

Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: April 11, 2016

TEAM MANAGER: Caaren Skrobarczyk

APPLICANT	City of Seymour
TYPE OF ASSISTANCE	\$1,060,000 Loan (tax-exempt) \$1,055,000 Loan (taxable) \$ 885,476 Loan forgiveness
LEGAL PLEDGE	Ad valorem tax and surplus net revenues of the water and wastewater System

STAFF RECOMMENDATION

Approve No Action

ACTION REQUESTED

Approve by resolution, a request from the City of Seymour (Baylor County) for \$3,000,476 in financial assistance, consisting of a \$2,115,000 loan and \$885,476 loan forgiveness from the Drinking Water State Revolving Fund to finance the planning, design, and construction phases of water system improvements.

PROJECT

Water system improvements
Project Number 62693

BACKGROUND

The City of Seymour (City) is not meeting the permitted limits of their water treatment plant discharge permit. The City proposes to further concentrate the waste stream from their reverse osmosis plant to enable disposal in an evaporation pond. The City proposes to add capacity to the plant and construct an eleven acre evaporation pond.

FINANCIAL

Key Issues

The City proposes to issue taxable bonds in addition to tax-exempt bonds because the project will benefit Baylor Water Supply Corporation, who owns capacity in the water treatment plant. The City's tax counsel conservatively estimates that up to 50% of the funding is taxable, however, a final assessment will be performed prior to closing to more precisely allocate the amount of taxable issuance. A smaller taxable issuance will reduce the City's interest costs for the project.

Pledge and Repayment

The City of Seymour is pledging ad valorem taxes and surplus net revenues of the water and wastewater system for the repayment of the proposed loan. The City's current combined average monthly water and wastewater rate is \$48.98. The City has one outstanding loan with the United States Department of Agriculture-Rural Development. Based on staff's analysis of financial documentation received, current system revenues are 122% of the current and proposed debt service in 2016, however system rate increases are required in 2017 to meet the proposed debt service. The City will need to increase average monthly bills by approximately \$6.13 by 2018.

COMMITMENT PERIOD: SIX (6) MONTHS TO EXPIRE OCTOBER 31, 2016

Principal Forgiveness

The City qualifies for \$885,476 in principal forgiveness as a disadvantaged community.

Cost Savings

Based on a 30-year maturity and current interest rates, the City could save approximately \$494,842 over the life of the loans. The City is also saving \$885,476 in loan forgiveness.

Internal Risk Score

Staff assigns a 2B to the City, and the proposed project to be funded by the Texas Water Development Board. This means that the City's payment capacity is sufficient.

The City's population has decreased at an average annual rate of 2.06% since 2010, compared to an increase at an annual rate of .93% for the population of the State overall. The City's average median household income is \$31,042, which is 59% of the median for the State overall. The unemployment rate for Baylor County was 2.9% in December 2015, compared to 4.2% in the State overall.

The City's current total outstanding per capita debt is \$591, and would increase to \$1,430 with the proposed financing. This is considered to be a low level of debt. The City maintains unrestricted cash and short-term investments at the level of approximately 16 days of the operating expenses of the utility system. This is considered to be a very low level of liquidity. The City also currently has \$745,000 held as liquid assets in its general fund, which is approximately 306 days of operating expenses of the utility system.

The City's utility system net revenues increased to \$148,578 in 2014 from the prior 3-year average of \$127,539 from 2011 to 2013. The City's utility system rates are moderate with a current household cost factor of 1.89% for water and wastewater services, which is considered affordable. The projected household factor, which includes a per connection cost of the proposed debt, is 2.26%. A projected household cost factor of greater than 2% for both water and wastewater services is considered unaffordable.

The City's socioeconomic indicators of population change and median household income are substantially worse than the State, and liquidity is low in the utility system. However, net revenues are increasing, debt is moderate, and current rates are affordable, though projected increases to pay for the proposed debt will result in moderately high rates. The City is assigned a risk score of 2B.

LEGALKey Issues

None.

