PROJECT FUNDING REQUEST

BOARD DATE: February 4, 2019 TEAM MANAGER: Mireya Loewe

APPLICANT	City of San Juan
TYPE OF ASSISTANCE	$1,715,000 Financing $498,000 Principal Forgiveness
LEGAL PLEDGE	First Lien on Net System Revenues

STAFF RECOMMENDATION
☒ Approve ☐ No Action

ACTION REQUESTED
Approve by resolution a request from the City of San Juan (Hidalgo County) for $2,213,000 in financial assistance consisting of $1,715,000 in financing and $498,000 in principal forgiveness from the Clean Water State Revolving Fund for construction of wastewater system improvements.

PROJECT
Lift Station Improvements
Project Number 73637

BACKGROUND
The town of San Juan began appearing on local maps around 1904 with the development of the St. Louis, Brownsville & Mexico Railroad that ran between Harlingen to Sam Fordyce (just beyond Mission). The town of San Juan was established in March of 1910 and was incorporated in December of 1917. The City of San Juan (City) provides wastewater services to a population of approximately 35,983 in Hidalgo County.

The City has been experiencing capacity issues within its wastewater collection system. Sewage overflows, overcharging manholes, and backups in residences have occurred due to lift stations that are unable to meet capacity needs during rain events. To resolve this, in April 2012, the City received a $445,000 commitment from the Texas Water Development Board (TWDB) for the planning and design of a project to replace and rehabilitate the existing lift stations throughout the City. The City plans to complete the construction of the project in two separate phases. The current funding request will be for the first phase.

FINANCIAL
Key Issues
In addition to this funding request, the City has also submitted an application for $9,207,000 in financial assistance from the Clean Water State Revolving Fund (CWSRF) for

COMMITMENT PERIOD: ONE YEAR TO EXPIRE AUGUST 31, 2019

improvements to its wastewater treatment plant. The financial assistance consists of $6,645,000 in financing and $2,562,000 in principal forgiveness, which is considered in the financial analysis and the attached debt service schedule.

Pledge and Repayment

The City is pledging a first lien on net system revenues for the repayment of the proposed financing. The City's current combined average monthly water and wastewater rate is $53.23. According to staff's analysis, this provides the City with a coverage ratio of 1.3 times the current and proposed debt service in the first year of principal repayment based on existing conditions.

Principal Forgiveness

The City qualifies for $498,000 in in principal forgiveness as a disadvantaged community.

Cost Savings

Based on a 30-year maturity and current interest rates, the City could save approximately $477,743 over the life of the financing. The City is also saving $498,000 in principal forgiveness.

Internal Risk Score

Staff assigns a 2B to the City and the proposed project to be funded by the TWDB. This means that the City's payment capacity is adequate.

The results of the City's financial sustainability indicators are adequate. The 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 1.3 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 strong with an asset condition ratio of 46 years. An asset condition ratio of 25 to 75 years is considered strong.

The City's socioeconomic indicators are weaker than the state overall. The City's median household income of $34,887 is 61 percent of the state's median of $57,051. The City's unemployment rate of 6.1 percent is higher than the state's average of 3.5 percent.

The City's utility system rates and current median household income result in a household cost factor of 1.83 percent for water and wastewater services. The industry benchmark for the household cost factor is 2 percent for the two services. The City reports an adequate liquidity position of 123 days of cash on hand. An amount between 30 and 149 days is an adequate level of liquidity.

The City has both utility system revenue debt and general obligation debt that is self-supported by the utility system. The ratio of the utility system's self-supporting debt, including the proposed financing, to operating revenues is adequate at 4.09. A debt-to-operating-revenues ratio between 4 and 5.99 is considered adequate for utility systems.

The City's mix of below-average socioeconomic factors, adequate liquidity and self-supporting debt ratio, and strong debt coverage ratio, support the assigned risk score of 2B.

LEGAL

Key Issues

None.

Conditions

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

- Executed principal forgiveness agreement; and
- Return of unused principal forgiveness funds.

