Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: February 27, 2020 **Director:** Clay Schultz

ACTION REQUESTED
Approve by resolution a request from the City of Rockdale (Milam County) for $16,215,000 in financial assistance consisting of $15,715,000 in financing and $500,000 in principal forgiveness from the Drinking Water State Revolving Fund for planning, acquisition, design, and construction of water system improvements.

STAFF RECOMMENDATION
☒ Approve ☐ No Action

BACKGROUND
The City of Rockdale (City) is located in Cottle County approximately 60 miles northeast of Austin, Texas. The City provides water and wastewater services to a population of approximately 5,492 residents.

PROJECT NEED AND DESCRIPTION
The City of Rockdale (City) has received a corrective action notice from the Texas Commission on Environmental Quality (TCEQ) regarding outstanding water treatment plant and distribution system violations. Outstanding issues include failure to meet the Secondary Maximum Contaminant Level for corrosivity, water leaving treatment plant with lower pH than the Environmental Protection Agency (EPA) recommended, inappropriate sample taps, inability to measure iron and manganese levels throughout the treatment process, and an outdated distribution system map. Currently, the high corrosivity of the City's water is eroding the waterlines, leaching iron into the drinking water, rendering it unsafe to drink and visibly red. Additionally, the City has identified areas of inadequate water main capacity, a need for increased water storage, and a desire to replace obsolete pipe materials.

The City identified the immediate water infrastructure need as replacement of the failing cast iron water lines. Replacement of these lines is anticipated to reduce leached iron from the cast iron pipes and production load on the water treatment facility, and produce an overall increase in water quality, color, and availability.

COMMITMENT PERIOD: SIX (6) MONTHS TO EXPIRE AUGUST 31, 2020.

PROJECT SCHEDULE

Task	Schedule Date
Closing	June 15, 2020
Engineering Feasibility Report Complete (End of Planning Phase)	November 30, 2020
Design Phase	November 30, 2021
Start of Construction	May 31, 2022
Construction Completion	December 31, 2024

KEY ISSUES

The City qualifies for $500,000 in principal forgiveness as a disadvantaged—small/rural community. The City qualifies for $3,065,000 in zero-interest financing as a disadvantaged—small/rural community.

The City is requesting financing from both the Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Fund (DWSRF). Staff's analysis and debt service schedules includes both requests.

The proposed CWSRF and DWSRF projects pose a significant debt burden for the City. To mitigate the risk associated with the size of the projects, the City took steps to better manage their obligations. The City pledged both ad valorem taxes and surplus utility system revenues, the City downsized the scope to address the most critical project first, and the City requested a non-level debt service structure to optimize repayment of the proposed financing and current outstanding obligations. In addition, the City preformed a rate study in December of 2018 and implemented a new tiered water and sewer rate structure.

The City passed the first of several planned rate increases under this new structure in November of 2019 and plans to pass the next rate increase in late February. At the time of analysis, the average monthly water and sewer bill was $96.48, and the City levied and interest and sinking (I&S) tax rate of $0.2388 per $100 of assessed valuation. Based on a historical collection rate of 96 percent, this resulted in net revenues that provided a coverage ratio of 0.82 times the current and proposed debt service in the first year of principal repayment. The November 2019 rate increase resulted in an average monthly bill of $107.26 and produced additional revenues of $242,938 resulting in a coverage ratio of 0.95 in the first year of principal repayment. The planned February rate increases would result in an average monthly bill of $119.76 and produce additional revenues of approximately $281,700. The additional revenues are projected to result in a coverage ratio of 1.10 in the first year of principal repayment and is sufficient to meet current and proposed debt service requirements.

The projected rate increases result in a high household cost factor for a disadvantaged area. The City has taken steps to inform the citizens through outreach and public hearings of the need for the utility system to get back into compliance with TCEQ regulations.

The City is above its real water loss thresholds. The proposed project will address real loss by replacing aging and leaking water lines. This could reduce their water loss by approximately 15 percent.