Conditions

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

- Adopt water conservation plan;
- Executed loan forgiveness agreement;
- Return surplus funds; and
- Useful life.

Attachments: 1. Project Data Summary
2. Debt Service Schedule
3. Engineering/Environmental Review
4. Project Budget
5. Resolution (16-)
6. Water Conservation Review
7. Location Map

Project Data Summary

Authority	City of Seymour
Program	Drinking Water State Revolving Fund
Commitment Code	L1000514, L1000531, LF1000530
Project Number	62693
Intended Use Plan Year	2016
Fund Number	951
Type of Pledge	3- Combo Tax and Rev
Revenue Pledge Level	Third
Legal Description	\$1,060,000 Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2016A; \$1,055,000 Combination Tax and Surplus Revenue Certificates of Obligation (taxable), Proposed Series 2016B \$885,476 Loan Forgiveness
Tax-exempt or Taxable	Tax-exempt (2016A); Taxable (2016B)
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay = Escrow
Population	2,521
Rural	Yes
Water Connections	1,291
Wastewater Connections	1,211
Qualifies as Disadvantaged	Yes
Disadvantaged Level	6
Clean Water State Revolving Fund Type	N/A
SWIFT Financing Type	N/A
SWIFT Characteristic	N/A
Financial Managerial & Technical Complete	No
Funding Phase Code	Planning, Design, and Construction
Pre-Design	Yes
Project Consistent with Water Plan	Yes
Water Conservation Plan	Approvable
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	Caaren Skrobarczyk
Financial Analyst	Dain Larsen
Engineering Reviewer	JoAnne Duncan
Environmental Reviewer	Jean Devlin
Attorney	Joe Reynolds

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
City of Seymour

ATTACHMENT 2

\$1,060,000 Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2016A

Dated Date:	7/1/2016	Source:	DWSRF
Delivery Date:	7/1/2016	Rate:	2.59%
First Interest:	9/1/2016	Insurance:	No
First Principal:	3/1/2018	Case:	Tax and revenue
Last Principal:	3/1/2047	Admin.Fee:	\$ 23,325
Fiscal Year End:	09/30	Admin. Fee Payment Date:	7/1/2016
Required Coverage:	1.1	Total Assessed Valuation:	\$ 63,910,800

\$1,055,000 Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2016B (taxable)

Dated Date:	7/1/2016	Source:	DWSRF
Delivery Date:	7/1/2016	Rate:	4.08%
First Interest:	9/1/2016	Insurance:	No
First Principal:	3/1/2018	Case:	Tax and revenue
Last Principal:	3/1/2047	Admin.Fee:	\$ 23,215
Fiscal Year End:	9/30	Admin. Fee Payment Date:	7/1/2016
Required Coverage:	1.1	Date:	7/1/2016

