

Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: July 23, 2015

TEAM MANAGER: Clay Schultz

| | |
|---------------------------|--|
| APPLICANT | Canyon Regional Water Authority |
| TYPE OF ASSISTANCE | \$55,000,000 Loan |
| LEGAL PLEDGE | First Lien and pledge of the Annual Payment (as defined in the Contract) |

STAFF RECOMMENDATION

Approve No Action

ACTION REQUESTED

Approve, by resolution, a request from the **Canyon Regional Water Authority (Bexar, Caldwell, Comal, Guadalupe, Hays, and Wilson Counties)** for a \$55,000,000 loan from the State Water Implementation Revenue Fund for Texas to finance the planning, design, and construction phases related to the expansion of the Wells Ranch Supply Project.

PROJECT

Wells Ranch Phase II – Well Field and Transmission Line
Project Number 51005

BACKGROUND

Passed by the 83rd Legislature and approved by Texas voters through a constitutional amendment, the State Water Implementation Fund for Texas (SWIFT) and the State Water Implementation Revenue Fund for Texas (SWIRFT) were created to provide affordable, alternative financing options to develop projects that are recommended water management strategies in the State Water Plan. The program, referred to as SWIFT, provides financing through low-interest loans, deferral of loan repayments, and incremental repurchase terms for projects with state ownership aspects. All SWIFT projects presented for consideration have been prioritized based on criteria outlined in Texas Administrative Code Title 31 §363.1304 and are included on the prioritized list of projects approved by the Board on May 6, 2015.

Canyon Regional Water Authority (Authority) was created by the Legislature in 1989 and is comprised of eleven member entities: Crystal Clear Special Utility District, East Central Special Utility District, Springs Hill Water Supply Corporation, Green Valley Special Utility District, County Line Special Utility District, Maxwell Water Supply Corporation, Martindale Water Supply Corporation and the cities of Marion, Cibolo, Converse, and La Vernia. The Authority’s governing board consists of two voting members from each of these entities.

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| COMMITMENT PERIOD: TO EXPIRE ON DECEMBER 31, 2015 |
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The Authority's Wells Ranch Supply Project is a two-phased groundwater supply project. The project will utilize groundwater from the Carrizo and Wilcox aquifers in Guadalupe and Gonzales counties as an alternative to Edwards Aquifer production. Phase I began operation in 2009 and resulted in the construction of a 5 million gallon per day water treatment facility, a well field that can produce approximately 5,200 acre-feet per year, ground storage tanks and booster pump stations, and approximately 100,000 feet of 24- and 30-inch water transmission pipeline.

The requested SWIFT funding will be used to complete Phase II of the groundwater supply project. Phase II is the last phase of the project. Upon completion of the proposed project, the Authority will have a total production capacity of approximately 13,000 acre-feet per year.

FINANCIAL

Key Issues

None.

Pledge and Repayment

The Authority will secure the proposed financing by granting a lien on and pledge of the Annual Payment as defined and described in the new water supply contract (Contract) which is a take-or-pay contract between the Authority and certain Participating Members (as defined in the Contract). The Authority is a wholesale water provider and revenues are generated by the sale of water pursuant to contracts between the Authority and participating entities. The Authority is not authorized to levy taxes.

The project budget includes \$2,700,000 to pay for capitalized interest over the next two years. Capitalized interest is a portion of the proceeds that is set aside to pay interest on the bond issue for a certain period of time. The capitalized interest is normally utilized during the construction phase of a revenue-producing project, so that debt service payments are not required by the participating entities until the project is expected to be operational and generating revenues. The capitalized interest shall be deposited into the interest and sinking fund to be applied solely to the interest payment on the proposed bonds.

Cost Savings

Based on a 20-year maturity schedule, current interest rates with a 35.5% subsidy, and a loan amount of \$55,000,000 the Authority could save approximately \$7,596,345 over the life of the loan.