A favorable financial, managerial, and technical (FMT) assessment for the City was issued by the TCEQ on February 11, 2019. Recommended improvements from the FMT which will be addressed by the proposed project are chemical violations, water loss, and correction of inspection deficiencies.

LEGAL

Special Conditions

- Adopt a water conservation plan
- Executed principal forgiveness agreement
- Return of surplus principal forgiveness funds

FINANCIAL

Risk Score: 2C

Key Indicators

Indicator	Result	Benchmark
Population Growth, Average Annual 2010-2017 City:	-0.24%	State: 1.24%
Top 10 Taxpayers as % Total AV	13.18%	<15%
Median Household Income as % of State	55%	100%
Days of Cash on Hand (3-year Average)	750	30-149 days
Direct Debt as % Total Assessed Valuation	2.44%	2-5%
Debt Service Coverage Ratio	0.82x	1.0x
Asset Condition Ratio	23 years	12-24 years
Top 10 Customers of the System	18%	< 10-15%
Debt-to-Operating Revenues	9.95	4.00-5.99
Working Capital Ratio	4.07	> 1.0
Debt per Capita	$7,111	$1,500 - $1,999
Assessed Valuation Growth, Average Annual 2014-2019	3.99%	Stable Trend
Unemployment (Milam County November 2019)	4.4%	State: 3.3%

Key Risk Score Strengths

- Increasing cash on hand
- Increasing assessed value of the City

Key Risk Score Concerns

- High unemployment coupled with modest population decline
- High levels of outstanding debt in the short term
- High projected household cost factor coupled with a below average median household income index

PLEDGE

Type of Pledge	☐ Tax ☐ Revenue ☒ Tax & Revenue ☐ Contract ☐ Other
Revenue Pledge Level	☐ First ☐ Second ☒ Third ☐ N/A

RATES AND CHARGES

Average Residential Use	Gallons/Month	Current Rates	Projected Rates	Current Household Cost Factor	Projected Household Cost Factor
WATER	6,200	$64.45	$83.03	4.6	5.84
WASTEWATER	6,200	$42.26	$56.55		

TAXES

	2019 Tax Year Rate	Max Projected Tax Rate	Maximum Allowable Rate	3-Year Avg Current Tax Collections
Maintenance & Operation	$0.6730	$0.6730	$2.50	96%
Interest & Sinking	$0.2388	$0.2388		
Total Tax Rate	$0.9118	$0.9118		

<u>Cost Savings</u>
Based on a 30-year maturity and current interest rates, the City could save approximately $4,860,330 over the life of the financing. The City is also saving $500,000 in principal forgiveness.

Attachments:

1. Project Data Summary
2. Debt Service Schedule
3. Project Budget
4. Resolution (20-)
5. Water Conservation Review
6. Location Map

Project Data Summary

Responsible Authority	City of Rockdale
Program	Drinking Water State Revolving Fund
Commitment Code	L1001108, L1001109, & LF1001107
Project Number	62833
Intended Use Plan Year	2019
Type of Pledge	3- Combo Tax and Rev
Revenue Pledge Level	Third
Legal Description	$12,650,000 City of Rockdale, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Series 2020A $3,065,000 City of Rockdale, Texas Combination Tax and Surplus Revenue Certificated of Obligation, Series 2020B $500,000 Principal Forgiveness Agreement
Tax-exempt or Taxable	Tax-exempt
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay = Escrow
Population	5,492
Rural	Yes
Water Connections	2,435
Wastewater Connections	2,435
Qualifies as Disadvantaged	Yes
State Revolving Fund Type	N/A
SWIFT Financing Type	N/A
SWIFT Characteristic	N/A
Financial Managerial & Technical Complete	Yes
Funding Phase Code	Planning, Acquisition, Design, and Construction
Pre-Design	Yes
Project Consistent with Water Plan	Yes
Water Conservation Plan	Approvable
Water Rights Certification Required	No
Internal Risk Score	2C
External Ratings (for SRF rates)	
Standard and Poor's	Non-Rated
Moody's	Non-Rated
Fitch	Non-Rated
Special Issues	Principal forgiveness and zero interest loan

