

Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: November 12, 2018

TEAM MANAGER: Caaren Skrobarczyk

APPLICANT	Stephens Regional Special Utility District
TYPE OF ASSISTANCE	\$900,000 Financing
LEGAL PLEDGE	First Lien Net Revenues of the Utility System

STAFF RECOMMENDATION

Approve No Action

ACTION REQUESTED

Approve by resolution a request from the Stephens Regional Special Utility District (Stephens County) for \$900,000 in financing from the Drinking Water State Revolving Fund for planning, design, and construction of a water treatment system improvements project and completion of a distribution system water loss study.

PROJECT

Stephens Regional SUD Treatment Improvements
Project Number 62816

BACKGROUND

Stephens Regional Special Utility District (District) is headquartered in the City of Breckenridge Texas, and services an area that spans most of Stephens County (County), with a few small service areas extending into Throckmorton, Palo Pinto, Eastland, Young, and Shackelford Counties. The District is approximately 25 miles north of the City of Cisco at the intersection of highways 183 and 180. Hubbard Creek Lake is runs along the west border of the District. The District provides water service to a population of approximately 3,173.

The District's Water Treatment Plant (WTP) has experienced difficulty in the past evaporating the amount of reverse osmosis (RO) concentrate produced even when operating the facility well below the design capacity as a result of original design flaws of the evaporation ponds. One of the ponds experienced a dam breach in 2016 resulting in an unauthorized wastewater discharge from the WTP. Since 2016 the District has had a moratorium in place for additional water system customer connections until a solution to these issues could be implemented. The WTP needs capacity improvements for the handling and disposal of RO concentrate in order to operate the plant efficiently, meeting customer water demands while avoiding future system failures. In addition, the District's most recent water loss audit shows it is above its water loss threshold for apparent loss

COMMITMENT PERIOD: ONE (1) YEAR TO EXPIRE NOVEMBER 30, 2019.

from meters which they are addressing with a water loss study of the District's distribution system.

FINANCIAL

Key Issues

The District intends to fund a portion of the reserve fund from bond proceeds.

Pledge and Repayment

The District is pledging a first lien on the net revenues of the waterworks system for repayment of the proposed loan. The District's current average monthly water rate is \$80.66. According to staff's analysis, this provides the District with a coverage ratio of 1.7 times the current and proposed debt service in the first year of principal repayment. Based on existing conditions, this rate is sufficient to meet current and proposed debt service requirements.

Cost Savings

Based on a 25-year maturity and current interest rates, the District could save approximately \$153,732 over the life of the financing.

Internal Risk Score

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

The results of the District's financial sustainability indicators are mostly strong. The more heavily weighted risk score indicators show the District's revenues available for debt service provide a high coverage ratio, representing 1.7 times the current and proposed debt service in the first year of principal repayment. In addition, the District's cash balance ratio has increased 135 percent over the last five years. The District's level of reinvestment in the assets of the utility's infrastructure is relatively strong with an asset condition ratio of 35 years. An asset condition ratio of 12 to 24 years is considered typical.

The County's socioeconomic indicators are mixed when compared with the state overall. The County's population has increased at an average annual rate of 0.27 percent since 2010, compared to an increase at an annual rate of 1.17 percent for the population of the state overall. The County's median household income is \$45,217, which is 83 percent of the median for the state overall. The average, unadjusted, unemployment rate for Stephens County was 3.7 percent in August 2018, compared to 3.9 percent in the state overall.

The District's utility system rates and current household income results in a household cost factor of 2.14 percent for water service. The industry benchmark for the household cost factor is 1 percent for the water service.

All the District's current outstanding debt and the proposed debt is supported by utility system revenues. The utility system self-supporting debt compared to operating revenues, including the proposed loans, is adequate at 3.1. A debt to operating revenues ratio of 4 to 6 is considered typical for utility systems. The system maintains strong reserves with

unrestricted cash and short-term investments of approximately 852 days of the operating expenses of the utility system. Any amount greater than 250 days is a strong level of liquidity.

The financial management of the utility system is strong. The 2017 audited financial statements indicated that the District has \$2,534,578 in working capital, indicating that the District maintains operational efficiency with regards to short term finances. The District increased utility system rates in January in anticipation of this financing. Furthermore, existing loan covenants require net revenues of at least 1.25 times coverage of the average annual debt service on utility revenue obligations. The average socioeconomic factors coupled with the strong rate covenants, proactive management, and continued short-term and long-term financial planning support the assigned risk score of 2A.