Internal Risk Score

Staff assigns a 2B to the Authority and the proposed project to be funded by the Texas Water Development Board. A risk score of 2B means that the Authority's repayment capacity is adequate. The Authority's earnings trends and coverage ratios, while stable, may be more susceptible to moderate 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 Authority continues to show a favorable financial performance. The September 2014 audit shows that the Authority's Net Position is approximately \$17.9 million. Of this amount, \$6 million is unrestricted and represents resources available to fund operations for the coming year. The Authority has contracts with its member entities in which the members agree to pay for the right to receive water from the Authority and the Authority agrees to sell its treated water to the members. These contracts have joint and several provisions. Total long-term debt is approximately \$108 million.

The participating entities for this project are Green Valley Special Utility District (55.20%), City of Cibola (23.66%), City of Converse (6.64%), East Central Special Utility District (6.64%), Crystal Clear Special Utility District (6.53%), and City of Marion (1.33%). Audited financial statements of these entities reflect a healthy financial condition with positive operating trends.

LEGAL

Key Issues

None.

Conditions

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

- Water Rights.

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

| | |
|---|---|
| Responsible Authority | Canyon Regional Water Authority |
| Program | State Water Implementation Fund for Texas - SWIFT |
| Commitment Codes | L15006 |
| Project Number | 51005 |
| Intended Use Plan Year | N/A |
| Fund Number | 361 |
| Type of Pledge | 4-Contract Revenue |
| Revenue Pledge Level | First |
| Legal Description | \$55,000,000 Tax-Exempt Contract Revenue Bonds (Wells Ranch Phase II), Proposed Series 2015 |
| Tax-Exempt or Taxable | Tax-Exempt |
| Refinance | No |
| Outlay Requirement | No |
| Disbursement Method | Escrow |
| Outlay Type | N/A |
| Population | 140,756 (service area) |
| Rural | No |
| Water Connections | Wholesale water supply agency with 11 member entities and 1 customer entity |
| Wastewater Connections | N/A |
| Qualifies as Disadvantaged | No |
| Disadvantaged Level | 9 – NA |
| Clean Water State Revolving Fund Type | N/A |
| Financial, Managerial and Technical Review Complete? | N/A |
| SWIFT Financing Type | Low-Interest Loan |
| SWIFT Characteristic | N/A |
| Phase Committing | Design and Construction |
| Pre-Design | Yes |
| Project Consistent with Water Plan | Yes |
| Water Conservation Plan | Adopted |
| Water Rights Certification Required | Yes |
| Internal Risk Score | 2B |
| External Ratings | |
| Standard and Poor's | A+ |
| Moody's | Non-Rated |
| Fitch | Non-Rated |
| Special Issues | None |

Project Team

| | |
|------------------------|----------------|
| Team Manager | Clay Schultz |
| Financial Analyst | Maxine Gilford |
| Engineering Reviewer | David Firgens |
| Environmental Reviewer | William Alfaro |
| Attorney | Alexis Lorick |

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
Canyon Regional Water Authority

\$55,000,000 Tax-exempt Contract Revenue Bonds (Wells Ranch Phase II), Proposed Series 2015

Dated Date: 12/1/2015
Delivery Date: 12/1/2015
First Interest: 8/1/2016
First Principal: 8/1/2018
Last Principal: 8/1/2035
Fiscal Year End: 09/30

Source: SWIFT-LOW
Insurance: No
Case: Contract Revenues
Admin. Fee: N/A
Admin. Fee Payment Date: N/A
Required Coverage: 1.0

