Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: July 9, 2018 TEAM MANAGER: Mireya Loewe

APPLICANT	City of McAllen
TYPE OF ASSISTANCE	$7,000,000 Financing
LEGAL PLEDGE	First Lien on Net Revenues of the City's Waterworks and Sewer System

STAFF RECOMMENDATION
☒ Approve ☐ No Action

ACTION REQUESTED
Approve by resolution a request from the City of McAllen (Hidalgo County) for $7,000,000 in financing from the Clean Water State Revolving Fund for construction of wastewater system improvements.

PROJECT
Sprague Sewer
Project Number 73633

BACKGROUND
The City of McAllen (City) is the largest city in Hidalgo County with an estimated population of approximately 174,537. Water and wastewater services are provided by the McAllen Public Utility (MPU), which was created in 1945. The MPU is governed by a Board of Trustees that consists of four members elected at large, representing four places, in a citywide election for four-year terms, and one ex-officio member appointed by the Mayor.

In October 2012, the Texas Water Development Board (TWDB) committed $1,190,000 in financing and $510,000 in principal forgiveness from the Clean Water State Revolving Fund (CWSRF) for planning and design of the Sprague Road sewer interceptor project - a 7.5-mile, gravity sewer trunk line to serve an area of about 17,000 acres in the northwestern portion of the City's extraterritorial jurisdiction (ETJ). Only about 10 percent of this acreage is currently developed, with an estimated current population of about 17,000. The interceptor was designed to serve a population of about 102,000 over the next 60 years. Although this entire area is currently served by on-site sewerage facilities (e.g. septic tanks), only a few subdivisions were found to be experiencing problems with their systems. Thus, extension of sewer service will occur systematically over many years.

The current funding request will be used for two components: (1) construction of the first phase of the Sprague Road sewer interceptor project and (2) design and construction of the

COMMITMENT PERIOD: ONE YEAR TO EXPIRE JULY 31, 2019

North Wastewater Treatment Plant (WWTP) Supervisory Control and Data Acquisition (SCADA) system and electrical improvements project.

The first component of the project, the construction of the first phase of the Sprague Road sewer interceptor, consists of approximately 3,817 linear feet of a 30-foot-deep, 48-inch diameter sanitary sewer trunk line and the decommissioning of two lift stations in the north part of the City. A bid alternate for an additional 3,000 linear feet of trunk line will also be included in the bid documents, with construction contingent on availability of funds. Currently, wastewater flows from the eastern half of the new master-planned community of Tres Lagos flow into one of the lift stations that will be decommissioned. The project will allow the City to more efficiently send those flows directly to the WWTP by gravity through the interceptor. Similarly, the wastewater from the City of Alton currently flows to the same lift station and will also be diverted to the interceptor. The western part of Tres Lagos will eventually flow into the interceptor once a new lateral line to the interceptor is built in the future. The construction of this first phase will not only improve system efficiencies, but will allow some new customers, including commercial, along the route of the interceptor to receive first-time sewer service. The City estimates that once this phase of the project is completed, the interceptor will serve over 25,000 people.

Currently, Sharyland Water Supply Corporation (SWSC) provides potable water service to the residents and businesses within the project's planning service area. The City of McAllen plans to amend their existing inter-local agreement with SWSC to provide billing and collection services for the new sewer connections that will subsequently occur as a result of this project.

The second component of the project, the NWWTP SCADA and electrical improvements, will provide backup power to the wastewater treatment process and effluent disinfection during a power outage. The NWWTP serves the north half of the City, or a population of approximately 132,821. Currently, there are generators on some of the treatment units, but more generators are needed to properly handle the average flows currently seen at the plant and maintain adequate treatment at all the processes at the NWWTP. These upgrades will allow the plant to treat more wastewater during a power outage and better insure that the effluent being discharged during these power shortages is in accordance with the treatment levels of the permit.

FINANCIAL

Key Issues

In addition to the CWSRF, the City is also applying for $12,000,000 in financing from the Drinking Water State Revolving Fund (DWSRF). The DWSRF financing is considered in the financial analysis and the attached debt service.

A change to the existing additional bonds test is also being requested and is further discussed below in the Legal section.

The City has also submitted an application for $6.9 million in financing from the State Water Implementation Fund for Texas. This additional debt is not included in the current analysis, but it will be presented for Board consideration at the July 26 Board meeting.