Attachments:
1. Project Data Summary
2. Debt Service Schedule
3. Engineering/Environmental Review
4. Project Budget
5. Resolution (19-)
6. Water Conservation Review
7. Location Map

Project Data Summary

Responsible Authority	City of San Juan
Program	Clean Water State Revolving Fund
Commitment Code	L1000933 and LF1000942
Project Number	73637
Intended Use Plan Year	2019
Type of Pledge	2-Revenue
Revenue Pledge Level	First
Legal Description	$1,715,000 City of San Juan, Texas Waterworks and Sewer System Revenue Bonds, Proposed Series 2019A $498,000 Principal Forgiveness Agreement
Tax-exempt or Taxable	Tax-exempt
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay=Escrow
Population	35,983
Rural	No
Water Connections	6,384
Wastewater Connections	8,885
Qualifies as Disadvantaged	Yes
Disadvantaged Level	6
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	2B
External Ratings (for SRF rates)	
Standard and Poor's	A
Moody's	Non-Rated
Fitch	Non-Rated
Special Issues	None

Project Team

Team Manager	Mireya Loewe
Financial Analyst	Lina Linehan
Engineering Reviewer	Nicki Hise
Environmental Reviewer	Lauren Dill
Attorney	Joe Reynolds

Attachment 2

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
City of San Juan

$6,645,000 Waterworks and Sewer System Revenues Bonds, Proposed Series 2019

Dated Date:	**3/15/2019**	**Source:**	**CWSRF-EQUIVALENCY**
Delivery Date:	**3/15/2019**	**IUP Year:**	**2019**
First Interest:	**3/15/2020**	**Case:**	**Revenue**
First Principal	**3/15/2020**	**Admin.Fee:**	**$114,287**
Last Principal:	**3/15/2049**	**Admin. Fee Payment Date:**	**3/15/2019**
Fiscal Year End:	**09/30**	**Required Coverage:**	**1.0**

$1,715,000 Waterworks and Sewer System Revenues Bonds, Proposed Series 2019A

Dated Date:	**3/15/2019**	**Source:**	**CWSRF-EQUIVALENCY**
Delivery Date:	**3/15/2019**	**IUP Year**	**2019**
First Interest:	**3/15/2020**	**Case:**	**Revenue**
First Principal	**3/15/2020**	**Admin.Fee:**	**$29,496**
Last Principal:	**3/15/2049**	**Admin. Fee Payment Date:**	**3/15/2019**
Fiscal Year End:	**9/30**	**Required Coverage:**	**1.0**

