



PROJECT FUNDING REQUEST

BOARD DATE: May 19, 2015

TEAM MANAGER: Luis Farias

APPLICANT	City of Honey Grove
TYPE OF ASSISTANCE	\$2,025,000 Loan
LEGAL PLEDGE	Ad Valorem Tax and Surplus Net Revenues of the Waterworks and Sewer System

STAFF RECOMMENDATION

Approve No Action

ACTION REQUESTED

Approve, by resolution, a loan request from the **City of Honey Grove (Fannin County)** for \$2,025,000 from the Drinking Water State Revolving Fund for the construction of water distribution lines.

PROJECT

Distribution Line Replacement
Project Number 62531

BACKGROUND

The City of Honey Grove's (City) water system is experiencing low pressure during all flow conditions, including typical usage, peak demand and fire flow situations and does not meet the Texas Commission on Environmental Quality (TCEQ) capacity and pressure requirements. Additionally, portions of the water distribution system are experiencing significant water loss.

The City is requesting construction funds to address the TCEQ capacity and pressure requirements by installing new lines and rehabilitating several aging and undersized water distribution lines. This includes approximately 30,000 linear feet of pipe improvements, as well as installing lines to loop the system in some areas. These improvements will also improve water loss throughout the water system.

COMMITMENT PERIOD: ONE (1) YEAR TO EXPIRE ON MAY 31, 2016
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FINANCIAL

Key Issues

The City previously received financial assistance from the Texas Water Development Board (TWDB), consisting of a \$200,000 loan and \$83,700 in loan forgiveness from the Drinking Water State Revolving Fund for the planning, acquisition and design of the project.

Pledge and Repayment

The City is pledging ad valorem taxes and surplus revenues for the repayment of the proposed loan. Utilizing a no-growth scenario, the City's current interest and sinking fund (I&S) tax rate and system revenues are not sufficient to meet existing and proposed debt service. The City will need to either increase system rates, or the I&S tax rate to generate sufficient revenues to meet the debt service requirements in the first five years of the loan.

Although the City is pledging ad valorem taxes and surplus revenues, they intend to repay the proposed debt with system revenues only. Currently, the combined average monthly water and wastewater bill is \$58.82, and based on staff's analysis of financial documentation received, the City will need to increase monthly rates by approximately \$11.25 by 2017.

The City could also increase the existing I&S tax rate to produce the additional revenues required for debt service. Based on a conservative 90% collection rate, and a requirement of 1.1 times coverage, the City would need to increase its current I&S rate from \$0.297 to \$0.513 in 2016 to meet the debt service requirements. While an increase to the I&S tax rate would be required for the first five years of the loan, the City would be able to lower the I&S tax rate back to its current rate of \$0.297 in 2021.

Cost Savings

Based on a 21-year maturity schedule and current interest rates, the City could save approximately \$264,634 over the life of the loan.

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 applicant's earnings trends and coverage ratios, while stable, may be more susceptible to adverse changes in circumstances and economic conditions than the higher rated obligations. Certain risk elements may exist that suggest susceptibility to future impairment, if not managed.

The City's population has decreased at an average annual rate of 0.50% from 2004 to 2013, compared to the State's overall average annual population increase of 2.01% during the same period. The City's median household income of \$27,462 is approximately 53% of the State's overall median income of \$51,900. The unemployment rate in Fannin County is 4.4% as of February 2015, compared to a State unemployment rate of 4.3%.

The City's current per capita debt level is low at \$855, and would increase to \$2,067 with the proposed loan. This is still a moderately low level of per capita debt. While the City's total assessed valuation has remained steady in recent years, sales tax collections have increased a total of 36% since 2010. In addition, the percentage of current tax collections is consistently high at over 96%.

On average, the residential user pays 2.57% of their annual income for water and sewer service. This is above the 2% benchmark for assessing affordability of rates. However, the financial strength of the utility system is sound with unrestricted net assets representing over 16 months of operating expenses. In addition, the City maintains a moderately high level of unrestricted cash and short term investments. Based on these outcomes for the financial and socioeconomic indicators, staff assigns the City a risk score of 2B.