Pledge and Repayment
The City is pledging a first lien on the net revenues for the repayment of the proposed loan. The City's current combined average monthly water and wastewater rate is $42.01. Current rates and charges are sufficient to meet existing and proposed debt service requirements.

Cost Savings
Based on a 30-year maturity and current interest rates, the City could save approximately $2,186,690 over the life of the loan.

Internal Risk Score
Staff assigns a 2A to the City and the proposed project to be funded by the TWDB. This means that the City's payment capacity is strong.

The results of the City's financial sustainability indicators are strong. These more heavily-weighted risk score indicators show the City's short-term and long-term ability to repay the debt. The debt service coverage ratio is 1.84 times the current and proposed debt service in the first year of principal repayment. In addition, the City's level of reinvestment in the assets of the utility's infrastructure is adequate with an asset condition ratio of 22 years. An asset condition ratio of 12 to 24 years is considered typical.

The City's socioeconomic indicators are weaker than the state overall. The City's median household income of $48,352 is 88 percent of the state's median. The City's unemployment rate of 4.7 percent is above the state average of 3.8 percent.

The current average water and wastewater rates equate to about 1.04 percent of the median household income, which is well below the industry benchmark of 2 percent for two services. The City reports a liquidity position of 80 days of cash on hand. An amount between 30 and 149 days is considered typical.

The majority of the City's utility debt is supported by the utility system. The utility system self-supporting debt ratio is moderate at 3.74 when compared to operating revenues, including the proposed loans. A debt to operating revenues ratio between 2 and 3.99 is considered strong for utility systems.

The City's strong debt service coverage ratio, low household cost factor, and typical liquidity position mitigate the City's weak socioeconomic indicators, supporting the assigned risk score of 2A.

LEGAL
Key Issues
The City has requested an amendment to the additional bonds test in the City's bond ordinance to permit the Finance Director of the City to execute the certification attesting that required coverages have been met so that additional parity bonds may be issued. The Board will consider the City's request in a separate agenda item. This Resolution contains the requested language.

<u>Conditions</u>
Standard Clean Water State Revolving Fund, and tax-exempt conditions.

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 McAllen
Program	Clean Water State Revolving Fund
Commitment Code	L1000747
Project Number	73633
Intended Use Plan Year	2018
Type of Pledge	2-Revenue
Revenue Pledge Level	First
Legal Description	$7,000,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Proposed Series 2018A
Tax exempt or Taxable	Tax Exempt
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay<>Escrow Release
Population	174,537
Rural	No
Water Connections	46,780
Wastewater Connections	41,660
Qualifies as Disadvantaged	No
Disadvantaged Level	9
Clean Water State Revolving Fund Type	Equivalency
SWIFT Financing Type	N/A
SWIFT Characteristic	N/A
Financial Managerial & Technical Complete	N/A
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	2A
External Ratings (for SRF rates)	
Standard and Poor's	AA
Moody's	Non-rated
Fitch	AA+
Special Issues	None

Project Team

Team Manager	Mireya Loewe
Financial Analyst	Javier Pena
Engineering Reviewer	Francia Harutunian
Environmental Reviewer	Lauren Dill
Attorney	Joe Reynolds

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
City of McAllen

Attachment 2

$7,000,000 Waterworks and Sewer System Revenue Bonds, Proposed Series 2018A

Dated Date:	**10/1/2018**	**Source:**	**CWSRF-EQUIVALENCY**
Delivery Date:	**10/1/2018**	**Insurance:**	**No**
First Interest:	**2/1/2019**	**Case:**	**Revenues**
First Principal	**2/1/2021**	**Admin.Fee:**	**$120,393**
Last Principal:	**2/1/2048**	**Admin. Fee Payment Date:**	**10/1/2018**
Fiscal Year End:	**09/30**	**Required Coverage:**	**1.0**

$12,000,000 Waterworks and Sewer System Revenue Bonds, Proposed Series 2018B

Dated Date:	**10/1/2018**	**Source:**	**DWSRF**
Delivery Date:	**10/1/2018**	**Insurance:**	**No**
First Interest:	**2/1/2019**	**Case:**	**Revenues**
First Principal	**2/1/2021**	**Admin.Fee:**	**$252,570**
Last Principal:	**2/1/2048**	**Admin. Fee Payment Date:**	**10/1/2018**
Fiscal Year End:	**9/30**	**Required Coverage:**	**1.0**