| FISCAL YEAR | PROJECTED NET SYSTEM REVENUES | CURRENT DEBT SERVICE | PRINCIPAL PAYMENT | INTEREST RATE | \$55,000,000 ISSUE | | TOTAL DEBT SERVICE | COVERAGE |
|-------------|-------------------------------|----------------------|-------------------|---------------|--------------------|---------------|--------------------|----------|
| | | | | | INTEREST PAYMENT | TOTAL PAYMENT | | |
| 2016 | 5,369,490 | 4,630,860 | - | | 738,630 | 738,630 | 5,369,490 | 1.00 |
| 2017 | 5,738,806 | 4,630,860 | - | | 1,107,946 | 1,107,946 | 5,738,806 | 1.00 |
| 2018 | 6,983,806 | 4,630,860 | 1,245,000 | 0.770% | 1,107,946 | 2,352,946 | 6,983,806 | 1.00 |
| 2019 | 6,874,219 | 4,630,860 | 1,145,000 | 0.905% | 1,098,359 | 2,243,359 | 6,874,219 | 1.00 |
| 2020 | 7,353,857 | 4,630,860 | 1,635,000 | 1.073% | 1,087,997 | 2,722,997 | 7,353,857 | 1.00 |
| 2021 | 7,831,313 | 4,630,860 | 2,130,000 | 1.247% | 1,070,453 | 3,200,453 | 7,831,313 | 1.00 |
| 2022 | 8,309,752 | 4,630,860 | 2,635,000 | 1.428% | 1,043,892 | 3,678,892 | 8,309,752 | 1.00 |
| 2023 | 8,752,124 | 4,630,860 | 3,115,000 | 1.524% | 1,006,264 | 4,121,264 | 8,752,124 | 1.00 |
| 2024 | 8,754,652 | 4,630,860 | 3,165,000 | 1.602% | 958,792 | 4,123,792 | 8,754,652 | 1.00 |
| 2025 | 8,763,949 | 4,630,860 | 3,225,000 | 1.686% | 908,089 | 4,133,089 | 8,763,949 | 1.00 |
| 2026 | 8,774,575 | 4,630,860 | 3,290,000 | 1.878% | 853,715 | 4,143,715 | 8,774,575 | 1.00 |
| 2027 | 8,777,789 | 4,630,860 | 3,355,000 | 2.029% | 791,929 | 4,146,929 | 8,777,789 | 1.00 |
| 2028 | 8,789,716 | 4,630,860 | 3,435,000 | 2.154% | 723,856 | 4,158,856 | 8,789,716 | 1.00 |
| 2029 | 6,959,077 | 2,794,211 | 3,515,000 | 2.243% | 649,866 | 4,164,866 | 6,959,077 | 1.00 |
| 2030 | 6,648,810 | 2,472,785 | 3,605,000 | 2.327% | 571,025 | 4,176,025 | 6,648,810 | 1.00 |
| 2031 | 6,654,921 | 2,472,785 | 3,695,000 | 2.396% | 487,136 | 4,182,136 | 6,654,921 | 1.00 |
| 2032 | 6,666,389 | 2,472,785 | 3,795,000 | 2.453% | 398,604 | 4,193,604 | 6,666,389 | 1.00 |
| 2033 | 5,180,676 | 980,163 | 3,895,000 | 2.500% | 305,513 | 4,200,513 | 5,180,676 | 1.00 |
| 2034 | 5,193,301 | 980,163 | 4,005,000 | 2.543% | 208,138 | 4,213,138 | 5,193,301 | 1.00 |
| 2035 | 5,201,453 | 980,163 | 4,115,000 | 2.583% | 106,290 | 4,221,290 | 5,201,453 | 1.00 |
| | | \$ 73,354,235 | \$ 55,000,000 | | \$ 15,224,439 | \$ 70,224,439 | \$ 143,578,674 | |

| | |
|-----------------------------------|--------------------|
| AVERAGE (MATURITY) LIFE | 12.57 YEARS |
| NET INTEREST RATE | 2.201% |
| COST SAVINGS | \$7,596,345 |
| AVERAGE ANNUAL REQUIREMENT | \$7,178,934 |

Canyon Regional Water Authority
Engineering and Environmental Review

Engineering:Key Issues

None.

Project Need / Description

Need: The Canyon Regional Water Authority (Authority) intends to expand their water supply and deliver capacity from the Carrizo and Wilcox aquifers as an alternative to surface water and Edwards Aquifer production and to meet the increasing water demands of the Authority's growing member entities.

Project Description: The Authority is requesting planning, design, and construction funding to complete Phase II of a two-phased groundwater supply project. The project involves expanding the existing water treatment plant capacity, the construction of storage tanks, expanding the existing well field, installing booster pump stations, and installing additional water transmission pipeline capacity. Phase II is the last phase of the project and will result in providing approximately 7,800 additional acre-feet per year to the following sponsoring entities: the City of Cibolo; the City of Converse; the City of Marion; Crystal Clear Special Utility District (SUD); East Central SUD; and Green Valley SUD. Upon completion, the Authority will have a total production capacity of approximately 13,000 acre-feet per year.

