

AGENDA ITEM MEMO

BOARD MEETING DATE: January 14, 2021

TO: Board Members

THROUGH: Jeff Walker, Executive Administrator
Ashley Harden, General Counsel
Jessica Zuba, Deputy Executive Administrator

FROM: Mark Wyatt, Director, Program Administration & Reporting

SUBJECT: Interest Rate Subsidy Methodology Change

ACTION REQUESTED

Briefing and discussion regarding anticipated interest rate subsidies and financing terms that would be available through the Clean and Drinking Water State Revolving Fund (SRF) programs under the State Fiscal Year (SFY) 2022 Intended Use Plans (IUPs).

BACKGROUND

Municipal bond interest rates have declined to historically low levels. At the same time, demand for assistance through the Clean and Drinking Water SRF programs has been extremely high. Texas Water Development Board's (TWDB) intent is to continue to offer applicants the best financial rates as possible within the SRF's capabilities. The sustainability of the SRFs depends, in part, on income from interest rates. Because of the historically low interest levels and high demand, the prior interest rate subsidy methodology is no longer sustainable for the programs. The TWDB has in a series of carefully measured steps recently adjusted the interest rate subsidies offered on prior IUPs to ensure the long-term health of the SRF programs.

Amended SFY 2020 IUPs

On November 24, 2020, TWDB proposed for public comment certain amendments to the SFY 2020 IUPs that would establish minimum interest rates for both the Clean and Drinking Water SRF programs. The proposed minimum interest rates were similar in approach to the minimum interest rate per maturity offered through the SFY 2021 IUPs.

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Jeff Walker, Executive Administrator

Specifically, the minimum annual interest rate, per maturity for bonds or for each interest payment for loans, utilizing the Thomson Reuters Municipal Market Data (MMD) rating scale for both Equivalency and Non-Equivalency funding adjusted for yield to maturity is:

AAA	AA	A	Baa and Non-rated
0.45%	0.60%	0.80%	1.10%

The minimum interest rates do not apply to any portion of financing that is offered at zero percent.

To provide further opportunity for comment, the TWDB held a virtual public hearing on December 8, 2020. No comments were received in writing or at the public hearing on the amended IUPs. The revised terms applied to entities on the SFY 2020 IUP lists that had not yet received a commitment as of the effective date of December 16, 2020. These changes to the SFY 2020 IUPs greatly benefited the SRF programs' short- and long-term abilities to provide low-cost funding while offering attractive interest rates.

Amended SFY 2021 Intended Use Plan

The TWDB included minimum interest rates for both the SFY 2021 Clean and Drinking Water SRF programs at the time the IUPs were adopted on November 5, 2020. The minimum annual interest rate, per maturity for bonds or for each interest payment for loans, utilizing the appropriate MMD rating scale for Equivalency and Non-Equivalency funding adjusted for yield to maturity were established as:

AAA		AA		A		Baa and Non-Rated	
Equivalency	Non-Equival	Equivalency	Non-Equival	Equivalency	Non-Equival	Equivalency	Non-Equival
0.95%	1.10%	1.10%	1.25%	1.30%	1.45%	1.60%	1.75%

On December 2, 2020, to extend our lending capacity and accommodate the financial needs of communities now and in the future, the TWDB proposed additional amendments to the SFY 2021 IUPs that included the following:

- Revising the available amount of funds to
 - \$250 million through the Clean Water SRF and
 - \$150 million through the Drinking Water SRF.
- Reducing the amount of available zero interest loans to \$15 million for both the SRFs.
- Suspending multi-year commitments for both the SRFs.
- Adjusting the maximum loan/bond commitment amount a project may receive to
 - \$44 million from the Clean Water SRF and
 - \$24 million from the Drinking Water SRF.