			$7,000,000 ISSUE				**$12,000,000 ISSUE**					
FISCAL YEAR	**PROJECTED NET SYSTEM REVENUES**	**CURRENT DEBT SERVICE**	**PRINCIPAL PAYMENT**	**INTEREST RATE**	**INTEREST PAYMENT**	**TOTAL PAYMENT**	**PRINCIPAL PAYMENT**	**INTEREST RATE**	**INTEREST PAYMENT**	**TOTAL PAYMENT**	**TOTAL DEBT SERVICE**	**ACTUAL COVERAGE**
2019	$14,789,784	$7,723,158	-	-	$81,667	$81,667	-	-	$170,000	$170,000	$7,974,825	1.85
2020	14,789,784	7,725,674	-	-	98,000	98,000	$5,000	1.70%	203,958	208,958	8,032,632	1.84
2021	14,789,784	7,727,637	$5,000	1.40%	97,965	102,965	10,000	1.70%	203,830	213,830	8,044,432	1.84
2022	14,789,784	7,910,352	10,000	1.40%	97,860	107,860	15,000	1.70%	203,618	218,618	8,236,830	1.80
2023	14,789,784	7,944,721	10,000	1.40%	97,720	107,720	15,000	1.70%	203,363	218,363	8,270,804	1.79
2024	14,789,784	7,612,047	110,000	1.40%	96,880	206,880	110,000	1.70%	202,300	312,300	8,131,227	1.82
2025	14,789,784	7,615,953	110,000	1.40%	95,340	205,340	110,000	1.70%	200,430	310,430	8,131,723	1.82
2026	14,789,784	6,116,109	225,000	1.40%	92,995	317,995	380,000	1.70%	196,265	576,265	7,010,369	2.11
2027	14,789,784	6,116,887	235,000	1.40%	89,775	324,775	390,000	1.70%	189,720	579,720	7,021,382	2.11
2028	14,789,784	6,119,023	240,000	1.40%	86,450	326,450	400,000	1.70%	183,005	583,005	7,028,478	2.10
2029	14,789,784	6,115,916	245,000	1.40%	83,055	328,055	410,000	1.70%	176,120	586,120	7,030,091	2.10
2030	14,789,784	6,117,830	250,000	1.40%	79,590	329,590	420,000	1.70%	169,065	589,065	7,036,485	2.10
2031	14,789,784	5,673,909	255,000	1.40%	76,055	331,055	435,000	1.70%	161,798	596,798	6,601,762	2.24
2032	14,789,784	3,665,334	260,000	1.40%	72,450	332,450	445,000	1.70%	154,318	599,318	4,597,102	3.22
2033	14,789,784	3,669,765	265,000	1.40%	68,775	333,775	455,000	1.70%	146,668	601,668	4,605,208	3.21
2034	14,789,784	3,667,881	270,000	1.40%	65,030	335,030	465,000	1.70%	138,848	603,848	4,606,759	3.21
2035	14,789,784	3,669,685	280,000	1.40%	61,180	341,180	480,000	1.70%	130,815	610,815	4,621,680	3.20
2036	14,789,784	3,670,183	285,000	1.40%	57,225	342,225	490,000	1.70%	122,570	612,570	4,624,978	3.20
2037	14,789,784	3,669,471	290,000	1.40%	53,200	343,200	505,000	1.70%	114,113	619,113	4,631,784	3.19
2038	14,789,784	3,672,707	295,000	1.40%	49,105	344,105	515,000	1.70%	105,443	620,443	4,637,255	3.19
2039	14,789,784	3,680,019	305,000	1.40%	44,905	349,905	530,000	1.70%	96,560	626,560	4,656,484	3.18
2040	14,789,784	3,681,514	310,000	1.40%	40,600	350,600	545,000	1.70%	87,423	632,423	4,664,537	3.17
2041	14,789,784	2,332,233	315,000	1.40%	36,225	351,225	555,000	1.70%	78,073	633,073	3,316,531	4.46
2042	14,789,784	2,342,079	325,000	1.40%	31,745	356,745	570,000	1.70%	68,510	638,510	3,337,334	4.43
2043	14,789,784	2,346,025	330,000	1.40%	27,160	357,160	585,000	1.70%	58,693	643,693	3,346,878	4.42
2044	14,789,784	2,061,983	340,000	1.40%	22,470	362,470	600,000	1.70%	48,620	648,620	3,073,073	4.81
2045	14,789,784	2,064,996	345,000	1.40%	17,675	362,675	615,000	1.70%	38,293	653,293	3,080,964	4.80
2046	14,789,784	316,627	355,000	1.40%	12,775	367,775	630,000	1.70%	27,710	657,710	1,342,112	11.02
2047	14,789,784	317,221	365,000	1.40%	7,735	372,735	650,000	1.70%	16,830	666,830	1,356,786	10.90
2048	14,789,784	-	370,000	1.40%	2,590	372,590	665,000	1.70%	5,653	670,653	1,043,243	14.18
		$ 135,346,939	$7,000,000		$1,844,197	$8,844,197	$12,000,000		$3,902,605	$15,902,605	$160,093,741	