Project Team

Director	Clay Schultz
Financial Analyst	Lina Linehan
Engineering Reviewer	Marcus Snell
Environmental Reviewer	Chris Caran
Attorney	Joe Reynolds

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
City of Rockdale

$12,650,000 Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2020A

Dated Date:	**6/15/2020**	**Source:**	**DWSRF**
Delivery Date:	**6/15/2020**	**Rate:**	**1.11%**
First Interest:	**12/15/2020**	**IUP Year:**	**2019**
First Principal	**6/15/2021**	**Case:**	**Tax and Revenue**
Last Principal:	**6/15/2050**	**Admin.Fee:**	**$ 266,251**
Fiscal Year End:	**09/30**	**Admin. Fee Payment Date:**	**6/15/2020**
Required Coverage:	**1.1**	**Total Assessed Valuation:**	**$ 226,913,285**

$8,790,000 Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2020C

Dated Date:	**6/15/2020**	**Source:**	**CWSRF-NON-EQUIVALENCY**
Delivery Date:	**6/15/2020**	**Rate:**	**1.16%**
First Interest:	**12/15/2020**	**IUP Year:**	**2019**
First Principal	**6/15/2021**	**Case:**	**Tax and Revenue**
Last Principal:	**6/15/2050**	**Admin.Fee:**	**$151,179**
Fiscal Year End:	**9/30**	**Admin. Fee Payment Date:**	**6/15/2020**
Required Coverage:	**1.1**		