- Adjusting the maximum amount of equivalency funds available to
 - \$125 million from the Clean Water SRF, and
 - \$100 million from the Drinking Water SRF.
- Establishing deadlines to receive complete applications for both SRFs.
- Revising the Clean Water SRF requirements for Emergency Relief funding.

To provide further opportunity for comment, the TWDB held a virtual public hearing on December 15, 2020. The TWDB received one comment on the proposed amended Clean Water SRF IUP and four comments on the Drinking Water SRF IUP. The public comments and TWDB's responses are shown in an attachment.

The TWDB is including a revision to the language in the proposed amended SFY 2021 IUPs to allow an increase in the maximum loan amounts if necessary to fully allocate funds.

It was revised to provide that after all projects on the Project Priority List (PPL) as of March 31, 2021 have received an invitation and the last application deadline has occurred, if funds remain available then the TWDB may increase the maximum as the Executive Administrator determines is appropriate to fully allocate funds. Allocation of remaining funds will consider first those projects on the initial IUP PPL in rank order and then any projects that were subsequently added in order of receipt of a fully completed Project Information Form. The proposed amended SRF IUPs were effective December 21, 2020.

The amended IUPs have enhanced TWDB's ability to continue offering applicants the best financial rates and service within our capabilities while being mindful of both current and future needs. These adjustments have positioned the SRF programs well for a transition to a new interest rate reduction methodology for SFY 2022.

KEY ISSUES

For SFY 2022, the TWDB anticipates establishing a new interest rate reduction methodology. Historically, the SRFs interest rate subsidy has been based on a set basis point reduction off the MMD scale. Application of this method has become complex in the current low-interest rate environment. The new methodology would apply a percentage reduction from the MMD rate adjusted for yield to maturity that is applicable to the entity's rating, with non-rated entities using the Baa rate. The applicable percentage reduction is as follows:

CWSRF program:

Equivalency projects: 40% reduction

Non-Equivalency projects: 35% reduction

DWSRF program:

Equivalency projects: 35% reduction

Non-Equivalency projects: 30% reduction

The TWDB believes this new percentage reduction method is the optimal long-term interest rate subsidy model to employ in the SRF programs.

In addition, the TWDB anticipates retaining the capacity levels and other changes that were included in the amended SFY 2021 IUPs.

RECOMMENDATION

This presentation is to provide a briefing and opportunity for discussion on anticipated interest rate subsidies and financing terms under the Clean and Drinking Water SRFs SFY 2022 IUPs. No action is required.

Attachment: Comments and responses on the amended SFY 2021 SRF IUPs

Texas Water Development Board**Response to Comments on the Proposed Amended State Fiscal Year (SFY) 2021 Clean and Drinking Water State Revolving Fund Intended Use Plans (IUPs)**

The following provides a summary of the public comments, the Texas Water Development Board (TWDB) responses, and changes to the proposed amended SFY 2021 State Revolving Fund IUPs.

CWSRF IUP:**North Texas Municipal Water District**

Comment submitted by: Drew Farris, NTMWD

Comment Date: December 15, 2020

Comment:

Dear Mr. Wyatt,

The North Texas Municipal Water District (NTMWD) provides wholesale wastewater services to 24 communities and 1.3 million residents of North Texas. The District treats the majority of wastewater at 13 wastewater treatment plants, four of which comprise of our Regional Wastewater Treatment Plants (RWWTP). Wastewater Conveyance (Interceptor) Systems transport wastewater to the treatment plants through 250 miles of large-diameter wastewater pipelines. The plants process and treat approximately 152 million gallons of wastewater daily. In 2019, 38.2 billion gallons of wastewater were billed for treatment by the Regional Wastewater System alone. Some of the fastest growing communities in the nation are located in the northern part of the NTMWD service area. In preparation of the unprecedented growth, NTMWD is constructing the Sister Grove Regional Water Resource Recovery Facility (RWRRF) project. Financed with equivalency funding using TWDB's CWSRF program, the commitment saved millions in interest costs and is a valuable success for this project. NTMWD strives to provide our service area high quality, essential wastewater services while utilizing cost efficient funding resources.

