Texas Water Development Board

**PROJECT FUNDING REQUEST**

BOARD DATE: September 5, 2019 TEAM MANAGER: Lee Huntoon

| | |
|---|---|
| **APPLICANT** | North Plains Groundwater Conservation District |
| **TYPE OF ASSISTANCE** | $1,000,000 Loan |
| **LEGAL PLEDGE** | First Lien on Net Revenues |

**STAFF RECOMMENDATION**
☒ Approve ☐ No Action

**ACTION REQUESTED**
Approve by resolution a request from the North Plains Groundwater Conservation District (Dallam, Hansford, Hartley, Hutchinson, Lipscomb, Moore, Ochiltree and Sherman Counties) for a $1,000,000 loan from the Agricultural Water Conservation Loan Program to provide financing for an agricultural water conservation equipment loan program.

**PROJECT**
Agricultural Water Conservation Loan Program
Project Number 21781

**BACKGROUND**
The North Plains Groundwater Conservation District's (District) jurisdictional area encompasses approximately 7,300 square miles, or 4,700,000 acres and includes Dallam, Hansford, Lipscomb, Ochiltree and Sherman Counties and portions of Hartley, Hutchinson and Moore Counties. The District is responsible for conserving, protecting and preserving the Ogallala Aquifer and other water resources in the Northern Texas Panhandle.

The District will utilize the funds to provide loans to area farmers to purchase irrigation systems and related equipment. Twelve irrigation systems are estimated to be purchased by area farmers.

**CONSERVATION**
Key Issues
The District anticipates the participating area farmers' new equipment installations will result in an estimated 8,770 acre-feet of water savings over the life of the loan. This project will further water conservation in the state by supporting the implementation of recommended irrigation conservation water management strategies in the 2016 Panhandle Regional Water Plan.

**COMMITMENT PERIOD: ONE (1) YEAR TO EXPIRE SEPTEMBER 30, 2020.**

**FINANCIAL**

Key Issues

The total proposed budget of $1,003,050 for this project is $3,050 higher than the $1,000,000 amount submitted in the District's application. The District has confirmed they intend to pay the difference with District funds.

The Texas Water Development Board (TWDB) currently holds one Agricultural Water Conservation Loan with the District with an outstanding balance of $248,000 for a conservation demonstration project. To date, the District has met the repayment requirements of the loan.

Pledge and Repayment

The District pledges net revenues as security for the loan. Net revenues means all operating revenues and income of any nature less the expenses associated with the operation and maintenance of the District. The term of the loan to the District is for ten years and mirrors the useful life of the underlying asset.

In 2020, the District is projected to have net operating revenues of $348,807, which results in a debt service coverage ratio of 2.02. The District maintains an unrestricted General Fund balance of $2,134,000 and can utilize these funds for debt service. Based on the District's fiscal year 2018 audit, staff projects system revenues are sufficient to meet debt service over the term of the ten-year note. In order to further secure the loan, the District will maintain a reserve requirement equal to the average annual principal and interest payment over the duration of the new loan.

All loans made by the District to area farmers will have a term up to seven years secured by a first lien on the equipment purchased through the program. The District will limit the maximum amount it will loan to one borrower to $150,000 and require a minimum down payment of 20 percent on the equipment cost. On the 365th day after closing, the District will be required to submit:

- A detail of notes receivable for each loan made to producers and;
- A written statement showing the amount of unused loan funds.

At the discretion of the Executive Administrator, after the 365th day after closing the District may be required to return unused funds, pursuant to its Loan Agreement, which are not the subject of contracts and repayment schedules, with accrued interest.

Interest rates applicable to the District's loan are based on a one-year Treasury note. As per the District's guidelines, the interest rates to a borrower/applicant are the interest rates charged by TWDB plus one percent and in no event higher than the lawful rate.

Cost Savings

Based on a ten-year maturity schedule and a loan amount of $1,000,000, the District could save approximately $161,000 over the life of the loan when comparing the estimated

interest rate provided by TWDB against the current market interest rate provided by AgDirect, an agriculture equipment financing institute.