						$12,650,000 DWSRF ISSUE				**$8,790,000 CWSRF ISSUE**				**$5,100,000 ZERO INTEREST ISSUES 2020B & 2020D**		
FISCAL YEAR	**CURRENT TAX RATE**	**REQUIRED TAX REVENUES WITH COLL. @ 96%**	**PROJECTED NET SYSTEM REVENUES**	**PROJECTED TOTAL REVENUES**	**CURRENT DEBT SERVICE**	**PRINCIPAL PAYMENT**	**INTEREST RATE**	**INTEREST PAYMENT**	**TOTAL PAYMENT**	**PRINCIPAL PAYMENT**	**INTEREST RATE**	**INTEREST PAYMENT**	**TOTAL PAYMENT**	**TOTAL PARYMENT**	**DEBT SERVICE**	**ACTUAL COVERAGE**
2021	$0.2388	$520,177	$1,562,552	$2,082,729	$1,391,011	$100,000	1.11%	$140,415	$240,415	100,000	1.16%	$101,964	$201,964	$60,000	$1,893,390	1.10
2022	0.2388	520,177	1,562,552	2,082,729	1,391,201	100,000	1.11%	139,305	239,305	100,000	1.16%	100,804	200,804	60,000	$1,891,310	1.10
2023	0.2388	520,177	1,562,552	2,082,729	1,390,306	100,000	1.11%	138,195	238,195	100,000	1.16%	99,644	199,644	60,000	$1,888,145	1.10
2024	0.2388	520,177	1,562,552	2,082,729	1,378,319	100,000	1.11%	137,085	237,085	100,000	1.16%	98,484	198,484	60,000	$1,873,888	1.11
2025	0.2388	520,177	1,562,552	2,082,729	1,381,813	100,000	1.11%	135,975	235,975	100,000	1.16%	97,324	197,324	60,000	$1,875,112	1.11
2026	0.2388	520,177	1,562,552	2,082,729	1,154,119	100,000	1.11%	134,865	234,865	100,000	1.16%	96,164	196,164	60,000	$1,645,148	1.27
2027	0.2388	520,177	1,562,552	2,082,729	1,036,667	100,000	1.11%	133,755	233,755	100,000	1.16%	95,004	195,004	60,000	$1,525,426	1.37
2028	0.2388	520,177	1,562,552	2,082,729	996,337	140,000	1.11%	132,645	272,645	150,000	1.16%	93,844	243,844	110,000	$1,622,826	1.28
2029	0.2388	520,177	1,562,552	2,082,729	946,692	160,000	1.11%	131,091	291,091	150,000	1.16%	92,104	242,104	110,000	$1,589,887	1.31
2030	0.2388	520,177	1,562,552	2,082,729	947,855	170,000	1.11%	129,315	299,315	150,000	1.16%	90,364	240,364	110,000	$1,597,534	1.30
2031	0.2388	520,177	1,562,552	2,082,729	953,228	180,000	1.11%	127,428	307,428	150,000	1.16%	88,624	238,624	110,000	$1,609,280	1.29
2032	0.2388	520,177	1,562,552	2,082,729	497,844	200,000	1.11%	125,430	325,430	250,000	1.16%	86,884	336,884	110,000	$1,270,158	1.64
2033	0.2388	520,177	1,562,552	2,082,729	86,296	500,000	1.11%	123,210	623,210	260,000	1.16%	83,984	343,984	110,000	$1,163,490	1.79
2034	0.2388	520,177	1,562,552	2,082,729	-	520,000	1.11%	117,660	637,660	300,000	1.16%	80,968	380,968	210,000	$1,228,628	1.70
2035	0.2388	520,177	1,562,552	2,082,729	-	550,000	1.11%	111,888	661,888	310,000	1.16%	77,488	387,488	210,000	$1,259,376	1.65
2036	0.2388	520,177	1,562,552	2,082,729	-	580,000	1.11%	105,783	685,783	320,000	1.16%	73,892	393,892	210,000	$1,289,675	1.61
2037	0.2388	520,177	1,562,552	2,082,729	-	590,000	1.11%	99,345	689,345	340,000	1.16%	70,180	410,180	210,000	$1,309,525	1.59
2038	0.2388	520,177	1,562,552	2,082,729	-	610,000	1.11%	92,796	702,796	350,000	1.16%	66,236	416,236	210,000	$1,329,032	1.57
2039	0.2388	520,177	1,562,552	2,082,729	-	620,000	1.11%	86,025	706,025	360,000	1.16%	62,176	422,176	240,000	$1,368,201	1.52
2040	0.2388	520,177	1,562,552	2,082,729	-	630,000	1.11%	79,143	709,143	370,000	1.16%	58,000	428,000	240,000	$1,377,143	1.51
2041	0.2388	520,177	1,562,552	2,082,729	-	640,000	1.11%	72,150	712,150	380,000	1.16%	53,708	433,708	240,000	$1,385,858	1.50
2042	0.2388	520,177	1,562,552	2,082,729	-	650,000	1.11%	65,046	715,046	390,000	1.16%	49,300	439,300	240,000	$1,394,346	1.49
2043	0.2388	520,177	1,562,552	2,082,729	-	670,000	1.11%	57,831	727,831	400,000	1.16%	44,776	444,776	240,000	$1,412,607	1.47
2044	0.2388	520,177	1,562,552	2,082,729	-	680,000	1.11%	50,394	730,394	410,000	1.16%	40,136	450,136	250,000	$1,430,530	1.46
2045	0.2388	520,177	1,562,552	2,082,729	-	690,000	1.11%	42,846	732,846	420,000	1.16%	35,380	455,380	250,000	$1,438,226	1.45
2046	0.2388	520,177	1,562,552	2,082,729	-	690,000	1.11%	35,187	725,187	430,000	1.16%	30,508	460,508	250,000	$1,435,695	1.45
2047	0.2388	520,177	1,562,552	2,082,729	-	690,000	1.11%	27,528	717,528	440,000	1.16%	25,520	465,520	250,000	$1,433,048	1.45
2048	0.2388	520,177	1,562,552	2,082,729	-	690,000	1.11%	19,869	709,869	450,000	1.16%	20,416	470,416	250,000	$1,430,285	1.46
2049	0.2388	520,177	1,562,552	2,082,729	-	690,000	1.11%	12,210	702,210	460,000	1.16%	15,196	475,196	250,000	$1,427,406	1.46
2050	0.2388	520,177	1,562,552	2,082,729	-	410,000	1.11%	4,551	414,551	850,000	1.16%	9,860	859,860	270,000	$1,544,411	1.35
				$62,481,860	$13,551,686	$12,650,000		$2,808,966	$15,458,966	$8,790,000		$2,038,932	$10,828,932	$ 5,100,000	$44,939,584	