The TWDB Intended Use Plan (IUP) that was approved by the TWDB on November 5, 2020 includes the verbiage below that led NTMWD to begin preparing the applications for projects listed on the Initial Invited Projects Lists:

- The IUP contains the State's priority list of projects to receive funding under the CWSRF. This list is subdivided further into an Initial Invited Projects List (Appendix K), which represents the projects that will be invited to submit applications after Board approval of the IUP. After the initial invitation round, the remaining

applications for funding under this SFY 2021 IUP will be accepted on a first-come, first-served basis throughout the year until the SFY 2022 IUP is approved or the program reaches funding capacity.

The estimated savings in the subsidies will meet the current and future goals of the CWSRF program to assist communities by providing below market-rate financing and various levels of principal forgiveness for a wide range of projects that facilitate compliance with the water pollution control requirements of the Clean Water Act (CWA). The program provides year-round funding of wastewater and other eligible projects after they have been included in the Intended Use Plan.

The NTMWD has reviewed the amended SFY2021 Intended Use Plan (IUP) and respectfully proposes the following amendments for TWDB's consideration:

1. Consider increasing the loan/bond commitment amount a project may receive from \$44 Million in Clean Water SRF.

- NTMWD provides regional/wholesale wastewater services which require large financial commitments for upcoming growth related projects. NTMWD was considering to apply for five projects, four of which ranges in project costs of \$47 - \$75 Million. Consideration of increasing the loan commitment per project would allow NTMWD to apply for most or possibly for all five of the upcoming projects.

2. If increasing the loan/bond commitment amount isn't possible, consider the allowance of projects to be split into multiple applications but score and approve as one or individually.

- NTMWD's preference is to issue one application per project but in order to utilize TWDB funding, filing multiple Project Information Forms (PIFs) and applications can occur allowable. However, filing multiple PIFs and applications may create duplication of effort for both NTMWD and the TWDB.

3. Consider increasing the loan/bond commitment amount a project may receive from the proposed \$44 Million in Clean Water SRF for projects that serve a large service area or determine funding maximum based on per capita impact.

- As a wholesale provider of wastewater services, the NTMWD service area continues to experience accelerated growth. Utilizing the low interest Clean Water SRF for residents of North Texas benefits a large service area.

4. The COVID-19 pandemic continues to destabilize markets, office staffing and everyday life of Texans. No entity is immune to the effects of the COVID-19 pandemic including NTMWD. The TWDB assumes a tremendous amount of responsibilities with the review process. Given the current conditions, consider outsourcing staffing needs where constraints occur within staffing constraints. Another consideration regarding staffing

constraints is to require a Design Engineering Firm, Construction Manager At Risk (CMAR) or Contracting firms to provide support.

NTMWD values the partnership with the TWDB and looks forward to working together on providing top quality services for North Texans. Please review these proposed comments in consideration of the NTMWD and let us know if there are any questions.

Response:

The TWDB appreciates receiving the comment on the proposed amended SFY 2021 CWSRF IUP. The TWDB has revised the amended IUP to provide that after all projects on the Project Priority List (PPL) as of March 31, 2021 have received an invitation and the last application deadline has occurred, if funds remain available then the TWDB may increase the maximum as the Executive Administrator determines is appropriate to fully allocate funds. Allocation of remaining funds will consider first those projects on the initial IUP PPL in rank order and then any projects that were subsequently added based on the date incorporated into the PPL.

