

TO: Board Members

THROUGH: Kevin Patteson, Executive Administrator
Les Trobman, General Counsel

FROM: Chris Hayden, Chief Financial Officer (acting)
Jessica Kohlrenken, Assistant General Counsel
Carleton Wilkes, Team Lead, Financial Compliance

DATE: August 12, 2015

SUBJECT: Millersview-Doole Water Supply Corporation

ACTION REQUESTED

Consider approving a request from the Millersview-Doole Water Supply Corporation to:

- a) Amend covenants for Taxable Water System Revenue Bonds, Series 2003, held by the Texas Water Development Board, to modify the debt service schedule and reserve fund, and create an operating contingency fund; and
- b) Authorize the Executive Administrator to take all necessary actions to effect the terms of the amended resolution.

BACKGROUND

The Millersview-Doole Water Supply Corporation (Corporation) has \$12,545,000 outstanding from the \$15,816,000 Taxable Water System Revenue Bonds, Series 2003.

The Corporation requested a change to its debt service schedule in order to produce additional current working capital (uncommitted cash flow) to fund the costs of connecting targeted new customers. The debt service deferral involves a delay in repayment of \$2,235,000 spread over six years (2015 through 2020).

The amount of the deferral is spread over the remaining term of the debt (years 2024 through 2034). There is no change to the final maturity date; the loan is at zero percent interest, which remains unchanged.

The requested change also provides for reserve fund restoration over five years, use of an interest and sinking fund for the new debt schedule, and creation of an operating contingency fund for short term needs.

TWDB approved \$19,430,000 in disadvantaged community funding (including \$2,791,000 in Loan Forgiveness) in February 2002 from the Drinking Water State Revolving Fund (DWSRF) for the Corporation. This funding involved 1,357 customers and 21 commercial customers, as well as an anticipated additional 800 customers.

To cover increasing operational costs, especially raw water costs, the Corporation adopted a rate increase with a November 2014 implementation date. Average customer rates are \$100 per month approximately.

The primary competitor is well water which generally is brackish. Construction delays and cost over runs affected the ability to add some potential new customers.

Staff has worked diligently with the Corporation and its advisors on this issue.

KEY ISSUES

The Corporation used a portion of its Reserve Fund to pay debt service due December 1, 2014. The Corporation must obtain additional customers as the key to restoring the long term financial condition of the Corporation.

The Corporation did not obtain the full amount of needed customers in the original plan. The Cities of Melvin and Eden chose not to participate in the project as originally planned.

	<u>Customer Count</u>	
Original	1,357	(2002 actual)
Planned increase	<u>800</u>	(2002 plan)
Target – Original	2,157	(2002 target)
Actual	<u>1,582</u>	(03/31/2015 actual)
Shortage remaining	<u>575</u>	

The Corporation has engaged a marketing specialist to assist in preparing a marketing plan to acquire the needed customers. The plan is to acquire approximately 100 new customers (net) each year for six years. The value of 575 customers is approximately \$400,000 per year.

The Corporation's management and its Board of Directors are keenly aware of the gravity of the situation, and are committed to acquiring the additional customers as originally planned.

STAFF RECOMMENDATIONS

Staff recommends approval of the request from the Millersview-Doole Water Supply Corporation to amend the 2003 Bond Resolution relating to the Millersview-Doole Water Supply Corporation Taxable Water System Revenue Bonds, Series 2003.

Texas Water Development Board Members
August 12, 2015
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Attachments: 1 - Debt Amortization Schedule
2 - Operating Contingency Fund
3 - Reserve Fund
4 - Customer Acquisition Plan

This recommendation has been reviewed by legal counsel and is within the Agency's legal authority.



Les Trobman, General Counsel

**Millersview-Doole WSC
Special Conditions
FY2015**

Attachment 1

Debt Amortization

The interest rate shall remain unchanged (zero percent), and the final maturity shall also remain unchanged (occurring on December 1, 2034). The final payment includes use of the reserve fund (\$790,000) and the final payment (\$635,000). The amount of the deferral over the first six years (2015 – 2020) is \$2,235,000. The deferral is paid back over years 2024 – 2034. Proposed repayment of principal shall be as follows:

Year	Current	Proposed	Difference
2015	\$555,000	\$200,000	\$355,000
2016	\$555,000	\$200,000	\$355,000
2017	\$555,000	\$225,000	\$330,000
2018	\$640,000	\$225,000	\$415,000
2019	\$640,000	\$250,000	\$390,000
2020	\$640,000	\$250,000	\$390,000
2021	\$640,000	\$640,000	\$0
2022	\$640,000	\$640,000	\$0
2023	\$640,000	\$640,000	\$0
2024	\$640,000	\$785,000	-\$145,000
2025	\$640,000	\$785,000	-\$145,000
2026	\$640,000	\$785,000	-\$145,000
2027	\$640,000	\$785,000	-\$145,000
2028	\$640,000	\$785,000	-\$145,000
2029	\$640,000	\$785,000	-\$145,000
2030	\$640,000	\$785,000	-\$145,000
2031	\$640,000	\$785,000	-\$145,000
2032	\$640,000	\$785,000	-\$145,000
2033	\$640,000	\$785,000	-\$145,000
2034	\$640,000	\$1,425,000	-\$785,000
	\$12,545,000	\$12,545,000	\$0

**Millersview-Doole WSC
Special Conditions
FY2015**

Attachment 2

Operating Contingency Fund (Fund)

Millersview-Doole WSC shall establish an Operating Contingency Fund (Fund) of \$150,000 to be accumulated at the rate of \$25,000 per year until funded. Disbursements from the Fund may be approved by the Corporation's Board of Directors (for emergencies or unanticipated needs in the discretion of the Corporation's Board of Directors) with notice of the disbursement to TWDB's Executive Administrator. Anytime the Fund is less than the accumulated scheduled amount, the Corporation shall replenish the Fund at the rate of \$25,000 per year until fully restored.

Year	Funding Rate per Year	Accumulated Total
2016	\$25,000	\$25,000
2017	\$25,000	\$50,000
2018	\$25,000	\$75,000
2019	\$25,000	\$100,000
2020	\$25,000	\$125,000
2021	\$25,000	\$150,000

**Millersview-Doole WSC
Special Conditions
FY2015**

Attachment 3

Reserve Fund

The Reserve Fund shall be funded in the amount of \$790,000 over five years by depositing \$13,166.67 each month until fully funded. Funding at this monthly rate shall begin with the month of approval of the plan by the TWDB and continue until fully funded.

Year	# Months/ Year	Monthly Rate	Annual rate	Required Balance
FY2016	12	\$13,166.67	\$158,000	\$158,000
FY2017	12	\$13,166.67	\$158,000	\$316,000
FY2018	12	\$13,166.67	\$158,000	\$474,000
FY2019	12	\$13,166.67	\$158,000	\$632,000
FY2020	12	\$13,166.67	\$158,000	\$790,000

**Millersview-Doole WSC
Special Conditions
FY2015**

Attachment 4

Customer Acquisition Plan

The Corporation shall provide a plan acceptable to the Executive Administrator of the TWDB to acquire at least 600 new customers (net of any terminations) for a total of approximately 2200 total customers to be in place not later than six years after TWDB Board approval. The plan shall identify in reasonable detail the customers to be targeted.

Identified and Potential New Customers	#
Waiting List - 133 without line extensions	133
Waiting List - 38 requiring only road bores	38
Waiting List - 119 requiring line extensions	119
New Development - Wall, Texas	100
New Development - San Angelo, Texas	100
Merger - City of Paint Rock	150
Eden (previous partner)	0
Melvin (previous partner)	0
Totals	640

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AMENDMENTS TO THE 2003 BOND RESOLUTION OF THE
MILLERSVIEW-DOOLE WATER SUPPLY CORPORATION
RELATING TO THE
MILLERSVIEW-DOOLE WATER SUPPLY CORPORATION TAXABLE WATER SYSTEM
REVENUE BONDS, SERIES 2003

(15-)

WHEREAS, the Texas Water Development Board (TWDB) purchased the Millersview-Doole Water Supply Corporation (Corporation) Taxable Water System Revenue Bonds, Series 2003 in original principal amount of \$15,816,000 (Series 2003 Bonds) through the Drinking Water State Revolving Fund; and

WHEREAS, the Corporation has requested that the TWDB agree to certain amendments to the Corporation's 2003 bond covenants authorized and executed by the Corporation pursuant to a resolution of the Board of Directors of the Corporation adopted on November 17, 2003 (Bond Resolution); and

WHEREAS, the United States Department of Agriculture, Rural Development, as the holders of the Outstanding Parity Lien Obligations, have consented in writing to the amendment of the Bond Resolution, which is attached hereto as Attachment A; and

WHEREAS, the TWDB has reviewed the requested amendments to the debt schedule, Reserve Fund, and the creation of an Operating Contingency Fund under the Bond Resolution and finds that such amendments are reasonable and will have no adverse impact on the Series 2003 Bonds or the security therefor; and

WHEREAS, as a consequence, the TWDB has agreed to such amendments.