$12,650,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	20 YEARS
NET INTEREST RATE	1.110%
COST SAVINGS	$ 5,574,104
AVERAGE ANNUAL REQUIREMENT	$498,676

$8,790,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	20 YEARS
NET INTEREST RATE	1.160%
COST SAVINGS	$ 3,028,650
AVERAGE ANNUAL REQUIREMENT	$349,320

TOTAL AVERAGE ANNUAL REQUIREMENTS
$1,497,986

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.

Attachment 3

Texas Water Development Board

Project Budget Summary

Rockdale

62833 - Water Distribution Improvements

Budget Items	This Commitment	Total
Construction		
Construction	$11,690,000.00	$11,690,000.00
Subtotal for Construction	**$11,690,000.00**	**$11,690,000.00**
Basic Engineering Services		
Construction Engineering	$241,000.00	$241,000.00
Design	$352,000.00	$352,000.00
Planning	$595,000.00	$595,000.00
Subtotal for Basic Engineering Services	**$1,188,000.00**	**$1,188,000.00**
Special Services		
Environmental	$79,000.00	$79,000.00
Geotechnical	$35,000.00	$35,000.00
Inspection	$286,000.00	$286,000.00
Permits	$67,000.00	$67,000.00
Project Management (by engineer)	$53,000.00	$53,000.00
Surveying	$695,000.00	$695,000.00
Testing	$47,000.00	$47,000.00
Subtotal for Special Services	**$1,262,000.00**	**$1,262,000.00**
Fiscal Services		
Bond Counsel	$33,715.00	$33,715.00
Financial Advisor	$68,637.50	$68,637.50
Fiscal/Legal	$12,565.00	$12,565.00
Loan Origination Fee	$330,762.00	$330,762.00
Subtotal for Fiscal Services	**$445,679.50**	**$445,679.50**
Other		
Project Legal Expenses	$13,000.00	$13,000.00
Subtotal for Other	**$13,000.00**	**$13,000.00**
Contingency		
Contingency	$1,616,320.50	$1,616,320.50
Subtotal for Contingency	**$1,616,320.50**	**$1,616,320.50**
Total	$16,215,000.00	$16,215,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF $16,215,000 TO CITY OF ROCKDALE FROM THE DRINKING WATER STATE REVOLVING FUND THROUGH THE PROPOSED PURCHASE OF $12,650,000 CITY OF ROCKDALE, TEXAS COMBINATION TAX AND SURPLUS NET SYSTEM REVENUE CERTIFICATES OF OBLIGATION, PROPOSED SERIES 2020A, $3,065,000 CITY OF ROCKDALE, TEXAS COMBINATION TAX AND SURPLUS NET SYSTEM REVENUE CERTIFICATES OF OBLIGATION, PROPOSED SERIES 2020B, AND $500,000 IN PRINCIPAL FORGIVENESS

(20 --)

WHEREAS, the City of Rockdale (City), located in Milam County, has filed an application for financial assistance in the amount of $16,215,000 from the Drinking Water State Revolving Fund (DWSRF) to finance the planning, acquisition, design and construction of certain water system improvements identified as Project No. 62833; and