LEGAL

Key Issues

The District is above its apparent water loss threshold. The City will address this by using a portion of the funding to do a distribution system water loss study. Special Condition 40 has been added to the resolution documenting the requirement.

Conditions

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

- Conversion and conveyance,
- Useful life certification, and
- Prior to release of design phase funds, completion of a water loss study.

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	Stephens Regional Special Utility District
Program	Drinking Water State Revolving Fund
Commitment Code	L1000894
Project Number	62816
Intended Use Plan Year	2018
Type of Pledge	2- Revenue
Revenue Pledge Level	First
Legal Description	\$900,000 Revenue Bonds, Series 2019
Tax-exempt or Taxable	Tax-exempt
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay = Escrow
Population	3,173
Rural	Yes
Water Connections	1,265
Wastewater Connections	0
Qualifies as Disadvantaged	No
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	Planning, Design, and Construction
Pre-Design	Yes
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	Non-Rated
Moody's	Non-Rated
Fitch	Non-Rated
Special Issues	None

Project Team

Team Manager	Caaren Skrobarczyk
Financial Analyst	Lina Linehan
Engineering Reviewer	Connie Townsend
Environmental Reviewer	Chris Caran
Attorney	Joe Reynolds

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
Stephens Regional Special Utility District

\$900,000 Revenue Bonds, Proposed Series 2019

<p>Dated Date: 2/15/2019 Delivery Date: 2/15/2019 First Interest: 8/15/2019 First Principal: 8/15/2019 Last Principal: 8/15/2043 Fiscal Year End: 12/31 Required Coverage: 1.0</p>	<p>Source: DWSRF Rate: 2.25% IUP Year: 2018 Case: Revenue Admin.Fee: \$18,943 Admin. Fee Payment Date: 2/15/2019</p>
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FISCAL YEAR	PROJECTED NET SYSTEM REVENUES	CURRENT DEBT SERVICE	\$900,000 ISSUE				TOTAL DEBT SERVICE	COVERAGE
			PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT		
2019	\$398,224	\$209,343	\$15,000	2.25%	\$10,125	\$25,125	\$234,468	1.70
2020	398,224	208,138	30,000	2.25%	19,913	49,913	258,050	1.54
2021	398,224	206,823	30,000	2.25%	19,238	49,238	256,060	1.56
2022	398,224	206,343	30,000	2.25%	18,563	48,563	254,905	1.56
2023	398,224	209,718	30,000	2.25%	17,888	47,888	257,605	1.55
2024	398,224	207,808	30,000	2.25%	17,213	47,213	255,020	1.56
2025	398,224	205,800	30,000	2.25%	16,538	46,538	252,338	1.58
2026	398,224	209,703	30,000	2.25%	15,863	45,863	255,565	1.56
2027	398,224	207,328	35,000	2.25%	15,188	50,188	257,515	1.55
2028	398,224	209,873	35,000	2.25%	14,400	49,400	259,273	1.54
2029	398,224	208,075	35,000	2.25%	13,613	48,613	256,688	1.55
2030	398,224	210,205	35,000	2.25%	12,825	47,825	258,030	1.54
2031	398,224	208,035	35,000	2.25%	12,038	47,038	255,073	1.56
2032	398,224	209,790	35,000	2.25%	11,250	46,250	256,040	1.56
2033	398,224	207,205	35,000	2.25%	10,463	45,463	252,668	1.58
2034	398,224	209,560	40,000	2.25%	9,675	49,675	259,235	1.54
2035	398,224	210,565	40,000	2.25%	8,775	48,775	259,340	1.54
2036	398,224	207,173	40,000	2.25%	7,875	47,875	255,048	1.56
2037	398,224	208,683	40,000	2.25%	6,975	46,975	255,658	1.56
2038	398,224	209,883	40,000	2.25%	6,075	46,075	255,958	1.56
2039	398,224	210,773	45,000	2.25%	5,175	50,175	260,948	1.53
2040	398,224	211,353	45,000	2.25%	4,163	49,163	260,515	1.53
2041	398,224	211,623	45,000	2.25%	3,150	48,150	259,773	1.53
2042	398,224	211,433	45,000	2.25%	2,138	47,138	258,570	1.54
2043	398,224	101,910	50,000	2.25%	1,125	51,125	153,035	2.60
		\$5,117,135	\$900,000		\$280,238	\$1,180,238	\$6,297,373	

AVERAGE (MATURITY) LIFE	13.84 YEARS
NET INTEREST RATE	2.250%
COST SAVINGS	\$153,732
AVERAGE ANNUAL REQUIREMENT	\$251,895

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. The TWDB does not function as a financial advisor to anyone in connection with this financing. The information contained in this document is used by TWDB staff to analyze the application for financing is illustrative only and does not constitute any guaranty of future rates. The TWDB makes no claim regarding the applicability of the information at closing, at which time actual rates will be set.