			$6,645,000 ISSUE				$1,715,000 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**
2020	$1,784,301	$1,004,546	$140,000	1.52%	$150,442	$290,442	$35,000	1.52%	$38,836	$73,836	$1,368,824	1.30
2021	1,784,301	1,002,422	180,000	1.52%	97,508	277,508	45,000	1.52%	25,194	70,194	1,350,124	1.32
2022	1,784,301	1,003,203	180,000	1.52%	94,772	274,772	45,000	1.52%	24,510	69,510	1,347,485	1.32
2023	1,784,301	1,003,604	180,000	1.52%	92,036	272,036	45,000	1.52%	23,826	68,826	1,344,466	1.33
2024	1,784,301	938,496	185,000	1.52%	89,262	274,262	45,000	1.52%	23,142	68,142	1,280,900	1.39
2025	1,784,301	941,742	185,000	1.52%	86,450	271,450	50,000	1.52%	22,420	72,420	1,285,612	1.39
2026	1,784,301	877,252	185,000	1.52%	83,638	268,638	50,000	1.52%	21,660	71,660	1,217,550	1.47
2027	1,784,301	809,496	190,000	1.52%	80,788	270,788	50,000	1.52%	20,900	70,900	1,151,184	1.55
2028	1,784,301	808,618	190,000	1.52%	77,900	267,900	50,000	1.52%	20,140	70,140	1,146,658	1.56
2029	1,784,301	806,505	195,000	1.52%	74,974	269,974	50,000	1.52%	19,380	69,380	1,145,859	1.56
2030	1,784,301	809,721	200,000	1.52%	71,972	271,972	50,000	1.52%	18,620	68,620	1,150,313	1.55
2031	1,784,301	815,579	200,000	1.52%	68,932	268,932	50,000	1.52%	17,860	67,860	1,152,371	1.55
2032	1,784,301	811,764	205,000	1.52%	65,854	270,854	55,000	1.52%	17,062	72,062	1,154,680	1.55
2033	1,784,301	808,349	210,000	1.52%	62,700	272,700	55,000	1.52%	16,226	71,226	1,152,275	1.55
2034	1,784,301	666,736	215,000	1.52%	59,470	274,470	55,000	1.52%	15,390	70,390	1,011,596	1.76
2035	1,784,301	157,825	215,000	1.52%	56,202	271,202	55,000	1.52%	14,554	69,554	498,581	3.58
2036	1,784,301	155,603	220,000	1.52%	52,896	272,896	55,000	1.52%	13,718	68,718	497,217	3.59
2037	1,784,301	158,298	225,000	1.52%	49,514	274,514	60,000	1.52%	12,844	72,844	505,656	3.53
2038	1,784,301	155,915	230,000	1.52%	46,056	276,056	60,000	1.52%	11,932	71,932	503,903	3.54
2039	1,784,301	158,453	235,000	1.52%	42,522	277,522	60,000	1.52%	11,020	71,020	506,995	3.52
2040	1,784,301	155,915	240,000	1.52%	38,912	278,912	65,000	1.52%	10,070	75,070	509,897	3.50
2041	1,784,301	153,349	245,000	1.52%	35,226	280,226	65,000	1.52%	9,082	74,082	507,657	3.51
2042	1,784,301	160,660	255,000	1.52%	31,426	286,426	65,000	1.52%	8,094	73,094	520,180	3.43
2043	1,784,301	157,848	260,000	1.52%	27,512	287,512	65,000	1.52%	7,106	72,106	517,466	3.45
2044	1,784,301	159,963	265,000	1.52%	23,522	288,522	70,000	1.52%	6,080	76,080	524,565	3.40
2045	1,784,301	157,007	270,000	1.52%	19,456	289,456	70,000	1.52%	5,016	75,016	521,479	3.42
2046	1,784,301	154,038	275,000	1.52%	15,314	290,314	70,000	1.52%	3,952	73,952	518,304	3.44
2047	1,784,301	160,950	285,000	1.52%	11,058	296,058	75,000	1.52%	2,850	77,850	534,858	3.34
2048	1,784,301	157,745	290,000	1.52%	6,688	296,688	75,000	1.52%	1,710	76,710	531,143	3.36
2049	1,784,301	55,569	295,000	1.52%	2,242	297,242	75,000	1.52%	570	75,570	428,381	4.17
		$ 15,367,169	$6,645,000		$1,715,244	$8,360,244	$1,715,000		$443,764	$2,158,764	$25,886,177	

$6,645,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	16.98 YEARS
NET INTEREST RATE	1.520%
COST SAVINGS	$1,863,720
AVERAGE ANNUAL REQUIREMENT	$278,675

$1,715,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	17.02 YEARS
NET INTEREST RATE	1.520%
COST SAVINGS	$477,743
AVERAGE ANNUAL REQUIREMENT	$71,959

TOTAL AVERAGE ANNUAL REQUIREMENTS
$862,873

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.

Texas Water Development Board

San Juan
73637 Lift Station Improvements
Engineering and Environmental Review

Engineering:

Key Issues:
None.

Project Need/Description
Need: The City of San Juan (City) must address capacity issues within its wastewater collection system, which cause raw water overflows, overcharging manholes, and backups in residences due to lift stations that are unable to meet capacity needs during rain events.

Project Description: The design of the project, which was previously funded by the TWDB, includes expansion, upgrading, replacing, and decommissioning of several lift stations, as well as new force mains to convey the flows in the northern part of the City directly to the City's wastewater treatment plant, bypassing the City's existing central system. The project will be built in two phases. The current first phase will replace lift station No. 13 in its existing location to provide increased capacity and install approximately 5,300 linear feet of 8-inch force main for lift station No. 13 to discharge at lift station No. 17.

Project Schedule:

Project Task	Schedule Date
Closing	03/15/2019
Engineering Feasibility Report Completion (End of Planning Phase)	08/22/2013
Design Phase Complete	03/01/2019
Start of Construction	05/01/2019
Construction Completion	05/01/2020

Environmental Section:

Key Issues:
None.

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 environmental review, it is not anticipated that the proposed project's primary environmental impacts should be significant or adverse, nor should they affect project implementation.