$7,000,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	18.82 YEARS
NET INTEREST RATE	1.400%
COST SAVINGS	$2,186,690
AVERAGE ANNUAL REQUIREMENT	$294,807

$12,000,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	19.13 YEARS
NET INTEREST RATE	1.700%
COST SAVINGS	$3,121,880
AVERAGE ANNUAL REQUIREMENT	$530,087

TOTAL AVERAGE ANNUAL REQUIREMENTS
$5,336,458

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

McAllen
73633 Sprague Sewer
Engineering and Environmental Review

Engineering:
Key Issues:
A balance of approximately $500,000 remains in the planning and design commitment for this project. This balance will be allocated towards the construction phase of the project.

Project Need/Description
Need: The City of McAllen (City) has completed the planning and design of the Sprague Road sewer interceptor project, which will allow the City to decommission two lift stations and more directly transport flows by gravity from the new Tres Lagos development to the North Wastewater Treatment Plant (NWWTP). The City also intends to gradually begin to provide first-time sewer service to an area of about 17,000 acres in the northwestern portion of the City's extraterritorial jurisdiction with scattered development and an estimated current population of about 17,000, which is projected to grow to about 100,000 over the next sixty years. Current residents use on-site sewerage facilities to dispose of their wastewater. In addition, the Supervisory Control and Data Acquisition (SCADA) system and electrical components at the NWWTP need to be upgraded or replaced to tie-in all components of the system and improve reliability.

Project Description: The project consists of the construction of phase one of the Sprague Road Sewer interceptor project, decommissioning of two lift stations, and the installation of SCADA system and electrical improvements at the NWWTP. The construction of this phase will improve system efficiencies and allow some new customers, including commercial, along the route of the interceptor to receive first-time sewer service.

Project Schedule:

Project Task	Schedule Date
Closing	10/1/2018
Design Phase Complete	12/31/2018
Construction Start date for the first contract	02/01/2019
Construction Complete date for the last contract	08/01/2020

Environmental Section:
Key Issues:
None.

Environmental Summary:
The proposed project received an initial Clean Water State Revolving Fund funding commitment from the Texas Water Development Board (TWDB) on April 19, 2012. On September 12, 2013, a Finding of No Significant Impact was issued for the project as originally defined, based on coordination with all required regulatory agencies at that time. Because coordination occurred more than five years ago, the City must re-coordinate with certain agencies, consistent with 31 Texas Administrative Code § 375.61. In addition, the City has proposed to add new project elements at the north wastewater treatment plant: 1) supervisory control and data acquisition system upgrades and 2) electrical system upgrades. The TWDB expects to issue a Statement of Findings updating the environmental conditions applicable to the current project description.

Pursuant to the requirements of 31 Texas Administrative Code § 375.61, all financial assistance shall be conditioned to read that funding for design and construction costs for specific project elements will not be released until the environmental review has been completed and a favorable environmental determination has been issued.