**Stephens Regional SUD
62816 Stephens Regional SUD Treatment
Improvements
Engineering and Environmental Review**

Engineering Section:

Key Issues:

The Stephens Regional Special Utility District's (District) most recent water loss audit shows that it is above its water loss threshold for apparent loss (meters). To assist the District in mitigating these apparent water losses, a project line item has been included in this proposed project to perform a distribution system water loss study. This study will assist them in identifying meters within the distribution system that need to be replaced as well as to recommend locations for master meters to help identify areas of high water loss in the distribution system. This study must be completed and included in the EFR.

Project Need/Description

Project Need: The District's Water Treatment Plant (WTP) has experienced difficulty in the past evaporating the amount of reverse osmosis (RO) concentrate produced even when operating the facility well below the design capacity as a result of original design flaws of the evaporation ponds. One of the ponds experienced a dam breach in 2016 resulting in an unauthorized wastewater discharge from the WTP. Since 2016 the District has had a moratorium in place for additional water system customer connections until a solution to these issues could be implemented. The WTP needs capacity improvements for the handling and disposal of RO concentrate in order to operate the plant efficiently meeting customer water demands while avoiding future system failures. In addition, the District's most recent water loss audit shows it is above its water loss threshold for apparent loss from meters of which statute and rules require mitigation.

Project Description: At this time, the District proposes to perform planning, design, and construction activities for the recommended floating evaporators to be installed in their existing evaporation ponds within the RO concentrate disposal system at their WTP. The project also includes construction of an evaporator control building, electrical service, and necessary permitting activities. The District also proposes to perform a water loss study to assist them in identifying meters within the distribution system that need to be replaced as well as to recommend locations for master meters to help identify areas of high water loss in the distribution system.

Project Schedule:

Project Task	Schedule Date
Closing	2/15/2019
Engineering Feasibility Report Completion (End of Planning Phase)	2/15/2019
Design Phase Complete	5/11/2019
Start of Construction	9/12/2019
Construction Completion	1/12/2020

Environmental Section:

Key Issues:

None known at this time.

Environmental Summary:

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

Pursuant to the requirements of 31 Texas Administrative Code Chapter 371, Subchapter E, all financial assistance shall be conditioned that funding for design and construction of specific project elements will not be released until an environmental review has been completed and a favorable environmental determination has been issued.



**Project Budget
Summary**
Stephens Regional SUD
62816 - Stephens Regional SUD

Budget Items	This Commitment	Total
Construction		
Construction	\$483,000.00	\$483,000.00
Subtotal for Construction	\$483,000.00	\$483,000.00
Basic Engineering Services		
Construction Engineering	\$17,000.00	\$17,000.00
Design	\$32,000.00	\$32,000.00
Planning	\$96,000.00	\$96,000.00
Distribution System Water Loss Study	\$4,000.00	\$4,000.00
Subtotal for Basic Engineering Services	\$149,000.00	\$149,000.00
Special Services		
Application	\$5,000.00	\$5,000.00
Environmental	\$5,000.00	\$5,000.00
Inspection	\$20,000.00	\$20,000.00
Project Management (by engineer)	\$5,000.00	\$5,000.00
Surveying	\$5,000.00	\$5,000.00
Testing	\$5,000.00	\$5,000.00
Water Conservation Plan	\$5,000.00	\$5,000.00
Subtotal for Special Services	\$50,000.00	\$50,000.00
Fiscal Services		
Bond Counsel	\$22,500.00	\$22,500.00
Bond Reserve Fund	\$58,052.00	\$58,052.00
Financial Advisor	\$31,250.00	\$31,250.00
Fiscal/Legal	\$11,155.00	\$11,155.00
Issuance Costs	\$4,100.00	\$4,100.00
Loan Origination Fee	\$18,943.00	\$18,943.00
Subtotal for Fiscal Services	\$146,000.00	\$146,000.00
Contingency		
Contingency	\$72,000.00	\$72,000.00
Subtotal for Contingency	\$72,000.00	\$72,000.00
Total	\$900,000.00	\$900,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF
\$900,000 TO STEPHENS REGIONAL SPECIAL UTILITY DISTRICT
FROM THE DRINKING WATER STATE REVOLVING FUND
THROUGH THE PROPOSED PURCHASE OF
\$900,000 STEPHENS REGIONAL SPECIAL UTILITY DISTRICT REVENUE BONDS,
PROPOSED SERIES 2019