Project Schedule

| Project Task | Schedule Date |
|---|----------------------|
| Closing | 12/1/2015 |
| Engineering Feasibility Report Completion (End of Planning Phase) | 10/30/2015 |
| Start of Construction | 4/29/2016 |
| Design Phase Complete | 12/30/2016 |
| Construction Completion | 4/30/2018 |

Environmental:Key Issues

None known at this time.

Environmental Summary

Pursuant to the requirements of 31 Texas Administrative Code §363.14, all financial assistance shall be conditioned to read that funding for design and construction costs for specific project elements will not be released until the environmental review has been completed and a favorable environmental determination has been issued by the Executive Administrator.

Canyon Regional WA
51005 - Wells Ranch Phase II – Well Field and Transmission Line

| Budget Items | TWDB Funds | Total Cost |
|---|---------------------|---------------------|
| Construction | | |
| Construction | \$41,180,000 | \$41,180,000 |
| Construction Total | \$41,180,000 | \$41,180,000 |
| Basic Engineering Services | | |
| Construction Engineering | \$486,000 | \$486,000 |
| Design | \$2,672,000 | \$2,672,000 |
| Basic Engineering Services Total | \$3,158,000 | \$3,158,000 |
| Special Services | | |
| Environmental | \$148,185 | \$148,185 |
| Geotechnical | \$90,000 | \$90,000 |
| Inspection | \$500,000 | \$500,000 |
| Hydrogeologist/Geologist | \$210,000 | \$210,000 |
| Surveying | \$623,000 | \$623,000 |
| Testing | \$70,000 | \$70,000 |
| Special Services Total | \$1,641,185 | \$1,641,185 |
| Contingency | | |
| Contingency | \$5,720,815 | \$5,720,815 |
| Contingency Total | \$5,720,815 | \$5,720,815 |
| Fiscal Services | | |
| Bond Counsel | \$250,000 | \$250,000 |
| Capitalized Interest | \$2,700,000 | \$2,700,000 |
| Financial Advisor | \$250,000 | \$250,000 |
| Fiscal/Legal | \$50,000 | \$50,000 |
| Issuance Costs | \$50,000 | \$50,000 |
| Fiscal Services Total | \$3,300,000 | \$3,300,000 |
| Grand Total | \$55,000,000 | \$55,000,000 |

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF
\$55,000,000 TO CANYON REGIONAL WATER AUTHORITY
FROM THE STATE WATER IMPLEMENTATION REVENUE FUND FOR TEXAS
THROUGH THE PROPOSED PURCHASE OF
\$55,000,000 CANYON REGIONAL WATER AUTHORITY TAX-EXEMPT CONTRACT
REVENUE BONDS (WELLS RANCH PHASE II),
PROPOSED SERIES 2015

(15-)

WHEREAS, the Canyon Regional Water Authority, headquartered in Guadalupe County, Texas, (Authority) has filed an application for financial assistance in the amount of \$55,000,000 from the State Water Implementation Revenue Fund for Texas (SWIRFT), to finance the planning, design, and construction of certain water supply project(s) identified as Project No. 51005; and

WHEREAS, the Authority seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of \$55,000,000 Canyon Regional Water Authority Tax-Exempt Contract Revenue Bonds (Wells Ranch Phase II), Proposed Series 2015 (together with all authorizing documents (Obligations)), all as is more specifically set forth in the application and in recommendations of the Executive Administrator's staff; and

WHEREAS, the Authority has offered a pledge of first lien on and pledge of contract revenues as sufficient security for the repayment of the Obligations; and

WHEREAS, interest rate subsidies are available to the Authority at the following levels: 35.5% for loans of a term of 20 years, 27% for loans of a term of 25 years, and 22% for loans of a term of 30 years. The interest rate subsidy applicable to each proposed series will be set through each financing agreement executed between the TWDB and the Authority, pursuant to this Resolution; 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 § 363.1307; and