Internal Risk Score
Staff assigns a 2B to the District and the proposed project to be funded by the TWDB. This means that the District's repayment capacity is adequate.

The District has adequate financial sustainability indicators overall. These more heavily weighted risk score indicators show the District's short-term and long-term ability to repay the debt. The debt service coverage ratio is 2.02 times in the first year of principal repayment. The District's has increased their net position by nearly 7 percent in 2018 and have stable operating trends over the past five years.

The District's socioeconomic indicators are on par with the state overall. The average median household income for the eight counties included within the District is $52,232, which is 92 percent of the median for the state overall. Conversely, the average unemployment rate during May 2019 for the eight counties is 2.08 percent compared to the state's unemployment rate of 2.9 percent. The projected household cost factor does not apply as the District does not charge a water and wastewater bill.

The District maintains strong reserves with unrestricted cash and short-term investments of 313 days of the operating expenses of the District. This means the District has almost two years of cash to cover day-to-day operating expenses. Any amount greater than 250 days is considered to be a high level of liquidity.

The District's overall debt burden is low, with all debt supported by the District's operating revenues. The District's self-supporting debt compared to operating revenues, including the proposed loan, is low at 0.51. A debt to operating revenues ratio of 4 to 6 is considered typical.

With adequate financial sustainability, satisfactory socioeconomic indicators, and strong liquidity and debt management; the District is assigned a risk score of 2B.

**LEGAL**
Key Issues
None.

Conditions
Standard conditions, as stated in the loan agreement between the TWDB and the District, and further conditioned as follows:

- Availability of funds;
- Executed loan agreement;
- Reserve requirement; and
- In administering the loan funds, comply with all applicable state statutes and with rules and requirements of the TWDB.

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

**Project Data Summary**

| | |
|---|---|
| **Responsible Authority** | North Plains Groundwater Conservation District |
| **Program** | Agricultural Water Conservation Program |
| **Commitment Code** | L1001034 |
| **Project Number** | 21781 |
| **Intended Use Plan Year** | N/A |
| **Type of Pledge** | 2- Revenue |
| **Revenue Pledge Level** | First |
| **Legal Description** | $1,000,000 North Plains Groundwater Conservation District Loan Agreement |
| **Tax-exempt or Taxable** | Tax-exempt |
| **Refinance** | No |
| **Outlay Requirement** | No |
| **Disbursement Method** | Release all funds at closing |
| **Outlay Type** | N/A |
| **Population** | 79,326 - All 8 Counties |
| **Rural** | Yes |
| **Water Connections** | N/A |
| **Wastewater Connections** | N/A |
| **Qualifies as Disadvantaged** | N/A |
| **Disadvantaged Level** | 9 |
| **Clean Water State Revolving Fund Type** | N/A |
| **SWIFT Financing Type** | N/A |
| **SWIFT Characteristic** | N/A |
| **Financial Managerial & Technical Complete** | N/A |
| **Funding Phase Code** | N/A |
| **Pre-Design** | N/A |
| **Project Consistent with Water Plan** | N/A |
| **Water Conservation Plan** | N/A |
| **Water Rights Certification Required** | No |
| **Internal Risk Score** | 2B |
| **External Ratings (for SRF rates)** | |
| **Standard and Poor's** | Non-Rated |
| **Moody's** | Non-Rated |
| **Fitch** | Non-Rated |
| **Special Issues** | Release all funds at closing. |

**Project Team**

| | |
|---|---|
| Team Manager | Lee Huntoon |
| Financial Analyst | Bill Collard |
| Engineering Reviewer | N/A |
| Environmental Reviewer | Chris Caran |
| Attorney | Ashley Nwonuma |