(18 -)

WHEREAS, the Stephens Regional Special Utility District (District), located in Stephens County, has filed an application for financial assistance in the amount of \$900,000 from the Drinking Water State Revolving Fund (DWSRF) to finance the planning, design and construction of certain water system improvements identified as Project No. 62816; and

WHEREAS, the District seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of \$900,000 Stephens Regional Special Utility District Revenue Bonds, Proposed Series 2019 (together with all authorizing documents (Obligations)), all as is more specifically set forth in the application and in recommendations of the TWDB's staff; and

WHEREAS, the District has offered a pledge of a first lien on the net system revenues 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 District will be sufficient to meet all the Obligations assumed by the District, 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 District has adopted and implemented a water conservation program for the more efficient use of water that will meet reasonably anticipated local needs and conditions and that incorporates practices, techniques or technology prescribed by the Texas Water Code and TWDB's rules;

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 a current water audit required by Texas Water Code § 16.0121 and 31 TAC § 358.6 has been completed by the District and filed with the TWDB in accordance with Texas Water Code § 16.053(j);

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

A commitment is made by the TWDB to the Stephens Regional Special Utility District for financial assistance in the amount of \$900,000 from the Drinking Water State Revolving Fund through the TWDB's proposed purchase of \$900,000 Stephens Regional Special Utility District Revenue Bonds, Proposed Series 2019. This commitment will expire on November 30, 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 District;
3. this commitment is contingent upon the District'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 District, or an obligated person for whom financial or operating data is presented to the TWDB in the application for financial assistance either individually or in combination with other issuers of the District's Obligations or obligated persons, will, at a minimum, 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 District's Obligations, if the TWDB sells or otherwise transfers such Obligations, and the beneficial owners of the TWDB's bonds if the District is an obligated person with respect to such bonds under SEC Rule 15c2-12;

6. the Obligations must contain a provision requiring the District to levy a tax and/or maintain and collect sufficient rates and charges to produce system revenues in an amount necessary to meet the debt service requirements of all outstanding obligations and to maintain the funds established and required by the Obligations;
7. the Obligations must include a provision requiring the District to use any loan proceeds from the Obligations that are determined to be 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 District to submit a final accounting and disposition of any unused funds;
8. the Obligations must include a provision requiring the District to use any loan proceeds from the Obligations that are determined to be surplus funds remaining after completion of the project 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 District when sampling, testing, removing or disposing of contaminated soils and/or media at the project site. The Obligations shall include an environmental indemnification provision wherein

the District agrees to indemnify, hold harmless and protect the TWDB from any and all claims, causes of action or damages to the person or property of third parties arising from the sampling, analysis, transport, storage, treatment and disposition of any contaminated sewage sludge, contaminated sediments and/or contaminated media that may be generated by the District, its contractors, consultants, agents, officials and employees as a result of activities relating to the project to the extent permitted by law;

12. prior to closing, the District shall submit documentation evidencing the adoption and implementation of sufficient system rates and charges or, if applicable, the levy of an interest and sinking tax rate sufficient for the repayment of all system debt service requirements;
13. prior to closing, and if not previously provided with the application, the District 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 District 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 District 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 District's bond counsel must prepare a written opinion that states that the interest on the Obligations is excludable from gross income or is exempt from federal income taxation. Bond counsel may rely on covenants and representations of the District when rendering this opinion;
18. the District's bond counsel opinion must also state that the Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the District when rendering this opinion;

19. the Obligations must include a provision prohibiting the District from using the proceeds of this loan in a manner that would cause the Obligations to become “private activity bonds” within the meaning of § 141 of the Internal Revenue Code of 1986, as amended (Code) and the Treasury Regulations promulgated thereunder (Regulations);
20. the Obligations must provide that no portion of the proceeds of the loan will be used, directly or indirectly, in a manner that would cause the Obligations to be “arbitrage bonds” within the meaning of § 148(a) of the Code and Regulations, including to acquire or to replace funds which were used, directly or indirectly, to acquire Nonpurpose Investments (as defined in the Code and Regulations) which produce a yield materially higher than the yield on the TWDB’s bonds that are issued to provide financing for the loan (Source Series Bonds), other than Nonpurpose Investments acquired with:
 - a. proceeds of the TWDB’s Source Series Bonds invested for a reasonable temporary period of up to three (3) years after the issue date of the Source Series Bonds until such proceeds are needed for the facilities to be financed;
 - b. amounts invested in a bona fide debt service fund, within the meaning of § 1.148-1(b) of the Regulations; and
 - c. amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed the least of maximum annual debt service on the Obligations, 125% of average annual debt service on the Obligations, or 10 percent of the stated principal amount (or, in the case of a discount, the issue price) of the Obligations;
21. the Obligations must include a provision requiring the District take all necessary steps to comply with the requirement that certain amounts earned on the investment of gross proceeds of the Obligations be rebated to the federal government in order to satisfy the requirements of § 148 of the Code. The Obligations must provide that the District will:
 - a. account for all Gross Proceeds, as defined in the Code and Regulations, (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and retain all records of such accounting for at least six years after the final Computation Date. The District may, however, to the extent permitted by law, commingle Gross Proceeds of its Loan with other money of the District, provided that the District separately accounts for each receipt and expenditure of such Gross Proceeds and the obligations acquired therewith;

