No. 1, and construct a new welded steel ground storage tank and add new high efficiency booster pumps at Well No. 2.

Project Schedule:

Project Task	**Date**
Closing	3/15/2018
Start of Construction	4/2/2018
Construction Completion	4/5/2019

Environmental Section:

Key Issues:

None.

Environmental Summary:

As required by 31 Texas Administrative Code Chapter 371, Subchapter E, the environmental review of the proposed project has been completed. A Categorical Exclusion was issued on November 8, 2013, and a Statement of Findings was issued on June 28, 2017 to clarify that water distribution pipeline replacement was included in the environmental finding. The proposed project is in compliance with the National Environmental Policy Act.

Attachment 4

Texas Water Development Board

Project Budget Summary

Ladonia

62616 - Distribution Lines & System Improvements

Budget Items	Previous Commitments	This Commitment	Total
Construction			
Construction	$0.00	$2,555,000.00	$2,555,000.00
Subtotal for Construction	**$0.00**	**$2,555,000.00**	**$2,555,000.00**
Basic Engineering Services			
Basic Engineering Other (Bidding)	$0.00	$16,000.00	$16,000.00
Construction Engineering	$15,600.00	$150,000.00	$165,600.00
Design	$175,456.39	$0.00	$175,456.39
Planning	$28,367.50	$0.00	$28,367.50
Subtotal for Basic Engineering Services	**$219,423.89**	**$166,000.00**	**$385,423.89**
Special Services			
Application	$15,000.00	$0.00	$15,000.00
Environmental	$2,378.61	$0.00	$2,378.61
Permits	$10,000.00	$0.00	$10,000.00
Surveying	$49,797.50	$0.00	$49,797.50
Subtotal for Special Services	**$77,176.11**	**$0.00**	**$77,176.11**
Fiscal Services			
Bond Counsel	$30,000.00	$16,000.00	$46,000.00
Financial Advisor	$15,000.00	$16,000.00	$31,000.00
Fiscal/Legal	$10,000.00	$17,000.00	$27,000.00
Issuance Costs	$19,000.00	$0.00	$19,000.00
Loan Origination Fee	$4,401.00	$59,143.00	$63,544.00
Subtotal for Fiscal Services	**$78,401.00**	**$108,143.00**	**$186,544.00**
Other			
Land/Easements Acquisition	$8,300.00	$0.00	$8,300.00
Subtotal for Other	**$8,300.00**	**$0.00**	**$8,300.00**
Contingency			
Contingency	$11,349.00	$280,857.00	$292,206.00
Subtotal for Contingency	**$11,349.00**	**$280,857.00**	**$292,206.00**
Total	$394,650.00	$3,110,000.00	$3,504,650.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF
$3,110,000 TO THE CITY OF LADONIA
FROM THE DRINKING WATER STATE REVOLVING FUND
THROUGH THE PROPOSED PURCHASE OF
$2,810,000 CITY OF LADONIA, TEXAS COMBINATION TAX AND SURPLUS REVENUE
CERTIFICATES OF OBLIGATION,
PROPOSED SERIES 2018
AND
$300,000 IN PRINCIPAL FORGIVENESS

(18-)

WHEREAS, the City of Ladonia (City), located in Fannin County, has filed an application for financial assistance in the amount of $3,110,000 from the Drinking Water State Revolving Fund (DWSRF) to finance the construction of certain water system improvements identified as Project No. 62616; and

WHEREAS, the City seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of $2,810,000 City of Ladonia, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2018 (together with all authorizing documents "Obligations"), and the execution of a Principal Forgiveness Agreement in an amount of $300,000, all as is more specifically set forth in the application and in recommendations of the TWDB's staff; and

WHEREAS, the City has offered a pledge of tax and surplus revenue of the system as sufficient security for the repayment of the Obligations; and

WHEREAS, the TWDB hereby finds:

1. that the revenue and/or taxes pledged by the City will be sufficient to meet all the Obligations assumed by the City, in accordance with Texas Water Code § 15.607;

2. that the application and assistance applied for meet the requirements of the Safe Drinking Water Act, 42 U.S.C. §§ 300f *et seq*. as well as state law, in accordance with Texas Water Code § 15.607;

3. that the City has adopted a proposed program of water conservation for the more efficient use of water that will meet reasonably anticipated local needs and conditions and that incorporates practices, techniques or technology prescribed by the Texas Water Code and TWDB's rules;

4. that 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);

5. that the City meets the definition of a very small system in accordance with the current Intended Use Plan, and is therefore eligible for principal forgiveness through the DWSRF; and

6. that the Executive Administrator issued a Categorical Exclusion on November 8, 2013 and a Statement of Findings issued on June 28, 2017, 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 Ladonia, for financial assistance in the amount of $3,110,000 from the Drinking Water State Revolving Fund through the TWDB's proposed purchase of $2,810,000 City of Ladonia, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2018 and the execution of a Principal Forgiveness Agreement in the amount of $300,000. This commitment will expire on July 31, 2018.