Texas Water Development Board

Project Budget Summary

McAllen

73633 - Sprague Sewer

Budget Items	Previous Commitments	This Commitment	TWDB Funds	Local and Other Funds	Total
Construction					
Construction	$410,500.00	$6,545,455.00	$6,955,955.00	$0.00	$6,955,955.00
Subtotal for Construction	**$410,500.00**	**$6,545,455.00**	**$6,955,955.00**	**$0.00**	**$6,955,955.00**
Basic Engineering Services					
Construction Engineering	$89,500.00	$0.00	$89,500.00	$0.00	$89,500.00
Design	$748,305.57	$0.00	$748,305.57	$0.00	$748,305.57
Planning	$182,743.96	$0.00	$182,743.96	$0.00	$182,743.96
Subtotal for Basic Engineering Services	**$1,020,549.53**	**$0.00**	**$1,020,549.53**	**$0.00**	**$1,020,549.53**
Special Services					
Environmental	$35,989.19	$0.00	$35,989.19	$0.00	$35,989.19
Geotechnical	$47,000.00	$0.00	$47,000.00	$0.00	$47,000.00
Surveying	$141,760.00	$0.00	$141,760.00	$0.00	$141,760.00
Testing	$0.00	$0.00	$0.00	$65,000.00	$65,000.00
Subtotal for Special Services	**$224,749.19**	**$0.00**	**$224,749.19**	**$65,000.00**	**$289,749.19**
Fiscal Services					
Bond Counsel	$0.00	$0.00	$0.00	$40,000.00	$40,000.00
Financial Advisor	$0.00	$0.00	$0.00	$40,000.00	$40,000.00
Loan Origination Fee	$21,615.00	$120,393.00	$142,008.00	$0.00	$142,008.00
Subtotal for Fiscal Services	**$21,615.00**	**$120,393.00**	**$142,008.00**	**$80,000.00**	**$222,008.00**
Other					
Administration	$22,586.28	$0.00	$22,586.28	$0.00	$22,586.28
Subtotal for Other	**$22,586.28**	**$0.00**	**$22,586.28**	**$0.00**	**$22,586.28**
Contingency					
Contingency	$0.00	$334,152.00	$334,152.00	$0.00	$334,152.00
Subtotal for Contingency	**$0.00**	**$334,152.00**	**$334,152.00**	**$0.00**	**$334,152.00**
Total	$1,700,000.00	$7,000,000.00	$8,700,000.00	$145,000.00	$8,845,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF
$7,000,000 TO CITY OF MCALLEN
FROM THE CLEAN WATER STATE REVOLVING FUND
THROUGH THE PROPOSED PURCHASE OF
$7,000,000 CITY OF MCALLEN, TEXAS WATERWORKS AND SEWER SYSTEM
REVENUE BONDS,
PROPOSED SERIES 2018A

(18 -)

WHEREAS, the City of McAllen (City), located in Hidalgo County, has filed an application for financial assistance in the amount of $7,000,000 from the Clean Water State Revolving Fund (CWSRF) to finance the construction of certain wastewater system improvements identified as Project No. 73633; and

WHEREAS, the City seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of $7,000,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Proposed Series 2018A (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 the net revenues of the City's Waterworks and Sewer 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 Federal Water Pollution Control Act, 33 U.S.C. §§ 1251 *et seq*., as well as state law, in accordance with Texas Water Code § 15.607;

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

4. that the City has considered cost-effective, innovative, and nonconventional methods of treatment, in accordance with Texas Water Code § 15.007.

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

A commitment is made by the TWDB to the City of McAllen for financial assistance in the amount of $7,000,000 from the Clean Water State Revolving Fund through the TWDB's proposed purchase of $7,000,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Proposed Series 2018A. This commitment will expire on July 31, 2019.

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 375;

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;

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

16. the City's bond counsel must prepare a written opinion that states that the interest on the Obligations is excludable from gross income or is exempt from federal income taxation. Bond counsel may rely on covenants and representations of the City when rendering this opinion;

17. the City's bond counsel opinion must also state that the Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the City when rendering this opinion;

18. the Obligations must include a provision prohibiting the City from using the proceeds of this loan in a manner that would cause the Obligations to become "private activity bonds" within the meaning of § 141 of the Internal Revenue Code of 1986, as amended (Code) and the Treasury Regulations promulgated thereunder (Regulations);

19. the Obligations must provide that no portion of the proceeds of the loan will be used, directly or indirectly, in a manner that would cause the Obligations to be "arbitrage bonds" within the meaning of § 148(a) of the Code and Regulations, including to acquire or to replace funds which were used, directly or indirectly, to acquire Nonpurpose Investments (as defined in the Code and Regulations) which produce a yield materially higher than the yield on the TWDB's bonds that are issued to provide financing for the loan (Source Series Bonds), other than Nonpurpose Investments acquired with:

a. proceeds of the TWDB's Source Series Bonds invested for a reasonable temporary period of up to three (3) years after the issue date of the Source Series Bonds until such proceeds are needed for the facilities to be financed;

b. amounts invested in a bona fide debt service fund, within the meaning of § 1.148-1(b) of the Regulations; and

c. amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed the least of maximum annual debt service on the Obligations, 125% of average annual debt service on the Obligations, or 10 percent of the stated principal amount (or, in the case of a discount, the issue price) of the Obligations;