WHEREAS, the City seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of $12,650,000 City of Rockdale, Texas Combination Tax and Surplus Net System Revenue Certificates of Obligation, Proposed Series 2020A; $3,065,000 City of Rockdale, Texas Combination Tax and Surplus Net System Revenue Certificates of Obligation, Proposed Series 2020B, (together with all authorizing documents (Obligations)); and the execution of a Principal Forgiveness Agreement in an amount of $500,000, 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 ad valorem taxes and a lien on the surplus net revenues of the system 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 City will be sufficient to meet all the Obligations assumed by the City, in accordance with Texas Water Code § 15.607;

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

3. that the City has submitted a proposed program of water conservation for the more efficient use of water that will meet reasonably anticipated local needs and

conditions and that incorporates practices, techniques or technology prescribed by the Texas Water Code and TWDB's rules;

4. that the TWDB has approved a regional water plan for the region of the state that includes the area benefiting from the project and the needs to be addressed by the project will be addressed in a manner that is consistent with the approved regional and state water plans, as required by Texas Water Code § 16.053(j);

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

6. that the City meets the definition of a "small" or "rural" disadvantaged community in the applicable IUP and is therefore eligible for principal forgiveness in the amount of 500,000; and that the City meets the definition of a very small system in accordance with the current Intended Use Plan and is therefore eligible for a reduced interest rate.

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

A commitment is made by the TWDB to the City of Rockdale for financial assistance in the amount of $16,215,000 from the Drinking Water State Revolving Fund through the TWDB's proposed purchase of $12,650,000 City of Rockdale, Texas Combination Tax and Surplus Net System Revenue Certificates of Obligation, Proposed Series 2020A; $3,065,000 City of Rockdale, Texas Combination Tax and Surplus Net System Revenue Certificates of Obligation, Proposed Series 2020B; and the execution of a Principal Forgiveness Agreement in the amount of $500,000. This commitment will expire on August 31, 2020.

Such commitment is conditioned as follows:

<u>Standard Conditions</u>

1. this commitment is contingent on a future sale of bonds by the TWDB or on the availability of funds on hand;

2. this commitment is contingent upon the issuance of a written approving opinion of the Attorney General of the State of Texas stating that all of the requirements of the laws under which said Obligations were issued have been complied with; that said Obligations were issued in conformity with the Constitution and laws of the State of Texas; and that said Obligations are valid and binding obligations of the City;

3. this commitment is contingent upon the City's compliance with all applicable requirements contained in 31 TAC Chapter 371;

4. the Obligations must provide that the 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 contain a provision that the TWDB may exercise all remedies available to it in law or equity, and any provision of the Obligations that restricts or limits the TWDB's full exercise of these remedies shall be of no force and effect;

10. loan proceeds are public funds and, as such, the Obligations must include a provision requiring that these proceeds shall be held at a designated state depository institution or other properly chartered and authorized institution in accordance with the Public Funds Investment Act, Government Code, Chapter 2256, and the Public Funds Collateral Act, Government Code, Chapter 2257;

11. loan proceeds shall not be used by the City when sampling, testing, removing or disposing of contaminated soils and/or media at the project site. The Obligations shall include an environmental indemnification provision wherein the City agrees to indemnify, hold harmless and protect the TWDB from any and all claims, causes of action or damages to the person or property of third parties arising from the sampling, analysis, transport, storage, treatment and disposition of any contaminated sewage sludge, contaminated sediments and/or contaminated media that may be generated by the City, its contractors, consultants, agents, officials and employees as a result of activities relating to the project to the extent permitted by law;

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

13. prior to closing, and if not previously provided with the application, the City shall submit executed contracts for engineering and, if applicable, financial advisor and bond counsel contracts, for the project that are satisfactory to the Executive Administrator. Fees to be reimbursed under the contracts must be reasonable in relation to the services performed, reflected in the contract, and acceptable to the Executive Administrator;

14. prior to closing, when any portion of the financial assistance is to be held in escrow or in trust, the City shall execute an escrow or trust agreement, approved as to form and substance by the Executive Administrator, and shall submit that executed agreement to the TWDB;

15. the Executive Administrator may require that the City execute a separate financing agreement in form and substance acceptable to the Executive Administrator;