LEGAL

Key Issues

None.

CONDITIONS

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

- Standard emergency conditions

Attachments: 1. Project Data Summary
2. Debt Service Schedule
3. Engineering/Environmental Review
4. Project Budget
5. Resolution (15-)
6. Water Conservation Review
7. Location Map

Project Data Summary

Authority	City of Honey Grove
Program	Drinking Water State Revolving Fund
Commitment Code	L1000441
Project Number	62531
Intended Use Plan Year	2015
Fund Number	951
Type of Pledge	3- Combo Tax and Rev
Revenue Pledge Level	Third
Legal Description	\$2,025,000 Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2015
Tax-exempt or Taxable	Tax-exempt
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay = Escrow
Population	1668
Rural	Yes
Water Connections	733
Wastewater Connections	671
Qualifies as Disadvantaged	Yes
Disadvantaged Level	9
Clean Water State Revolving Fund Type	N/A
Financial Managerial & Technical Complete	Yes
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	Non-Rated
Moody's	Non-Rated
Fitch	Non-Rated
Special Issues	None

Project Team

Team Manager	Luis Farias
Financial Analyst	Ben Munguia
Engineering Reviewer	Joe Koen
Environmental Reviewer	Kathy Calnan
Attorney	Annette Mass

ISSUE BEING EVALUATED
City of Honey Grove
City of Honey Grove Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2015

Dated Date 08/01/15
Delivery Date 08/01/15
First Interest 03/01/16
First Principal 09/01/16
Last Principal 09/01/36
Fiscal Year End 9/30

Source: DWSRF
Rate: 2.24%
Insurance: NA
Case: System Revenue
Admin. Fee Payment Date: 8/1/2015
Administrative Fee: \$44,560

FOR ILLUSTRATION PURPOSES ONLY

FISCAL YEAR	PROJECTED ASSESSED VALUE	I&S TAX RATE	REQUIRED TAX REVENUES WITH COLL. @ 90%	PROJECTED NET SYSTEM REVENUES	PROJECTED TOTAL REVENUES	CURRENT DEBT SERVICE	----- THIS \$2,025,000 ISSUE -----				TOTAL DEBT SERVICE	COVERAGE BEING REQUIRED	ACTUAL COVERAGE		
							PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT					
2016	50,855,810	0.297	136,029	208,095	344,124	188,700	75,000	2.24%	49,140	124,140	312,840	1.10	1.10		
2017	50,855,810	0.297	136,029	210,069	346,098	190,955	80,000	2.24%	43,680	123,680	314,635	1.10	1.10		
2018	50,855,810	0.297	136,029	210,069	346,098	188,914	80,000	2.24%	41,888	121,888	310,802	1.10	1.11		
2019	50,855,810	0.297	136,029	210,069	346,098	190,799	80,000	2.24%	40,096	120,096	310,895	1.10	1.11		
2020	50,855,810	0.297	136,029	210,069	346,098	173,503	85,000	2.24%	38,304	123,304	296,807	1.10	1.17		
2021	50,855,810	0.297	136,029	111,297	247,326	91,025	85,000	2.24%	36,400	121,400	212,425	1.10	1.16		
2022	50,855,810	0.297	136,029	111,297	247,326	90,765	85,000	2.24%	34,496	119,496	210,261	1.10	1.18		
2023	50,855,810	0.297	136,029	111,297	247,326	91,454	90,000	2.24%	32,592	122,592	214,046	1.10	1.16		
2024	50,855,810	0.297	136,029	111,297	247,326	91,095	90,000	2.24%	30,576	120,576	211,671	1.10	1.17		
2025	50,855,810	0.297	136,029	111,297	247,326	69,907	95,000	2.24%	28,560	123,560	193,467	1.10	1.28		
2026	50,855,810	0.297	136,029	111,297	247,326	69,907	95,000	2.24%	26,432	121,432	191,339	1.10	1.29		
2027	50,855,810	0.297	136,029	111,297	247,326	59,931	100,000	2.24%	24,304	124,304	184,235	1.10	1.34		
2028	50,855,810	0.297	136,029	111,297	247,326	50,025	100,000	2.24%	22,064	122,064	172,089	1.10	1.44		
2029	50,855,810	0.297	136,029	111,297	247,326	50,025	100,000	2.24%	19,824	119,824	169,849	1.10	1.46		
2030	50,855,810	0.297	136,029	111,297	247,326	50,024	105,000	2.24%	17,584	122,584	172,608	1.10	1.43		
2031	50,855,810	0.297	136,029	111,297	247,326	50,025	105,000	2.24%	15,232	120,232	170,257	1.10	1.45		
2032	50,855,810	0.297	136,029	111,297	247,326	50,025	110,000	2.24%	12,880	122,880	172,905	1.10	1.43		
2033	50,855,810	0.297	136,029	111,297	247,326	50,025	110,000	2.24%	10,416	120,416	170,441	1.10	1.45		
2034	50,855,810	0.297	136,029	111,297	247,326	50,025	115,000	2.24%	7,952	122,952	172,977	1.10	1.43		
2035	50,855,810	0.297	136,029	111,297	247,326	45,855	115,000	2.24%	5,376	120,376	166,231	1.10	1.49		
2036	50,855,810	0.297	136,029	111,297	247,326	-	125,000	2.24%	2,800	127,800	127,800	1.10	1.94		
						\$	5,685,735	\$	1,892,984	\$	2,025,000				
								\$	540,596	\$	2,565,596	\$	4,458,580		