FISCAL YEAR	PROJECTED NET SYSTEM REVENUES	CURRENT DEBT SERVICE	PRINCIPAL PAYMENT	\$1,060,000 ISSUE			TOTAL PAYMENT	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	\$1,055,000 ISSUE			ACTUAL COVERAGE
				INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT						INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	
2016	148,578	105,005	-	-	4,576	4,576	-	-	-	7,174	7,174	116,755	1.27		
2017	195,054	105,295	-	-	27,454	27,454	-	-	-	43,044	43,044	175,793	1.11		
2018	243,544	105,495	25,000	2.59%	27,130	52,130	20,000	4.08%	42,636	62,636	220,261	1.11			
2019	243,544	105,605	25,000	2.59%	26,483	51,483	20,000	4.08%	41,820	61,820	218,908	1.11			
2020	243,544	105,625	25,000	2.59%	25,835	50,835	20,000	4.08%	41,004	61,004	217,464	1.12			
2021	243,544	105,555	25,000	2.59%	25,188	50,188	20,000	4.08%	40,188	60,188	215,931	1.13			
2022	243,544	105,395	25,000	2.59%	24,540	49,540	20,000	4.08%	39,372	59,372	214,307	1.14			
2023	243,544	105,145	25,000	2.59%	23,893	48,893	25,000	4.08%	38,454	63,454	217,492	1.12			
2024	243,544	104,805	30,000	2.59%	23,181	53,181	25,000	4.08%	37,434	62,434	220,420	1.10			
2025	243,544	105,375	30,000	2.59%	22,404	52,404	25,000	4.08%	36,414	61,414	219,193	1.11			
2026	243,544	104,810	30,000	2.59%	21,627	51,627	25,000	4.08%	35,394	60,394	216,831	1.12			
2027	243,544	105,155	30,000	2.59%	20,850	50,850	25,000	4.08%	34,374	59,374	215,379	1.13			
2028	243,544	105,365	30,000	2.59%	20,073	50,073	30,000	4.08%	33,252	63,252	218,690	1.11			
2029	243,544	105,440	30,000	2.59%	19,296	49,296	30,000	4.08%	32,028	62,028	216,764	1.12			
2030	243,544	105,380	30,000	2.59%	18,519	48,519	30,000	4.08%	30,804	60,804	214,703	1.13			
2031	243,544	105,185	35,000	2.59%	17,677	52,677	30,000	4.08%	29,580	59,580	217,442	1.12			
2032	243,544	104,855	35,000	2.59%	16,770	51,770	30,000	4.08%	28,356	58,356	214,981	1.13			
2033	243,544	105,390	35,000	2.59%	15,864	50,864	35,000	4.08%	27,030	62,030	218,284	1.12			
2034	243,544	104,745	35,000	2.59%	14,957	49,957	35,000	4.08%	25,602	60,602	215,304	1.13			
2035	243,544	104,965	35,000	2.59%	14,051	49,051	35,000	4.08%	24,174	59,174	213,190	1.14			
2036	243,544	105,005	40,000	2.59%	13,080	53,080	40,000	4.08%	22,644	62,644	220,729	1.10			
2037	243,544	104,865	40,000	2.59%	12,044	52,044	40,000	4.08%	21,012	61,012	217,921	1.12			
2038	243,544	105,545	40,000	2.59%	11,008	51,008	40,000	4.08%	19,380	59,380	215,933	1.13			
2039	243,544	-	40,000	2.59%	9,972	49,972	45,000	4.08%	17,646	62,646	112,618	2.16			
2040	243,544	-	40,000	2.59%	8,936	48,936	45,000	4.08%	15,810	60,810	109,746	2.22			
2041	243,544	-	45,000	2.59%	7,835	52,835	45,000	4.08%	13,974	58,974	111,809	2.18			
2042	243,544	-	45,000	2.59%	6,669	51,669	50,000	4.08%	12,036	62,036	113,705	2.14			
2043	243,544	-	45,000	2.59%	5,504	50,504	50,000	4.08%	9,996	59,996	110,500	2.20			
2044	243,544	-	45,000	2.59%	4,338	49,338	50,000	4.08%	7,956	57,956	107,294	2.27			
2045	243,544	-	45,000	2.59%	3,173	48,173	55,000	4.08%	5,814	60,814	108,987	2.23			
2046	243,544	-	50,000	2.59%	1,943	51,943	55,000	4.08%	3,570	58,570	110,513	2.20			
2047	243,544	-	50,000	2.59%	648	50,648	60,000	4.08%	1,224	61,224	111,872	2.18			
	\$	2,420,005	\$ 1,060,000		\$ 495,510	\$ 1,555,510	\$ 1,055,000		\$ 819,196	\$ 1,874,196	\$ 5,849,711				

\$1,060,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	18.05 YEARS
NET INTEREST RATE	2.590%
COST SAVINGS	\$ 463,671
AVERAGE ANNUAL REQUIREMENT	\$48,610

\$1,055,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	19.03 YEARS
NET INTEREST RATE	4.080%
COST SAVINGS	\$ 488,381
AVERAGE ANNUAL REQUIREMENT	\$58,569

TOTAL AVERAGE ANNUAL REQUIREMENTS
\$182,803



**Seymour
62693 Water System Improvements
Engineering and Environmental Review**

Engineering:

Key Issues:

The proposed project will require Texas Commission on Environmental Quality (TCEQ) review and approval to construct. The City's discharge permit will need to be amended to a "no-discharge" permit for the use of the evaporation pond.