20. the Obligations must include a provision requiring the City take all necessary steps to comply with the requirement that certain amounts earned on the investment of gross proceeds of the Obligations be rebated to the federal government in order to satisfy the requirements of § 148 of the Code. The Obligations must provide that the City will:

a. account for all Gross Proceeds, as defined in the Code and Regulations, (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and retain all records of such accounting for at least six years after the final Computation Date. The City may, however, to the extent permitted by law, commingle Gross Proceeds of its loan with other money of the City, provided that the City separately accounts for each receipt and expenditure of such Gross Proceeds and the obligations acquired therewith;

b. calculate the Rebate Amount, as defined in the Code and Regulations, with respect to its loan, not less frequently than each Computation Date, in accordance with rules set forth in § 148(f) of the Code, § 1.148-3 of the Regulations, and the rulings thereunder. The City shall maintain a copy of such calculations for at least six years after the final Computation Date;

c. as additional consideration for the making of the loan, and in order to induce the making of the loan by measures designed to ensure the excludability of the interest on the TWDB's Source Series Bonds from the gross income of the owners thereof for federal income tax purposes, pay to the United States the amount described in paragraph (b) above within 30 days after each Computation Date;

d. exercise reasonable diligence to assure that no errors are made in the calculations required by paragraph (b) and, if such error is made, to discover and promptly to correct such error within a reasonable amount of time thereafter, including payment to the United States of any interest and any penalty required by the Regulations;

21. the Obligations must include a provision prohibiting the City from taking any action that would cause the interest on the Obligations to be includable in gross income for federal income tax purposes;

22. the Obligations must provide that the City will not cause or permit the Obligations to be treated as "federally guaranteed" obligations within the meaning of § 149(b) of the Code;

23. the transcript must include a No Arbitrage Certificate or similar Federal Tax Certificate setting forth the City's reasonable expectations regarding the use, expenditure and investment of the proceeds of the Obligations;

24. the transcript must include evidence that the information reporting requirements of § 149(e) of the Code will be satisfied. This requirement may be satisfied by filing an IRS Form 8038 with the Internal Revenue Service. In addition, the applicable completed IRS Form 8038 or other evidence that the information reporting requirements of § 149(e) have been satisfied must be provided to the Executive Administrator within fourteen (14) days of closing. The Executive Administrator may withhold the release of funds for failure to comply;

25. the Obligations must provide that neither the City nor a related party thereto will acquire any of the TWDB's Source Series Bonds in an amount related to the amount of the Obligations to be acquired from the City by the TWDB;

<u>State Revolving Fund Conditions</u>

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

27. the Obligations must include a provision stating that all laborers and mechanics employed by contractors and subcontractors for projects shall be paid wages at rates not less than those prevailing on projects of a similar character in the locality in accordance with the Davis-Bacon Act, and the U.S. Department of Labor's implementing regulations. The City, all contractors, and all sub-contractors shall ensure that all project contracts mandate compliance with Davis-Bacon. All contracts and subcontracts for the construction of the project carried out in whole or in part with financial

assistance made available as provided herein shall insert in full in any contract in excess of $2,000 the contracts clauses as provided by the TWDB;

28. the Obligations must include a provision stating that the City shall provide the TWDB with all information required to be reported in accordance with the Federal Funding Accountability and Transparency Act of 2006, Pub. L. 109-282, as amended by Pub. L. 110-252. The City shall obtain a Data Universal Numbering System (DUNS) Number and shall register with System for Award Management (SAM), and maintain current registration at all times during which the Obligations are outstanding;

29. the Obligations shall provide that all loan proceeds will be timely and expeditiously used, as required by 40 CFR § 35.3135(d), and also shall provide that the City will adhere to the approved project schedule;

30. the Obligations 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 § 375.3, 33 U.S.C. § 1388, and related State Revolving Fund Policy Guidelines;

31. the Obligations must contain language detailing compliance with the requirements set forth in 33 U.S.C. § 1382 *et seq*. related to maintaining project accounts containing financial assistance for planning, design, acquisition, or construction, as applicable, in accordance with generally accepted accounting principles (GAAP). These standards and principles also apply to the reporting of underlying infrastructure assets;

32. the City shall submit, prior to the release of funds, 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 projected useful life of the project, as determined by the schedule;