AVERAGE (MATURITY) LIFE	11.92 YEARS
NET INTEREST RATE	2.240%
COST SAVINGS	\$ 264,633.94
AVERAGE ANNUAL REQUIREMENT	\$212,313

Honey Grove

Engineering and Environmental Review

Engineering:

Key Issues

The City of Honey Grove's (City) water loss is greater than the water loss threshold as established by Texas Water Development Board (TWDB) and required by Texas Administrative Code §358.6. Therefore, the City is required to include funds to mitigate their water loss as part of their request for financial assistance. The City is requesting construction funds to replace 6 1/2 miles of aging and undersized water lines in its 24 mile distribution system. This will assist the City to address their real loss and meet TWDB's requirement.

Project Need / Description

Need: The City is experiencing low pressure within the water system during all flow conditions, including typical usage, peak demand and fire flow situations and does not meet the Texas Commission on Environmental Quality (TCEQ) capacity and pressure requirements. Additionally, portions of the water distribution system are experiencing significant water loss.

Project Description: The City is requesting construction funds to address the TCEQ capacity and pressure requirements by installing new lines and rehabilitating several aging and undersized water distribution lines. This includes approximately 30,000 linear feet of pipe improvements, as well as installing lines to loop the system in some areas. These improvements will also improve water loss throughout the water system.

Project Schedule

Project Task	Schedule Date
Design Phase Complete	6/1/2015
Closing	8/1/2015
Start of Construction	9/1/2015
Construction Completion	9/1/2016

Environmental:

Key Issues

None known at this time.

Environmental Summary

As required by 31 Texas Administrative Code §371.41, environmental review of the proposed project has been completed. A Categorical Exclusion was issued on May 14, 2014. The proposed project is in compliance with the National Environmental Policy Act.