Project Need/Description

Need: The City of Seymour (City) is not meeting the permitted limits of their water treatment plant waste discharge permit and needs to develop an alternate disposal method. The City has been cited by TCEQ for failing to meet their permitted limits for selenium.

Project Description: The City is proposing to further concentrate the waste stream from their Reverse Osmosis (RO) plant to enable disposal in an evaporation pond. The City is proposing to add additional RO treatment to their plant and construct an approximate 11 acre evaporation pond.

Project Schedule:

Project Task	Schedule Date
Closing	7/01/2016
Environmental Information Document	7/29/2016
Engineering Feasibility Report Completion (End of Planning Phase)	11/30/2016
Design Phase Complete	12/30/2016
Start of Construction	2/27/2017
Construction Completion	12/15/2017

Environmental Section:

Key Issues:

None known at this time.

Environmental Summary:

Pursuant to the requirements of 31 Texas Administrative Code (TAC) §371.41, 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 Finding of No Significant Impact (FNSI) has been issued. A subsequent Affirmation of Commitment will be necessary for this loan in order to comply with the National Environmental Policy Act.



**Project Budget
Summary
Seymour
62693 - Water System**

Budget Items	This Commitment	TWDB Funds
Construction		
Construction	\$2,075,000.00	\$2,075,000.00
Subtotal for Construction	\$2,075,000.00	\$2,075,000.00
Basic Engineering Services		
Construction Engineering	\$36,000.00	\$36,000.00
Design	\$144,000.00	\$144,000.00
Planning	\$10,000.00	\$10,000.00
Subtotal for Basic Engineering Services	\$190,000.00	\$190,000.00
Special Services		
Application	\$10,000.00	\$10,000.00
Environmental	\$10,000.00	\$10,000.00
Inspection	\$120,000.00	\$120,000.00
Permits	\$15,000.00	\$15,000.00
Surveying	\$55,000.00	\$55,000.00
Testing	\$20,000.00	\$20,000.00
Water Conservation Plan	\$10,000.00	\$10,000.00
Subtotal for Special Services	\$240,000.00	\$240,000.00
Fiscal Services		
Bond Counsel	\$40,000.00	\$40,000.00
Financial Advisor	\$46,000.00	\$46,000.00
Fiscal/Legal	\$3,700.00	\$3,700.00
Issuance Costs	\$5,000.00	\$5,000.00
Loan Origination Fee	\$46,540.00	\$46,540.00
Subtotal for Fiscal Services	\$138,240.00	\$138,240.00
Contingency		
Contingency	\$354,236.00	\$354,236.00
Subtotal for Contingency	\$354,236.00	\$354,236.00
Total	\$3,000,476.00	\$3,000,476.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
 APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE
 IN THE AMOUNT OF \$3,000,476 TO CITY OF SEYMOUR
 FROM THE DRINKING WATER STATE REVOLVING FUND
 THROUGH THE PROPOSED PURCHASE OF \$1,060,000
 CITY OF SEYMOUR, TEXAS COMBINATION TAX AND SURPLUS REVENUE
 CERTIFICATES OF OBLIGATION, PROPOSED SERIES 2016A AND \$1,055,000
 CITY OF SEYMOUR, TEXAS COMBINATION TAX AND SURPLUS REVENUE
 CERTIFICATES OF OBLIGATION (TAXABLE), PROPOSED SERIES 2016B
 AND \$885,476 IN LOAN FORGIVENESS

(16-)

WHEREAS, the City of Seymour (City) has filed an application for financial assistance in the amount of \$3,000,476 from the Drinking Water State Revolving Fund (DWSRF) to finance the planning, design, and construction of certain water system improvements identified as Project No. 62693; and