<u>Clean Water State Revolving Fund Conditions</u>

33. prior to or at closing, the City shall pay a 1.75% origination fee to the TWDB calculated pursuant 31 TAC Chapter 375 and the applicable Intended Use Plan;

34. at the TWDB's option, the TWDB may fund the financial assistance under this Resolution with either available cash-on-hand or from bond proceeds. If the financial assistance is funded with available cash-on-hand, the TWDB reserves the right to change the designated source of funds to bond proceeds issued for the purpose of reimbursing funds used to provide the financial assistance approved in this Resolution;

35. 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;

36. prior to release of funds for professional services related to architecture or engineering, including but not limited to contracts for program management, construction management, feasibility studies, preliminary engineering, design, engineering, surveying, mapping, or other architectural and engineering services as defined in 40 U.S.C. § 1102(2)(A)(C), the City must provide documentation that it has met all applicable federal procurement requirements as more specifically set forth in 40 U.S.C. § 1101 *et seq* and 33 U.S.C. § 1382(b)(14).

<u>Pledge Conditions For The Loan</u>

37. 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;

38. 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;

39. the Obligations must contain a provision providing that additional revenue obligations may only be incurred if the Finance Director of the City signs a written certificate to the effect that, in his or her opinion, during either the next preceding fiscal year, or any twelve consecutive calendar month period out of the 18-month period immediately preceding the month in which the ordinance authorizing such issuance of the then proposed additional bonds is passed, the net revenues were at least 1.25 times an amount equal to the average annual principal and interest requirements and 1.10 times the maximum annual principal and interest requirements of all bonds similarly secured which are outstanding after the delivery of the proposed additional bonds. It is specifically provided, however, that in calculating the amount of net revenues for the purposes of this subsection, if there has been any increase in the rates or charges for any services of the System which is then in effect, but which is then in effect during all or any part of the entire period for which the net revenues are being calculated (hereinafter referred to as the "entire period") then the certified public accountant, or in lieu of the certified accountant a firm of consulting engineers, shall determine and certify the amount of Net Revenues as being the total of (i) the actual net revenues for the

entire period, plus (ii) a sum equal to the aggregate amount by which the actual billings to customers of the system during the entire period would have been increased if such increased rates or charges had been in effect during the entire period.

APPROVED and ordered of record this 9th day of July, 2018.

TEXAS WATER DEVELOPMENT BOARD

_____

Peter M. Lake, Chairman

DATE SIGNED: _____

ATTEST:

_____

Jeff Walker, Executive Administrator

Attachment 6

WATER CONSERVATION REVIEW

Entity: City of McAllen

Review date: January 2018

WATER CONSERVATION PLAN DATE: February 2013 ☐ **Approvable** ☑ **Adopted**

	Total GPCD	Residential GPCD	Water Loss GPCD	Water Loss Percent
Baseline	168	160	18	11
5-year Goal	168	160	17	10
10-year Goal	160	155	16	10

WATER LOSS AUDIT YEAR: 2016

Total water loss (GPCD): 18

Total water loss (percent): 12

Wholesale Water ☑

Total no. of connections: 46,229

Length of mains (miles): 757

Connections per mile: 61

If > 16 connections per mile and > 3,000 connections, Infrastructure Leakage Index (*ILI*): 2.3

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 :	NA	NA	NA	NA	NA	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 city's water conservation plan, it has implemented long term recovery measures for major causes of water loss related to metering. A computer system maintains billing and keeps records of water consumption, identifying high and low use. The city has implemented a meter change out policy which requires all meters to be replaced every 12 years or 1.5 million gallons of total flow. An aggressive meter testing program was implemented to identify and correct problem meters. A meter management study conducted in 2011 resulted in a recommendation that the city implement quarterly testing of meters of zero-consumption or low-use accounts. Customers are encouraged to participate in landscape conservation strategies by using methods such as xeriscaping and more efficient irrigation techniques. A full time water education specialist develops conservation programs and educational offerings for both the public and school children audiences. New customers are provided information about water conservation and public service announcements will continue to be made about conservation inside and outside of the home and workplace. The city has a water reuse program that involves using treated wastewater effluent to irrigate its golf course. It also has contracts to sell wastewater effluent to local industries.

STAFF NOTES AND RECOMMENDATIONS:

The city's request for financial assistance is for a wastewater project; therefore, water loss thresholds are not applicable.

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 McAllen
Hidalgo County