Such commitment is conditioned as follows:

<u>Standard Conditions:</u>

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;

<u>Conditions Related To Tax-Exempt Status:</u>

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;

<u>State Revolving Fund Conditions:</u>

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 and Principal Forgiveness Agreement must contain a covenant that the City will abide by all applicable construction contract requirements related to the use of iron and steel products produced in the United States, as required by 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 2.15% origination fee to the TWDB calculated pursuant to 31 TAC Chapter 371 and the applicable Intended Use Plan;

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 contain a provision that provides as follows:

    a. if system revenues are actually on deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of taxes which otherwise would have been required to be levied and collected may be reduced to the extent and by the amount of revenues then on deposit in the Interest and Sinking Fund; or

b. if surplus revenues are based upon budgeted amounts:

i. the Obligations must include a requirement that the City transfer and deposit in the Interest and Sinking Fund each month an amount of not less than 1/12th of the annual debt service on the Obligations until the amount on deposit in the Interest and Sinking Fund equals the amount required for annual debt service on the Obligations; further, that the ordinance authorizing the issuance of the Obligations must include a requirement that the City shall not transfer any funds from the City's pledged system revenues to any fund other than the Interest and Sinking Fund until such time as an amount equal to the annual debt service on the Obligations for the then-current fiscal year has been deposited in the Interest and Sinking Fund;

ii. the Obligations must include a requirement that for each year the Obligations are outstanding, and prior to the time taxes are to be levied for such year, the City shall establish, adopt, and maintain an annual budget that provides for either the monthly deposit of sufficient surplus pledged revenues and/or tax revenues, the monthly deposit of any other legally available funds on hand at the time of the adoption of the annual budget, or a combination thereof, into the Interest and Sinking Fund for the repayment of the Obligations; and

iii. the Obligations must include a requirement that the City shall at all times maintain and collect sufficient rates and charges in conjunction with any other legally available funds so that after payment of the costs of operating and maintaining the system, it produces revenues in an amount not less than **1.10** times debt service requirements of all outstanding Obligations of the City and other obligations of the City which are secured in whole or in part by the pledged revenues, for which the City is budgeting the repayment of such Obligations, or the City shall provide documentation which evidences the levy and collection of an ad valorem tax rate dedicated to the Interest and Sinking Fund, in conjunction with any other legally available funds, sufficient for the repayment of debt service requirements;

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

<u>Special Conditions:</u>

36. prior to closing, the City shall execute a Principal Forgiveness Agreement in a form and substance acceptable to the Executive Administrator;

37. the Principal Forgiveness Agreement must include a provision stating that the City shall return any principal forgiveness funds that are determined to be surplus funds in a manner determined by the Executive Administrator;

38. 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

39. 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 22nd day of January 2018.

TEXAS WATER DEVELOPMENT BOARD

____
Peter Lake
Authorized Representative of the Texas
Water Development Board

DATE SIGNED: _________________________

ATTEST:

____
Jeff Walker
Executive Administrator

WATER CONSERVATION REVIEW

Entity: City of Ladonia

Review date: September 2017

WATER CONSERVATION PLAN DATE: August 2017 ☐ **Approvable** ☑ **Adopted**

	Total GPCD	Residential GPCD	Water Loss GPCD	Water Loss Percent
Baseline	179	66	118	66
5-year Goal	168	63	106	63
10-year Goal	160	60	95	59

WATER LOSS AUDIT YEAR: 2016

Total water loss (GPCD): 246

Total water loss (percent): 77

Wholesale Water ☐

Total no. of connections: 454

Length of mains (miles): 30

Connections per mile: 15

If > 16 connections per mile and > 3,000 connections, Infrastructure Leakage Index (*ILI*): NA

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 :	6	4,838	NA	7	1,600	NA
If population ≤ 10K, connections/mile ≥ 32 :	NA	NA	NA	NA	NA	NA
If population > 10K :	NA	NA	NA	NA	NA	NA

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

ADDITIONAL INFORMATION:

According to the its water conservation plan, the city meters all wells and calibrates these meters annually to an accuracy of plus or minus five percent. All customer and city connections are metered and a meter testing and replacement plan is in place that tests meters larger than one-inch each year and meters smaller than one-inch every ten years. Meters recording abnormally low values are tested or replaced immediately. The city's leak detection program consists of comparing water pumped to customer meter readings on a monthly basis, visual surveillance by city employees, and reviewing water bills for large increases in use. The city's water conservation plan acknowledges the city's high water loss and plans to address the issue through facility upgrades and distribution system improvements.

The city plans to inform its customers of the benefits of water conservation through annual mailings of conservation materials, providing conservation literature to new customers, and having conservation materials available at city hall.

STAFF NOTES AND RECOMMENDATIONS:

The city is above its thresholds for real loss (leaks & breaks). The city's distribution system is comprised of aging cast iron and asbestos cement pipe that has frequent breaks contributing to high water loss. The proposed project will replace approximately 22,500 feet of distribution lines (14 percent of the system) and should assist the city in mitigating its real water loss.

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 bench marking 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.

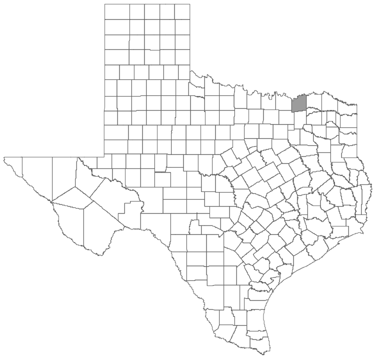
Residential GPCD is the amount of water per capita used solely for residential use and ideally includes both single and multi-family customer use.

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 Ladonia
Fannin County