Pursuant to the requirements of 31 Texas Administrative Code § 375.61, all financial assistance shall be conditioned to read that funding for 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

San Juan

73637 - Lift Station Improvements

Budget Items	Previous Commitments	This Commitment	TWDB Funds	Local and Other Funds	Total
Construction					
Construction	$0.00	$1,800,000.00	$1,800,000.00	$0.00	$1,800,000.00
Subtotal for Construction	**$0.00**	**$1,800,000.00**	**$1,800,000.00**	**$0.00**	**$1,800,000.00**
Basic Engineering Services					
Construction Engineering	$0.00	$65,000.00	$65,000.00	$0.00	$65,000.00
Design	$295,000.00	$0.00	$295,000.00	$15,000.00	$310,000.00
Planning	$20,000.00	$0.00	$20,000.00	$0.00	$20,000.00
Subtotal for Basic Engineering Services	**$315,000.00**	**$65,000.00**	**$380,000.00**	**$15,000.00**	**$395,000.00**
Special Services					
Environmental	$25,000.00	$5,000.00	$30,000.00	$0.00	$30,000.00
Geotechnical	$20,000.00	$10,000.00	$30,000.00	$0.00	$30,000.00
Inspection	$0.00	$60,000.00	$60,000.00	$0.00	$60,000.00
Permits	$0.00	$20,000.00	$20,000.00	$0.00	$20,000.00
Surveying	$40,000.00	$0.00	$40,000.00	$5,000.00	$45,000.00
Testing	$0.00	$15,000.00	$15,000.00	$0.00	$15,000.00
Subtotal for Special Services	**$85,000.00**	**$110,000.00**	**$195,000.00**	**$5,000.00**	**$200,000.00**
Fiscal Services					
Bond Counsel	$15,000.00	$26,500.00	$41,500.00	$0.00	$41,500.00
Financial Advisor	$10,459.38	$25,400.00	$35,859.38	$0.00	$35,859.38
Issuance Costs	$1,107.00	$5,725.00	$6,832.00	$0.00	$6,832.00
Loan Origination Fee	$8,083.00	$29,496.00	$37,579.00	$0.00	$37,579.00
Subtotal for Fiscal Services	**$34,649.38**	**$87,121.00**	**$121,770.38**	**$0.00**	**$121,770.38**
Contingency					
Contingency	$10,350.62	$150,879.00	$161,229.62	$0.00	$161,229.62
Subtotal for Contingency	**$10,350.62**	**$150,879.00**	**$161,229.62**	**$0.00**	**$161,229.62**
Total	$445,000.00	$2,213,000.00	$2,658,000.00	$20,000.00	$2,678,000.00

A RESOLUTION OF THE TEXASH WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF
$2,213,000 TO CITY OF SAN JUAN
FROM THE CLEAN WATER STATE REVOLVING FUND
THROUGH THE PROPOSED PURCHASE OF
$1,715,000 CITY OF SAN JUAN, TEXAS WATERWORKS AND SEWER SYSTEM
REVENUE BONDS, PROPOSED SERIES 2019A
AND
$498,000 IN PRINCIPAL FORGIVENESS

(19 -)

WHEREAS, the City of San Juan (City), located in Hidalgo County has filed an application for financial assistance in the amount of $2,213,000 from the Clean Water State Revolving Fund (CWSRF) to finance the planning, acquisition, design, and construction of certain wastewater system improvements identified as Project No. 73637; and

WHEREAS, the City seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of $1,715,000 City of San Juan, Texas Waterworks and Sewer System Revenue Bonds, Proposed Series 2019A (together with all authorizing documents, (Obligations)), and the execution of a Principal Forgiveness Agreement in an amount of $498,000, 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 the net revenues of the 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;

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

5. that the City meets the definition of a "Disadvantaged Community" in 31 TAC § 375.1(23) and is therefore eligible for principal forgiveness in the amount of $498,000;

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

A commitment is made by the TWDB to the City of San Juan for financial assistance in the amount of $2,213,000 from the Clean Water State Revolving Fund through the TWDB's proposed purchase of $1,715,000 City of San Juan, Texas Waterworks and Sewer System Revenue Bonds, Proposed Series 2019A, and the execution of a Principal Forgiveness Agreement in the amount of $498,000. This commitment will expire on August 31, 2019.