WHEREAS, the City seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of \$1,060,000 City of Seymour, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2016A and \$1,055,000 City of Seymour, Texas Combination Tax and Surplus Revenue Certificates of Obligation (taxable), Proposed Series 2016B (together with all authorizing documents (Obligations)), and the execution of a Loan Forgiveness Agreement in the amount of \$885,476, 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 a lien on the surplus net revenues of the waterworks and sewer system as sufficient security for the repayment of the Obligations; and

WHEREAS, the loan is approved for funding under the TWDB's pre-design funding option, and initial and future releases of funds will be subject to 31 TAC Chapter 371;

WHEREAS, the TWDB hereby finds:

1. that the revenue and/or taxes pledged by the City will be sufficient to meet all the Obligations assumed by the City, in accordance with Texas Water Code § 15.607;
2. that the application and assistance applied for meet the requirements of the Safe Drinking Water Act, 42 U.S.C. §§ 300f *et seq.* as well as state law, in accordance with Texas Water Code § 15.607;
3. that the City has submitted a proposed program of water conservation for the more efficient use of water that will meet reasonably anticipated local needs and conditions

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

4. that the TWDB has approved a regional water plan for the region of the state that includes the area benefiting from the project and the needs to be addressed by the project will be addressed in a manner that is consistent with the approved regional and state water plans, as required by Texas Water Code § 16.053(j);
5. that a current water audit required by Texas Water Code § 16.0121 and 31 TAC § 358.6 has been completed by the City and filed with the TWDB in accordance with Texas Water Code § 16.053(j); and
6. that the City meets the definition of Disadvantaged Community in 31 TAC § 371.1(24) and is therefore eligible for subsidy through the DWSRF.

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

A commitment is made by the TWDB to the City of Seymour for financial assistance in the amount of \$3,000,476 from the Drinking Water State Revolving Fund through the TWDB's proposed purchase of \$1,060,000 City of Seymour, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2016A and \$1,055,000 City of Seymour, Texas Combination Tax and Surplus Revenue Certificates of Obligation (taxable), Proposed Series 2016B, and the execution of a Loan Forgiveness Agreement in the amount of \$885,476. This commitment will expire on October 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 Only To \$1,060,000 City of Seymour, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2016A (Tax-exempt Obligations)

16. the City's bond counsel must prepare a written opinion that states that the interest on the Tax-exempt 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 Tax-exempt Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the City when rendering this opinion;
18. the Tax-exempt 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 Tax-exempt 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 Tax-exempt

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 Tax-exempt Obligations, 125% of average annual debt service on the Tax-exempt Obligations, or 10 percent of the stated principal amount (or, in the case of a discount, the issue price) of the Tax-exempt Obligations;
20. the Tax-exempt 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 Tax-exempt 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 Tax-exempt Obligations must include a provision prohibiting the City from taking any action that would cause the interest on the Tax-exempt Obligations to be includable in gross income for federal income tax purposes;
22. the Tax-exempt 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 Tax-exempt 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 Tax-exempt 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 Tax-exempt 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 and Loan Forgiveness Agreement must contain a covenant that the City will abide by all applicable construction contract requirements related to the use of iron and steel products produced in the United States, as required by 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 Loans

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:

- 35. prior to closing, the City shall adopt and implement the water conservation program approved by the TWDB;
- 36. prior to closing, the City shall execute a Loan Forgiveness Agreement in a form and substance acceptable to the Executive Administrator;

37. the Loan Forgiveness Agreement must include a provision stating that the City shall return any loan forgiveness funds that are determined to be surplus funds in a manner determined by the Executive Administrator;
38. prior to the release of funds, the City shall provide a schedule of the useful life of the project components prepared by an engineer as well as a certification by the applicant that the average weighted maturity of the obligations purchased by the TWDB does not exceed 120% of the average estimated useful life of the project, as determined by the schedule.

APPROVED and ordered of record this 11th day of April, 2016.

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:

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 Seymour, Baylor County