Honey Grove
62531 - Distribution Line Replacement

Budget Items	Previous Commitments	This Commitment	TWDB Funds
Construction			
Construction	\$0	\$1,600,000	\$1,600,000
Construction Total	\$0	\$1,600,000	\$1,600,000
Basic Engineering Services			
Construction Engineering	\$0	\$29,000	\$29,000
Design	\$79,000	\$0	\$79,000
Planning	\$15,000	\$0	\$15,000
Basic Engineering Services Total	\$94,000	\$29,000	\$123,000
Special Services			
Application	\$15,000	\$15,000	\$30,000
Environmental	\$12,000	\$0	\$12,000
Inspection	\$0	\$100,000	\$100,000
Permits	\$10,000	\$0	\$10,000
Surveying	\$48,000	\$0	\$48,000
Special Services Total	\$85,000	\$115,000	\$200,000
Contingency			
Contingency	\$7,799	\$151,440	\$159,239
Contingency Total	\$7,799	\$151,440	\$159,239
Other			
Land/Easement Acquisition	\$7,500	\$0	\$7,500
Other Total	\$7,500	\$0	\$7,500
Fiscal Services			
Bond Counsel	\$25,000	\$25,000	\$50,000
Bond Insurance/Surety	\$15,000	\$15,000	\$30,000
Financial Advisor	\$15,000	\$15,000	\$30,000
Fiscal/Legal	\$15,000	\$15,000	\$30,000
Issuance Costs	\$15,000	\$15,000	\$30,000
Loan Origination Fee	\$4,401	\$44,560	\$48,961
Fiscal Services Total	\$89,401	\$129,560	\$218,961
Grand Total	\$283,700	\$2,025,000	\$2,308,700

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF
\$2,025,000 TO CITY OF HONEY GROVE
FROM THE DRINKING WATER STATE REVOLVING FUND
THROUGH THE PROPOSED PURCHASE OF
\$2,025,000 CITY OF HONEY GROVE COMBINATION TAX AND SURPLUS REVENUE
CERTIFICATES OF OBLIGATION,
PROPOSED SERIES 2015

(15-)

WHEREAS, the City of Honey Grove (City) has filed an application for financial assistance in the amount of \$2,025,000 from the Drinking Water State Revolving Fund (DWSRF) to finance the construction of certain water system improvements identified as Project No. 62531; and

WHEREAS, the City seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of \$2,025,000 Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2015 (together with all authorizing documents (Obligations)), all as is more specifically set forth in the application and in recommendations of the TWDB's staff; and

WHEREAS, the City has offered a pledge of ad valorem tax and surplus revenues 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 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 adopted and implemented a water conservation program for the more efficient use of water that will meet reasonably anticipated local needs and conditions and that incorporates practices, techniques or technology prescribed by the Texas Water Code and TWDB's rules;
4. that the TWDB has approved a regional water plan for the region of the state that includes the area benefiting from the project and the needs to be addressed by the project will be addressed in a manner that is consistent with the approved regional and state water plans, as required by Texas Water Code § 16.053(j);

5. that a current water audit required by Texas Water Code § 16.0121 and 31 TAC § 358.6 has been completed by the City and filed with the TWDB in accordance with Texas Water Code § 16.053(j); and
6. that the Executive Administrator issued a Categorical Exclusion on May 14, 2014, such findings being subject to the standard emergency discovery conditions for threatened and endangered species and cultural resources in the Project contract documents. The TWDB concurs with the environmental finding issued by the Executive Administrator.

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

A commitment is made by the TWDB to the City of Honey Grove for financial assistance in the amount of \$2,025,000 from the Drinking Water State Revolving Fund through the TWDB's proposed purchase of \$2,025,000 Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2015. This commitment will expire on May 31, 2016.

Such commitment is conditioned as follows:

Standard Conditions

1. this commitment is contingent on a future sale of bonds by the TWDB or on the availability of funds on hand;
2. this commitment is contingent upon the issuance of a written approving opinion of the Attorney General of the State of Texas stating that all of the requirements of the laws under which said Obligations were issued have been complied with; that said Obligations were issued in conformity with the Constitution and laws of the State of Texas; and that said Obligations are valid and binding obligations of the 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 Obligations can be called for early redemption only in inverse order of maturity, and on any date beginning on or after the first interest payment date which is 10 years from the dated date of the Obligations, at a redemption price of par, together with accrued interest to the date fixed for redemption;
5. the 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;