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
North Plains GWCD

**$1,000,000 North Plains Groundwater Conservation District Loan Agreement**

| | | | |
|---|---|---|---|
| **Dated Date:** | **11/15/2019** | **Source:** | **Ag Loan Program** |
| **Delivery Date:** | **11/15/2019** | **Rate:** | **2.03%** |
| **First Interest:** | **5/15/2020** | **IUP Year:** | **N/A** |
| **First Principal** | **5/15/2020** | **Case:** | **Net Revenues** |
| **Last Principal:** | **5/15/2029** | **Admin.Fee:** | **$0** |
| **Fiscal Year End:** | **09/30** | **Admin. Fee Payment Date:** | **N/A** |
| **Required Coverage:** | **1.0** | | |

| FISCAL YEAR | PROJECTED NET SYSTEM REVENUES | CURRENT DEBT SERVICE | $1,000,000 ISSUE PRINCIPAL PAYMENT | $1,000,000 ISSUE INTEREST RATE | $1,000,000 ISSUE INTEREST PAYMENT | $1,000,000 ISSUE TOTAL PAYMENT | TOTAL DEBT SERVICE | COVERAGE |
|---|---|---|---|---|---|---|---|---|
| 2020 | $348,807 | $62,273 | $100,000 | 2.03% | $10,150 | $110,150 | $172,423 | 2.02 |
| 2021 | 348,807 | 62,205 | 100,000 | 2.03% | 18,270 | 118,270 | 180,475 | 1.93 |
| 2022 | 348,807 | 62,136 | 100,000 | 2.03% | 16,240 | 116,240 | 178,376 | 1.96 |
| 2023 | 348,807 | 62,068 | 100,000 | 2.03% | 14,210 | 114,210 | 176,278 | 1.98 |
| 2024 | 348,807 | - | 100,000 | 2.03% | 12,180 | 112,180 | 112,180 | 3.11 |
| 2025 | 348,807 | - | 100,000 | 2.03% | 10,150 | 110,150 | 110,150 | 3.17 |
| 2026 | 348,807 | - | 100,000 | 2.03% | 8,120 | 108,120 | 108,120 | 3.23 |
| 2027 | 348,807 | - | 100,000 | 2.03% | 6,090 | 106,090 | 106,090 | 3.29 |
| 2028 | 348,807 | - | 100,000 | 2.03% | 4,060 | 104,060 | 104,060 | 3.35 |
| 2029 | 348,807 | - | 100,000 | 2.03% | 2,030 | 102,030 | 102,030 | 3.42 |
| | | $248,682 | $1,000,000 | | $101,500 | $1,101,500 | $1,350,182 | |

| | |
|---|---|
| **AVERAGE (MATURITY) LIFE** | **5 YEARS** |
| **NET INTEREST RATE** | **2.030%** |
| **COST SAVINGS** | **$161,000** |
| **AVERAGE ANNUAL REQUIREMENT** | **$135,018** |

*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.*

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING A LOAN IN THE AMOUNT OF $1,000,000
TO THE NORTH PLAINS GROUNDWATER CONSERVATION DISTRICT
THROUGH THE AGRICULTURAL WATER CONSERVATION LOAN PROGRAM
FOR THE PURPOSE OF MAKING CONSERVATION LOANS
TO INDIVIDUAL BORROWERS

(19-__)

WHEREAS, North Plains Groundwater Conservation District, located in Dallam, Hansford, Hartley, Hutchinson, Lipscomb, Moore, Ochiltree, and Sherman Counties, Texas, (District), has filed an application for financial assistance with the Texas Water Development Board (TWDB) seeking a $1,000,000 loan through the Agricultural Water Conservation Loan Program for the purpose of serving as a "political subdivision" as that term is defined in §17.871 of the Texas Water Code; and

WHEREAS, the District represents that it will use the loan proceeds to make conservation loans to eligible individual borrowers for water conservation equipment, including materials, labor, and preparation and installation costs; and

WHEREAS, in accordance with Texas Water Code § 17.9021, the TWDB has considered:

1. the District's ability to repay the loan; and

2. whether this loan will further water conservation in the State of Texas; and

WHEREAS, in accordance with Texas Water Code § 17.9021, the TWDB hereby finds that:

1. the public interest is served by providing a loan to the District;

2. the District has the ability to repay the loan; and

3. the loan will further water conservation in the State of Texas.