NOW, THEREFORE, based on these considerations and findings, the Texas Water Development Board resolves as follows:

1. The recitals set forth in the preamble hereto are hereby incorporated herein as if set forth in full at this place.

2. The TWDB does hereby consent to:

A. a new debt service schedule, attached as Attachment B, reflecting the new principal amounts for outstanding maturities of the Series 2003 Bonds as applicable in Section 2 of the Bond Resolution and elsewhere as required within the Bond Resolution to conform the provisions to allow for the modification of the payment of principal on the Series 2003 Bonds to the TWDB.

B. the amendment of Section 13 of the Bond Resolution by adding the following paragraph after the second paragraph in the Section to read as follows:

“Provided however, that beginning on January 1, 2016, the monthly amount required to be deposited in the Reserve Fund shall be \$13,166.67 until the amount in the Reserve Fund totals \$790,000.00, which amount shall be the Required Reserve.”

C. the addition of a new Section 13A after Section 13 of the Bond Resolution to read as follows:

“SECTION 13A. Operating Contingency Fund. The Corporation shall establish an Operating Contingency Fund to be utilized by the Corporation for the purpose of providing for emergency or other unanticipated needs of the System. Beginning on January 1, 2016, and on that date each year thereafter, the Corporation shall deposit funds at the rate of \$25,000 annually in the Operating Contingency Fund until the amount of \$150,000 is accumulated. Disbursements from the Fund may be approved by the Corporation’s Board of Directors (for emergencies or unanticipated needs in the discretion of the Corporation’s Board of Directors) with notice of the disbursement to TWDB’s Executive Administrator. Provided further that in the event the Operating Contingency Fund is less than the accumulated scheduled amount, the Corporation shall replenish the Fund at the rate of \$25,000 per year until fully restored.”

3. Except as amended hereby, the 2003 Bond Resolution shall remain in full force and effect.

APPROVED and ordered of record this, the 26th day of August, 2015.

TEXAS WATER DEVELOPMENT BOARD

Bech K. Bruun, Chairman

DATE SIGNED: _____

ATTEST:

Kevin Patteson
Executive Administrator

Attachment A



United States Department of Agriculture
Rural Development
Amarillo Area Office

Millersview- Doole Water Supply Corporation
P O Box 130
Millersview, Texas 76862

August 13, 2015

Dear Mr. Brenek, President:

We have reviewed the Corporation's request for consent to amend the Revenue Bonds, Series 2003.

The request is approved.

We note the following: On November 17, 2003, the Corporation passed a Bond Resolution issuing Taxable Water System Revenue Bonds which, were subsequently purchased by the Texas Water Development Board. On December 17, 2012, a Parity Agreement was executed by and between the Rural Utilities Service (RUS), the Texas Water Development Board "TWDB", and acknowledged, Consented, and Agreed to by Miller-View Doole WSC ("Borrower").

In reviewing the documents received it appears the proposed amendment will provide for rescheduling the principle payments on the bonds, and will not result in a change to the repayment period, or the interest rate. It is also our understanding the proposed amendment will not have an adverse effect on the security or the repayment ability of the RUS debt.

If our understanding is not correct please contact me as soon as possible to discuss. Please contact me at (806) 468-8600 ext 4. if you have any questions concerning this matter.

A handwritten signature in black ink, appearing to read "Clyde H. Jenkins".

Clyde H. Jenkins
Acting Area Director

cc: Ozona Area Office
State Office – CP
David Mendez, Bickerstaff Heath Delgado Acosta, LLP

6565 Amarillo Blvd. West, Suite C- Amarillo, TX 79106
Phone: (806) 468-8600 Ext 4 • Fax: (806) 468-7248 • Web: <http://www.rurdev.usda.gov>

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Washington, DC 20250-9410 or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

Attachment B

Year	Current debt service	Proposed debt service
2015	\$555,000	\$200,000
2016	\$555,000	\$200,000
2017	\$555,000	\$225,000
2018	\$640,000	\$225,000
2019	\$640,000	\$250,000
2020	\$640,000	\$250,000
2021	\$640,000	\$640,000
2022	\$640,000	\$640,000
2023	\$640,000	\$640,000
2024	\$640,000	\$785,000
2025	\$640,000	\$785,000
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	<u>\$12,545,000</u>	<u>\$12,545,000</u>