16. the TWDB retains the option to purchase the Obligations in separate lots and/or on an installment basis, with delivery of the purchase price for each installment to be paid against delivery of the relevant installment of Obligations as approved by the Executive Administrator;

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

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

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

19. the Obligations must include a provision prohibiting the City from using the proceeds of this loan in a manner that would cause the Obligations to become "private activity bonds" within the meaning of section 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 section 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 section 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 percent 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 section 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 section 148(f) of the Code, section 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 section 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 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 section 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 section 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;

33. Obligations and the Principal Forgiveness Agreement must contain a covenant that the City will abide by all applicable construction contract requirements related to the use of iron and steel products produced in the United States, as required by 31 TAC § 371.4 and related State Revolving Fund Policy Guidelines;

Drinking Water State Revolving Fund Conditions

34. the City shall pay at closing an origination fee approved by the Executive Administrator or the TWDB pursuant to 31 TAC Chapter 371;

35. prior to closing, the Texas Commission on Environmental Quality, must make a determination, the form and substance of which is satisfactory to the Executive Administrator, that the City has demonstrated the necessary financial, managerial, and technical capabilities to proceed with the project or projects to be funded with the proceeds of these Obligations;

36. prior to the release of funds for professional consultants including, but not limited to, the engineer, financial advisor, and bond counsel, as appropriate, the City must provide documentation that it has met all applicable state procurement requirements as well as all federal procurement requirements under the Disadvantaged Business Enterprises program;

Pledge Conditions for the Loan

37. the Obligations must contain a provision that provides as follows:

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

    b. if surplus revenues are based upon budgeted amounts:

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

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

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

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

Special Conditions:

38. prior to closing, the City shall adopt and implement the water conservation program approved by the TWDB.

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

40. 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 27th day of February, 2020.

TEXAS WATER DEVELOPMENT BOARD

_____
Peter M. Lake, Chairman

DATE SIGNED: _____

ATTEST:

_____
Jeff Walker, Executive Administrator

☑ Water
☐ Wastewater
☐ Other

Attachment 5

WATER CONSERVATION REVIEW

Entity: City of Rockdale

Review date: June 2019

WATER CONSERVATION PLAN DATE: May 2019 ☑ **Approvable** ☐ **Adopted**

	Total GPCD	Residential GPCD	Water Loss GPCD	Water Loss Percent
Baseline	130	60	50	38
5-year Goal	130	62	47	36
10-year Goal	110	59	40	36

WATER LOSS AUDIT YEAR: 2018

Total water loss (GPCD): 76
Total no. of connections: 2,143
Total water loss (percent): 51
Length of mains (miles): 60
Wholesale Water ☐
Connections per mile: 35

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 :	3	NA	227	14	NA	50
If population > 10K :	NA	NA	NA	NA	NA	NA

Does the applicant meet Water Loss Threshold requirements? Yes ○ No ● NA ○

ADDITIONAL INFORMATION:

The city's water conservation plan states that the city will continue its existing water conservation policies and increase its emphasis on future water conservation measures to accomplish the goals set forth in the plan.

The city provides education and information to new customers and current customers reporting abnormally high water use. Additionally, they provide training and informational resources on native plants and grasses to reduce current water demands. Although not mandatory, the city promotes xeriscaping landscape techniques and rainwater harvesting grants for businesses and residents. The city has instituted procedures to improve accounting for unmetered water use resulting from flushing water mains, firefighting, and main breaks, further reducing the amount of unaccounted for water.

STAFF NOTES AND RECOMMENDATIONS:

The city will need to provide proof of adoption of its water conservation plan prior to loan closing.

The city is above its threshold for real water loss and its request for financial assistance includes replacing up to 75 percent of the water lines in its distribution system. Many of the existing lines are up to 80 years old. The city estimates replacing water lines could reduce water lost by 15 percent, amounting to approximately 18,809,122 gallons annually.

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.