6. the Obligations must contain a provision requiring the City to levy a tax and/or maintain and collect sufficient rates and charges to produce system revenues in an amount necessary to meet the debt service requirements of all outstanding obligations and to maintain the funds established and required by the Obligations;
7. the Obligations must include a provision requiring the City to use any loan proceeds from the Obligations that are determined to be surplus funds remaining after completion of the project 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) eligible project costs as authorized by the Executive Administrator;
8. 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;
9. 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;
10. 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;
11. prior to closing, the City shall submit documentation evidencing the adoption and implementation of sufficient system rates and charges or, if applicable, the levy of an interest and sinking tax rate sufficient for the repayment of all system debt service requirements;
12. 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;

13. 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;
14. the Executive Administrator may require that the City execute a separate financing agreement in form and substance acceptable to the Executive Administrator;
15. the TWDB retains the option to purchase the Obligations in separate lots and/or on an installment basis, with delivery of the purchase price for each installment to be paid against delivery of the relevant installment of Obligations as approved by the Executive Administrator;

Conditions Related To Tax-Exempt Status

16. 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;
17. 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;
18. 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);
19. 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;

20. 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;
21. 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;
22. 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;

23. 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;
24. 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;
25. 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

26. the City shall submit outlay reports with sufficient documentation on costs on a quarterly or monthly basis in accordance with TWDB outlay report guidelines;
27. 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;
28. 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;
29. 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;
30. The Obligations 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 the 2014 Federal Appropriations Act and related State Revolving Fund Policy Guidelines;

Drinking Water State Revolving Fund Conditions

31. prior to or at closing, the City shall pay a 2.25% origination fee to the TWDB calculated pursuant to 31 TAC Chapter 371;
32. 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;
33. 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;

Pledge Conditions for the Loan

34. 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;
 - ii. 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

- iii. 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:

- 45. the City must comply with the standard emergency discovery conditions for threatened and endangered species and cultural resources, as more fully specified in the final environmental finding of the Executive Administrator;

APPROVED and ordered of record this 19th day of May, 2015.

TEXAS WATER DEVELOPMENT BOARD

Carlos Rubinstein, Chairman

DATE SIGNED: _____

ATTEST:

Kevin Patteson
Executive Administrator

WATER CONSERVATION REVIEWEntity: City of Honey GroveReview date: March 2015**WATER CONSERVATION PLAN DATE:** April 2014 **Approvable** **Adopted**

	Total GPCD	Residential GPCD	Water Loss GPCD	Water Loss Percent
Baseline	149	77	30	20
5-year Goal	147	75	28	19
10-year Goal	144	72	25	17

WATER LOSS AUDIT YEAR: 2013Total water loss (GPCD): 65Total water loss (percent): 38Wholesale Water Total no. of connections: 734Length of mains (miles): 23Connections per mile: 32If > 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
10	4380	NA	13	1600	NA
NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA

If < 32 connections/mile, population < 10K:

If < 32 connections/mile, population > 10K:

If > 32 connections/mile, population > 10K:

Does the applicant meet Water Loss Threshold requirements? Yes No **ADDITIONAL INFORMATION:**

The City's leak detection and repair program includes comparing the raw water pumped from wells to potable water metered to customers on a monthly basis. It also includes visual inspection for leaks, a review of water bills to inform users of large increases in water usage, and estimating the amount of unmetered water used for line flushing and fire fighting as accurately as possible. Known water losses are corrected immediately and deteriorating water mains are replaced on an on-going basis. The City's continuing public education and information program includes mailing conservation materials annually to all customers, having conservation literature available to new customers when they apply for water service, and annual reporting on the effectiveness of the City's conservation measures including per-capita usage. If the conservation plan is determined to not be effective, City staff will make recommendations for modifying the plan to increase the effectiveness.

STAFF NOTES AND RECOMMENDATIONS:

The City's water loss is greater than the water loss threshold as established by TWDB and required by Texas Administrative Code §358.6. Therefore, the City is required to include funds to mitigate their water loss as part of their request for financial assistance. The City's request is for planning and design funds to replace 6 1/2 miles of aging and undersized water lines in the City's 24 mile distribution system. This will assist the City addressing their real loss and meets TWDB's requirement.

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 benchmarking 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 Honey Grove,
Fannin County**