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

The TWDB hereby approves a loan to North Plains Groundwater Conservation District in the amount of $1,000,000 through the Agricultural Water Conservation Loan Program for the purpose of making conservation loans to individual borrowers for the purchase of water conservation equipment including materials, labor, and preparation and installation costs. The Executive Administrator is authorized to enter into a loan agreement with the District. This commitment will expire on September 30, 2020.

Approval of the loan is subject to the following conditions:

1. delivery of loan funds is contingent upon the availability of funds;

2. prior to closing, the District shall execute a loan agreement acceptable to the Executive Administrator;

3. the District must continuously maintain in a reserve fund an amount equal to the average principal and interest payment over the duration of the new loan; and

3. in administering the loan funds, the District shall comply with all applicable state statutes and with the rules and requirements of the TWDB.

APPROVED and ordered of record this 5th day of September, 2019.

TEXAS WATER DEVELOPMENT BOARD

_____
Peter M. Lake
Chairman

ATTEST:

_____
Jeff Walker
Executive Administrator

☐ Water
☐ Wastewater
☑ Other Ag Loan

Attachment 4

# WATER CONSERVATION REVIEW

Entity: North Plains GCD

Review date: April 18, 2019

**WATER CONSERVATION PLAN DATE:** NA ☐ **Approvable** ☐ **Adopted**

| | Total GPCD | Residential GPCD | Water Loss GPCD | Water Loss Percent |
|---|---|---|---|---|
| **Baseline** | NA | NA | NA | NA |
| **5-year Goal** | NA | NA | NA | NA |
| **10-year Goal** | NA | NA | NA | NA |

**WATER LOSS AUDIT YEAR:** NA

Total water loss (GPCD): NA
Total water loss (percent): NA
Wholesale Water ☐
Total no. of connections: NA
Length of mains (miles): NA
Connections per mile: NA

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

**WATER LOSS THRESHOLDS:**

| | Apparent Loss Gallons per connection per day | Real Loss Gallons per mile per day | Real Loss Gallons per connection per day | Apparent Threshold Gallons per connection per day | Real Threshold Gallons per mile per day | Real Threshold Gallons per connection per day |
|---|---|---|---|---|---|---|
| If population ≤ 10K, connections/mile < 32 : | 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:**

The District's management plan provides examples of their commitment to conservation through educational programs, a groundwater conservation reserve program, and demonstrations of agricultural water conservation technologies.

The proposed loan project would allow the District to provide agricultural producers with low-interest loan funding for irrigation equipment improvements. According to their application, these activities would result in an estimated 877 acre-feet of water savings per year, or 8,770 acre-feet of water savings over the 10-year lifespan of the irrigation systems financed through the project.

The District is an eligible applicant and the proposed project is an eligible use of the Agricultural Water Conservation Fund. Pending availability of funding and Board approval, this project would further water conservation in the state and support the implementation of irrigation conservation strategies in the 2016 Panhandle (Region A) Regional Water Plan and 2017 State Water Plan.

**STAFF NOTES AND RECOMMENDATIONS:**

The District is not a public retail water supplier; therefore, is not required to submit a water loss audit.

## 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.

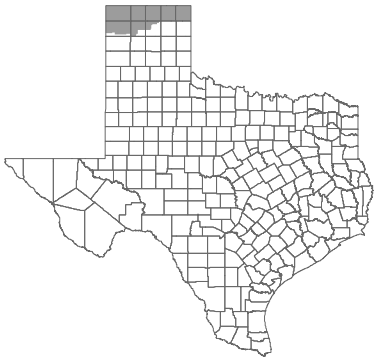
**Residential GPCD** is the amount of water per capita used solely for residential use and ideally includes both single and multi-family customer use.

**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.



# North Plains GCD
# Dallam, Sherman, Hansford, Ochiltree, Lipscomb, Hartley, Moore, and Hutchinson Counties