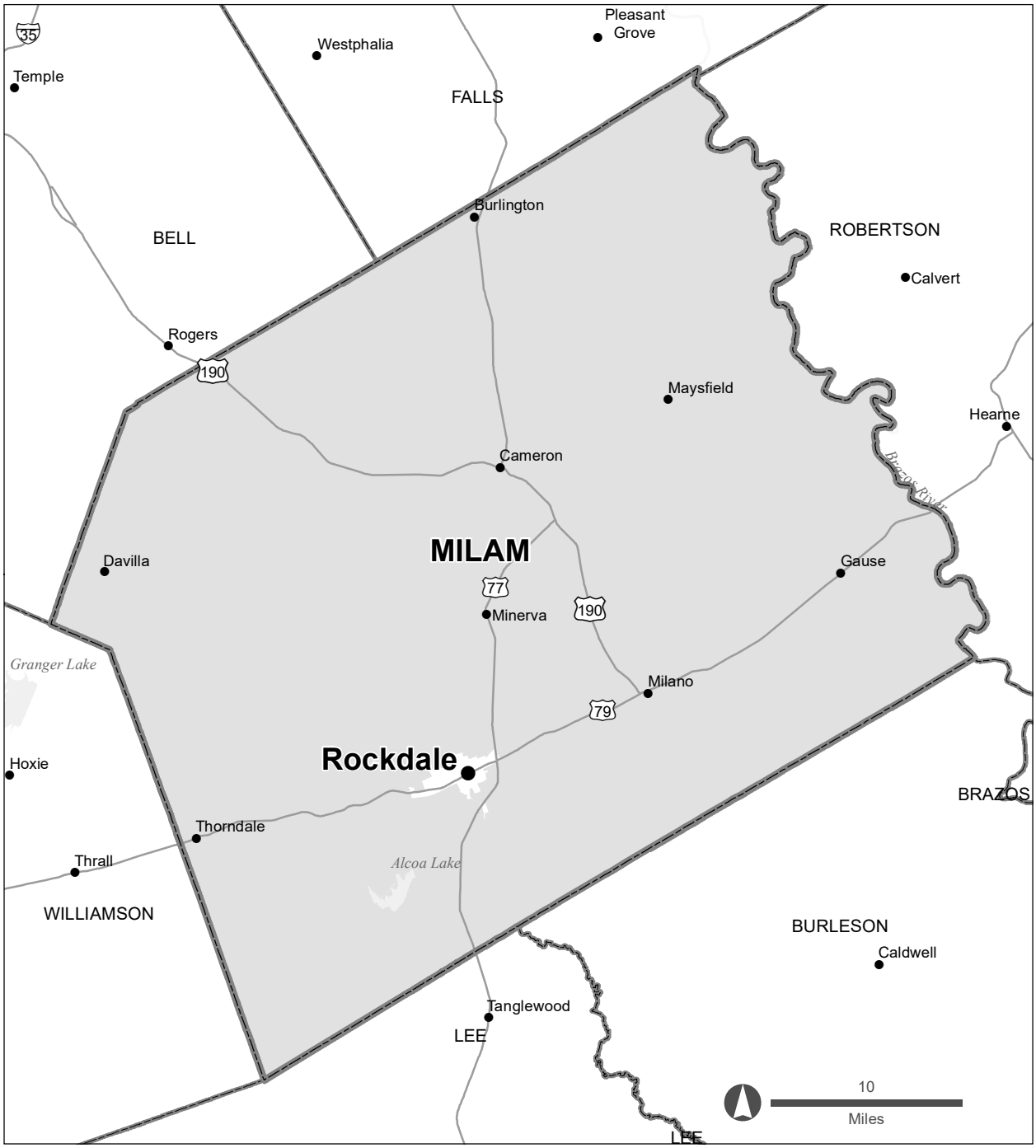
Real loss comes from main breaks and leaks, storage tank overflows, customer service line breaks, and leaks.

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 Rockdale
Milam County