- b. calculate the Rebate Amount, as defined in the Code and Regulations, with respect to its Loan, not less frequently than each Computation Date, in accordance with rules set forth in § 148(f) of the Code, § 1.148-3 of the Regulations, and the rulings thereunder. The District shall maintain a copy of such calculations for at least six years after the final Computation Date;
 - c. as additional consideration for the making of the Loan, and in order to induce the making of the Loan by measures designed to ensure the excludability of the interest on the TWDB's Source Series Bonds from the gross income of the owners thereof for federal income tax purposes, pay to the United States the amount described in paragraph (b) above within 30 days after each Computation Date;
 - d. exercise reasonable diligence to assure that no errors are made in the calculations required by paragraph (b) and, if such error is made, to discover and promptly to correct such error within a reasonable amount of time thereafter, including payment to the United States of any interest and any penalty required by the Regulations;
22. the Obligations must include a provision prohibiting the District from taking any action that would cause the interest on the Obligations to be includable in gross income for federal income tax purposes;
23. the Obligations must provide that the District will not cause or permit the Obligations to be treated as "federally guaranteed" obligations within the meaning of § 149(b) of the Code;
24. the transcript must include a No Arbitrage Certificate or similar Federal Tax Certificate setting forth the District's reasonable expectations regarding the use, expenditure and investment of the proceeds of the Obligations;
25. the transcript must include evidence that the information reporting requirements of § 149(e) of the Code will be satisfied. This requirement may be satisfied by filing an IRS Form 8038 with the Internal Revenue Service. In addition, the applicable completed IRS Form 8038 or other evidence that the information reporting requirements of § 149(e) have been satisfied must be provided to the Executive Administrator within fourteen (14) days of closing. The Executive Administrator may withhold the release of funds for failure to comply;
26. the Obligations must provide that neither the District nor a related party thereto will acquire any of the TWDB's Source Series Bonds in an amount related to the amount of the Obligations to be acquired from the District by the TWDB;

State Revolving Fund Conditions

27. the District 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 District, 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 District 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 District 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 District will adhere to the approved project schedule;
31. The Obligations must contain a covenant that the District will abide by all applicable construction contract requirements related to the use of iron and steel products 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 District 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 District 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 District 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 District has existing revenue obligations with the same pledge of security as the proposed Obligations that will remain outstanding after any loan(s) made by the TWDB pursuant to this commitment, the lien or liens securing the Obligations issued to the TWDB shall be at least on a parity with lien or liens securing such outstanding obligations;
37. the Obligations must contain a provision providing that additional revenue obligations may only be incurred if the District has secured a certificate or opinion of a certified public accountant or professional engineer to the effect that, according to the books and records of the District, the net revenues are at least 1.25 times the average annual debt service after giving effect to the issuance of the additional parity bonds then being issued, when Net Revenues are: (a) determined from the last completed Fiscal Year or a 12 consecutive calendar month period ending not more than sixty (60) days preceding the adoption of the order or resolution authorizing the Additional Parity Bonds; or (b) determined from projected Net Revenues for a 12 month period based on rates or charges in effect for at least sixty (60) days prior to the month in which the issuance of the Additional Parity Bonds is authorized;

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

Special Conditions:

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

40. Prior to release of funds for the design phase, the District shall complete a Water Loss Study for the Distribution System. Funds budgeted for this study may not be used for any other expense until the study has been completed; and
41. prior to the release of funds, the District 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.

APPROVED and ordered of record this 12th day of November, 2018.

TEXAS WATER DEVELOPMENT BOARD

Peter M. Lake, Chairman

DATE SIGNED: _____

ATTEST:

Jeff Walker, Executive Administrator



Stephens Regional SUD Stephens, Throckmorton, Young, Palo Pinto, Eastland, & Shackelford Counties