Change:

Revised Section VIII, paragraph K (1) of the IUP to:

K. Limits

1. Proportionate Share/Capacity

The TWDB may limit the amount of funding available to an individual entity or project based on a proportionate share of total funds available. Initially, the maximum loan/bond commitment amount a project may receive under the SFY 2021 IUP is \$44 million; however, after all projects on the PPL as of March 31, 2021 have received an invitation and the last application deadline has occurred, if funds remain available then the TWDB may increase the maximum as the Executive Administrator determines is appropriate to fully allocate funds. Allocation of remaining funds will consider first those projects on the initial IUP PPL in rank order and then any projects that were subsequently added in order of receipt of a fully completed PIF. The TWDB may elect to provide financing in excess of the capacity levels if the Board approves the increase consistent with maintaining the CWSRF in perpetuity and after consideration of other relevant factors.

DWSRF IUP:

Entity: City of Fort Worth

Comment submitted by: Mr. Matthew Thurber

Comment Date: December 16, 2020

Comment:

Fort Worth appreciates the opportunity to provide comments on the draft amended SFY 2021 IUP and certainly understands the challenging environment and economic conditions before us.

While Fort Worth was not invited to apply for a SFY 2021 Drinking Water SRF loan for its Supervisory Control and Data Acquisition (SCADA) Replacement Project, we maintain continued interest in utilizing both Drinking Water and Clean Water loans for significant projects (\$25M+) for the benefit of our system and residents. Our SCADA project will replace a dated and proprietary system that controls the treatment of water at five water treatment plants and its subsequent distribution to 1.2 million retail and wholesale customers.

Fort Worth has a long history of applying for and repaying Texas Water Development Board funding, utilizing these loans for landmark projects at a low-interest rate that minimizes the burden on its rate-payers. Fort Worth also has a history of success partnering with the Texas Water Development Board through a variety of financial assistance programs. In 2007, Fort Worth used a Drinking Water SRF loan in the amount of \$49.8 million to construct its new 25 MGD Westside Water Treatment Plant. In 2015, Fort Worth took \$76 million in SWIFT funding for its MyH2O meter replacement program that will give customers new tools and information to better understand and manage their water use, promote efficiencies from treatment to tap and improve processes and operations across the utility. Most recently, in 2020 Fort Worth received \$62.7 million to construct its new Biosolids Management and Beneficial Reuse facility where benefits include the production of durable granules that can be used in fertilizers and soil conditioners with positive revenue potential, a reduction in trucking costs due to a lighter weight end product, and an anticipated reduction of odors and odor complaints as compared to the current process.

While we understand the high volume of responses received during this round, revising available funds and adjusting the maximum commitment amount to \$44 million and \$24 million for Clean Water and Drinking Water funds respectively does hinder Fort Worth's future ability to complete the large-scale projects programmed into its capital plan. As with other larger utilities, Fort Worth's projects serve an expansive customer base (1.2 million)

that requires a significant investment in capital infrastructure that these project caps don't accommodate – creating the unintended consequence of preventing larger utilities from participating in TWDB's funding programs. We would appreciate the opportunity to discuss potential options at the Board's convenience and look forward to continuing this successful partnership in the future.

Response:

The TWDB appreciates receiving the comment on the proposed amended SFY 2021 DWSRF IUP. The TWDB has revised the amended IUP to provide that after all projects on the Project Priority List (PPL) as of March 31, 2021 have received an invitation and the last application deadline has occurred, if funds remain available then the TWDB may increase the maximum as the Executive Administrator determines is appropriate to fully allocate funds. Allocation of remaining funds will consider first those projects on the initial IUP PPL in rank order and then any projects that were subsequently added based on the date incorporated into the PPL.

Change:

Revised Section VIII, paragraph K (1) of the IUP to:

K. Limits

1. Proportionate Share/Capacity

The TWDB may limit the amount of funding available to an individual entity or project based on a proportionate share of total funds available. Initially, the maximum loan/bond commitment amount a project may receive under the SFY 2021 IUP is \$24 million; however, after all projects on the PPL as of March 31, 2021 have received an invitation and the last application deadline has occurred, if funds remain available then the TWDB may increase the maximum as the Executive Administrator determines is appropriate to fully allocate funds. Allocation of remaining funds will consider first those projects on the initial IUP PPL in rank order and then any projects that were subsequently added in order of receipt of a fully completed PIF. The TWDB may elect to provide financing in excess of the capacity level if the Board approves the increase consistent with maintaining the DWSRF in perpetuity and after consideration of other relevant factors.