WHEREAS, the TWDB hereby finds:

1. that the application and assistance applied for meet the requirements of Texas Water Code, Chapter 15, Subchapters G and H and 31 TAC Chapter 363, Subchapters A and M;
2. that the project is a recommended water management strategy in the State Water Plan adopted pursuant to Texas Water Code § 16.051, in accordance with Texas Water Code § 15.474(a);
3. that a water conservation plan, if required by Texas Water Code § 11.1271, has been submitted and implemented in accordance with 31 TAC § 363.1309(b)(1);

4. that the Authority has satisfactorily completed any request by the Executive Administrator or a regional planning group for information relevant to the project, including a water infrastructure financing survey under Texas Water Code § 16.053(q), in accordance with 31 TAC § 363.1309(b)(2);
5. that the current water audit, if required by Texas Water Code § 16.0121, has been completed by the Authority and filed with the TWDB in accordance with 31 TAC § 358.6; and
6. that the Authority has acknowledged its legal obligation to comply with any applicable requirements of federal law relating to contracting with disadvantaged business enterprises, and any applicable state law relating to contracting with historically underutilized businesses, in accordance with Texas Water Code § 15.435(h) and 31 TAC § 363.1309(b)(3).

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

A commitment is made by the TWDB to Canyon Regional Water Authority for financial assistance in the amount of \$55,000,000 from the State Water Implementation Revenue Fund for Texas, to be evidenced by the TWDB's proposed purchase of \$55,000,000 Tax-Exempt Contract Revenue Bonds (Wells Ranch Phase II), Proposed Series 2015. This commitment will expire on December 31, 2015.

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 Authority;
3. this commitment is contingent upon the Authority's continued compliance with all applicable laws, rules, policies and guidance as these may be amended from time to time to adapt to a change in law, in circumstances, or any other legal requirement;
4. this commitment is contingent upon the Authority executing a separate financing agreement, approved as to form and substance by the Executive Administrator, and submitting that executed agreement to the TWDB consistent with the terms and conditions described in the financing agreement;

5. the Authority shall use a paying agent/registrars in accordance with 31 TAC Section 363.42(c)(2), and shall require the paying agent/registrars to provide a copy, to the TWDB and to the TWDB's designated Trustee, of all receipts documenting debt service payments;

The Following Conditions Must Be Included in the Obligations:

6. 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;
7. the Obligations must include a provision wherein the Authority, 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 Authority'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 Authority's Obligations, if the TWDB sells or otherwise transfers such Obligations, and the beneficial owners of the TWDB's bonds if the Authority is an obligated person with respect to such bonds under SEC Rule 15c2-12;
8. the Obligations must include a provision requiring the Authority to use any loan proceeds from the Obligations that are determined to be surplus proceeds remaining after completion of the project for the following purposes as approved by the Executive Administrator: (1) 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 (2) eligible costs for the project as authorized by the Executive Administrator;
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 Authority 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 Authority 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, recycling and disposition of any contaminated sewage sludge, contaminated sediments and/or contaminated media that may be generated by the Authority, its contractors, consultants, agents, officials and employees as a result of activities relating to the project to the extent permitted by law;

12. the Obligations must include a provision stating that the Authority shall report to the TWDB the amounts of project funds, if any, that were used to compensate historically underutilized businesses that worked on the project, in accordance with 31 TAC § 363.1312;
13. the Obligations must contain a provision that the TWDB will purchase the Obligations, acting through the TWDB's designated Trustee, and the Obligations shall be registered in the name of Cede & Co. and closed in book-entry form in accordance with 31 TAC Section 363.42(c)(1);
14. the Obligations must include a provision prohibiting the Authority 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 as amended (Code) and the Treasury Regulations promulgated thereunder (Regulations);
15. 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;
16. the Obligations must include a provision requiring the Authority 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 Authority 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 Authority may, however, to the extent permitted by law, commingle Gross Proceeds of its loan with other money of the Authority, provided that the Authority 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 Authority 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;
17. the Obligations must include a provision prohibiting the Authority from taking any action that would cause the interest on the Obligations to be includable in gross income for federal income tax purposes;
 18. the Obligations must provide that the Authority will not cause or permit the Obligations to be treated as "federally guaranteed" obligations within the meaning of § 149(b) of the Code;
 19. the Obligations must provide that neither the Authority 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 Authority by the TWDB;