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 375;

4. the Obligations must provide that the City agrees to comply with all of the conditions set forth in the TWDB Resolution, which conditions are incorporated herein;

5. 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;

6. 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;

7. the Obligations must contain a provision requiring the City to levy a tax and/or maintain and collect sufficient rates and charges, as applicable, to produce system funds 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;

8. 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;

9. 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;

10. 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;

11. 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;

12. 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;

13. prior to closing, the City shall submit documentation evidencing the adoption and implementation of sufficient system rates and charges and/or the levy of an interest and sinking tax rate (if applicable) sufficient for the repayment of all system debt service requirements;

14. 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;

15. 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;

16. 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>

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 Obligations must contain a provision that the City will refrain from using from using the proceeds provided by this TWDB commitment or the proceeds of any prior bonds to pay debt service on another issue more than 90 days after the date of issue of the Obligations in contravention of the requirements of section 149(d) of the Code (relating to advance refundings);

26. 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;

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

State Revolving Fund Conditions

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

29. 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;

30. 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;

31. 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;

32. 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 § 375.3, 33 U.S.C. § 1388, and related State Revolving Fund Policy Guidelines;

33. 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;

34. 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;

Clean Water State Revolving Fund Conditions

35. the City shall pay at closing an origination fee approved by the Executive Administrator of the TWDB pursuant 31 TAC Chapter 375;

36. 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;

37. 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;

38. 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).

Pledge Conditions for the Loan

39. 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;

40. 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;

41. the Obligations must contain a provision providing that additional revenue obligations may only be incurred if net system revenues are at least 1.25 times

the average annual debt service requirements after giving effect to the additional obligations when net revenues are a) determined from the last completed fiscal year or a 12 consecutive calendar month period ending not more than ninety (90) days preceding the adoption of the additional obligations as certified by a certified public accountant; or b) the City certifies that the City is expected to continue to meet or exceed the net system revenue test with a minimum coverage of 1.25 times the average annual debt service requirement. An authorized representative of the City must provide the calculations, identifying reasonable assumptions, in a manner and format that is acceptable to the Executive Administrator.

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

Special Conditions:

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

43. 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;

APPROVED and ordered of record this 4th day of February 2019.

TEXAS WATER DEVELOPMENT BOARD

_____
Peter M. Lake, Chairman

DATE SIGNED: _____

ATTEST:

_____
Jeff Walker, Executive Administrator

WATER CONSERVATION REVIEW

Entity: City of San Juan

Review date: October 2018

WATER CONSERVATION PLAN DATE: May 2016 ☐ **Approvable** ☑ **Adopted**

	Total GPCD	Residential GPCD	Water Loss GPCD	Water Loss Percent
Baseline	82	67	14	17
5-year Goal	79	64	11	15
10-year Goal	75	60	9	12

WATER LOSS AUDIT YEAR: 2017

Total water loss (GPCD): 11

Total water loss (percent): 12

Wholesale Water ☐

Total no. of connections: 6,384

Length of mains (miles): 255

Connections per mile: 25

If > 16 connections per mile and > 3,000 connections, Infrastructure Leakage Index (*ILI*): 1.9

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, approximately two percent of customer meters are replaced annually, with each meter monitored for consistency and tested and/or replaced as necessary. Crews make corrective repairs or take other actions when sources of water loss or theft are located. Should the city fail to meet its water loss goals, it will implement a more intensive water audit to determine the cause of the losses. The city has modeled its public information and education campaign after the Water IQ - Know Your Water brand. This campaign consists of multiple methods to reach and educate the public, including providing conservation information on a dedicated water conservation website, outreach at local schools, speaking to civic groups, providing messages on utility bills, and offering plant tours. Additional water management strategies include twice per week and time of day year-round watering schedules, prohibition on water waste, and positive shut-off nozzles required at all restaurants and food service establishments.

STAFF NOTES AND RECOMMENDATIONS:

In accordance with 31 TAC §358.6(f), review of a retail public utility's water loss in conjunction with an application for financial assistance is limited to water supply projects. This application 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 San Juan
Hidalgo County