Entity: City of Mount Calm

Comment submitted by: The Honorable Jimmy Tucker, Mayor of Mt. Calm

Comment Date: December 14, 2020

Comment:

Mr. Wyatt

My name is Jimmy Tucker and I have served as Mayor of the City of Mt Calm for over 20 years we are asking consideration for our invitation for funding for a grant or a loan or a combination of these to repair or replace our water tower The tower was constructed in 2005 and financed by a low interest loan from TWDB and we have a yearly service contact to inspect and certify all parts are in compliance. The problem is we discovered in the last 2 years our tower is tilting 6" on one leg and 4-1/2" on another. As a result, the engineer who was responsible for the construction KSA in Longview advised we take our tower out of service for fear of collapse. This we did 8 months ago. We currently receive water from Birome Water Supply until we can repair or replace our current tower Our water rates then were 3.35 per thousand gallons and now we pay 6.25 per but we are indeed grateful to Charles Besada at BWSC for service because without it we would certainly incur more expense We are a small city of 325 or so folks and a lot live on fixed income our request is also under Urgent Needs request so I am asking for your consideration for our IUP as soon as possible for this period. Anything you can do to help us so we don't have to delay our request is greatly appreciated If you have any questions please call me at _____ or email at _____ (redacted)

Thanks

Mayor Jimmy Tucker

Response:

The TWDB appreciates receiving the comment on the proposed amended SFY 2021 DWSRF IUP. The City of Mount Calm submitted a Project Information Form for this project in September 2020 to be added to the initial SFY 2021 IUP. Projects submitted after the March 2020 deadline will be added to the end of Project Priority List based on the date TWDB received the completed Project Information Form. After the effective date of the amended SFY 2021 IUP, TWDB staff will review any project requesting urgent need funding to determine whether it meets the criteria in the IUP.

Change:

None.

Entity: City of Mount Calm

Comment submitted by: Anonymous

Comment Date: December 15, 2020

Comment:

I would like to share my comments on the City's Water Tower issue. I have lived in this small community for over 50 years. I want to express the concern I have for the water tower leaning. I'm very concerned about not having a water system that can supply this community with safe water that we consume. Please consider us in need of the funds needed to mend this situation. Can you imagine not having water???

Thanks

Response:

The TWDB appreciates receiving the comment on the proposed amended SFY 2021 DWSRF IUP. The City of Mount Calm submitted a Project Information Form for this project in September 2020 to be added to the initial SFY 2021 IUP. Projects submitted after the March 2020 deadline will be added to the end of Project Priority List based on the date TWDB received the completed Project Information Form. After the effective date of the amended SFY 2021 IUP, TWDB staff will review any project requesting urgent need funding to determine whether it meets the criteria in the IUP.

Change:

None.

Entity: City of Mount Calm

Comment submitted by: Mr. Don Laseter, City Councilman

Comment Date: December 15, 2020

Comment:

We are in dire need of help. We are completely dependent on another town for water. Please consider helping us. It would be deeply appreciated.

Thank you sincerely
Don Laseter
City councilman.

Response:

The TWDB appreciates receiving the comment on the proposed amended SFY 2021 DWSRF IUP. The City of Mount Calm submitted a Project Information Form for this project in September 2020 to be added to the initial SFY 2021 IUP. Projects submitted after the March 2020 deadline will be added to the end of Project Priority List based on the date TWDB received the completed Project Information Form. After the effective date of the amended SFY 2021 IUP, TWDB staff will review any project requesting urgent need funding to determine whether it meets the criteria in the IUP.

Change:

None.