Contract Revenue Pledge

20. the Obligations must contain a provision requiring that, upon request by the Executive Administrator, the Authority shall submit annual audits of contracting parties for the Executive Administrator's review;

21. the Obligations must contain a provision requiring the Authority to require its customers to maintain rates and charges sufficient to pay all of their revenue obligations arising from the operation of the water system;
22. the Obligations must contain a provision that the pledged contract revenues from the Authority may not be pledged to the payment of any additional parity obligations of the Authority secured by a pledge of the same contract revenues unless the Authority demonstrates to the Executive Administrator's satisfaction that the pledged contract revenues will be sufficient for the repayment of all Obligations and additional parity obligations;

Conditions to Close or for Release of Funds:

23. prior to closing, and if not previously provided with the application, the Authority 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;
24. prior to closing, when any portion of financial assistance is to be held in escrow or in trust, the Authority shall execute an escrow agreement or trust agreement, approved as to form and substance by the Executive Administrator, and shall submit that executed agreement to the TWDB;
25. prior to release of funds for construction, the Authority must provide the TWDB with evidence that the necessary acquisitions of land, leases, easements, and rights-of-way have been completed, or that the Authority has the legal authority necessary to complete the acquisitions;
26. prior to release of funds for design and construction for specific project elements, the environmental review must be completed and a favorable environmental finding must have been issued;
27. prior to closing, the Authority'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 Authority when rendering this opinion;
28. prior to closing, the Water Authority's bond counsel must prepare a written opinion that also states that the Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the Water Authority when rendering this opinion;
29. the transcript must include a No Arbitrage Certificate or similar Federal Tax Certificate setting forth the Authority's reasonable expectations regarding the use, expenditure and investment of the proceeds of the Obligations;

30. 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;
31. prior to closing, the Authority must submit executed contracts between the Authority and the contracting parties regarding the contract revenues pledged to the payment of the Authority's Obligations, in form and substance acceptable to the Executive Administrator. Such contracts shall include provisions consistent with the provisions of this Resolution regarding the contracting parties' annual audits, the setting of rates and charges and collection of revenues sufficient to meet the Authority's debt service obligations and additional parity obligations;

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

Special Conditions:

32. prior to the release of funds for the costs of planning, engineering, architectural, legal, title, fiscal, economic investigation, studies, surveys, or designs for that portion of a project that proposes surface water or groundwater development, the Executive Administrator must either issue a written finding that the Authority has the right to use the water that the project financed by the TWDB will provide or a written determination that a reasonable expectation exists that such a finding will be made before the release of funds for construction; and
33. prior to the release of construction funds for that portion of a project that proposes surface water or groundwater development, the Executive Administrator must have issued a written finding that the Authority has the right to use the water that the project financed by the TWDB will provide.

APPROVED and ordered of record this, the 23rd day of July, 2015.

TEXAS WATER DEVELOPMENT BOARD

 Bech K. Bruun, Chairman

DATE SIGNED: _____

ATTEST:

 Kevin Patteson
 Executive Administrator

WATER CONSERVATION REVIEW

Entity: _____

Review date: _____

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

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

WATER LOSS AUDIT YEAR:

Total water loss (GPCD): _____ Total water loss (percent): _____ Wholesale Water
 Total no. of connections: _____ Length of mains (miles): _____ Connections per mile: _____
 If > 16 connections per mile and > 3,000 connections, Infrastructure Leakage Index (ILI): _____

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 : | | | | | | |
| If population ≤ 10K, connections/mile ≥ 32 : | | | | | | |
| If population > 10K : | | | | | | |

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

ADDITIONAL INFORMATION:

STAFF NOTES AND RECOMMENDATIONS:

Canyon Regional Water Authority, Guadalupe County

