

Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: July 21, 2016

TEAM MANAGER: Mireya Loewe

APPLICANT	United Irrigation District
TYPE OF ASSISTANCE	\$6,455,000 Loan, Proposed Series 2016A Tax-Exempt \$1,645,000 Loan, Proposed Series 2016B Taxable
LEGAL PLEDGE	First Lien on the Net System Revenues

STAFF RECOMMENDATION

Approve No Action

ACTION REQUESTED

Approve, by resolution, a request from the United Irrigation District (Hidalgo County) for an \$8,100,000 low interest loan from the State Water Implementation Revenue Fund for Texas to finance the planning, acquisition, design, and construction of an off channel storage facility.

PROJECT

Off Channel Storage Facility
Project Number 51030

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. SWIFT projects presented for consideration have been scored and ranked utilizing a prioritization criteria outlined in Texas Administrative Code Title 31 §363.1304 and are included on the prioritized list of projects approved by the Board on April 11, 2016.

The United Irrigation District (District) resulted from the consolidation of Hidalgo County Water Improvement District Numbers 7 and 14 that occurred in 1987. Both districts were created in the 1920s. The District serves about 25,000 acres of irrigated land within its boundaries and delivers water to the Cities of Mission and McAllen, as well as the Sharyland Water Supply Corporation; together they serve approximately 282,344 people. From the Rio Grande River, the District diverts about 50,000 acre-feet (ac-ft) of water per year from its own and its customers' water rights allocations.

The District obtains its allocated Rio Grande water from the Falcon Reservoir. It normally orders the release of water from the reservoir about two to eight days in advance of forecasted needs. Once an order is released from the reservoir it cannot be stopped. It generally takes two to three days for the released water to reach the District's diversion facilities. When rainfall occurs during this transition time, it can reduce demands and fill the available storage space in the

COMMITMENT PERIOD: TO EXPIRE DECEMBER 31, 2016.
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District's main canals, which only have an estimated capacity of 80 ac-ft. When this happens, the District cannot divert the requested water, so the water is lost downriver to the Gulf of Mexico. Even though the District was unable to divert the requested water, their water rights accounts are charged with 90% of the volume that was released for them. The District estimates that these losses due to insufficient storage average annually about of 3.7% of their annual diversions.

The District plans to construct a 600 ac-ft off-channel storage reservoir between the diversion point from the Rio Grande and the first pumping station within the District's canal network. This would not only improve the general operations within the District, but could potentially conserve an estimated 2,000 ac-ft of water per year.

The District also manages Hidalgo County Irrigation District No. 16 (D16). D16 is located on the Rio Grande about 14 river miles upstream of District's first lift pumping station facility. D16 serves about 12,000 acres of irrigated farmland and is authorized to divert up to 31,624 acre feet of water per year. During times when D16 cannot divert ordered water due to wet weather, water ordered by both districts could be amended such that the District could divert D16's water and store it in the proposed facility. Based on water ordered and water pumped for the period from 2008 to 2012, the District estimates that D16 loses about five percent of its annual diversions.

FINANCIAL

Key Issues

The commitment includes a \$1,645,000 taxable series based on the District's proportion of water sales to the Sharyland Water Supply Corporation, which is considered a taxable entity by the Internal Revenue Service with regards to debt issuance.

Pledge and Repayment

The District is pledging first lien on the net system revenues for the repayment of the proposed loan. The District has no outstanding debt. Based on staff's analysis of financial documentation received, current revenues are sufficient to meet the proposed debt service requirements.

Cost Savings

Based on a 30-year maturity and current interest rates, the District could save approximately \$742,123 over the life of the \$6,455,000 tax exempt loan and approximately \$238,128 over the life of the \$1,645,000 taxable loan. This could be a total savings of \$980,251.

Internal Risk Score

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

The financial sustainability indicators for the District are adequate. The District shows that it has the ability to repay its debt. The District produces net revenues of 1.78 times the annual debt service requirements for the first year of principal repayment. This higher coverage level indicates the District's ability to handle unexpected expenses or declines in demand and still meet debt service requirements. Additionally, the long-term condition of the system is sound with an asset condition ratio of 29 years. This indicates a high level of reinvestment in the district's long-term assets to generate future revenues.

The District scored well on another indicator of the overall health of the District. Overall, the District has been able to retain its revenues, as evidenced by an increase in the fund balance over the last two years relative to revenues.

Hidalgo County's socioeconomic indicators are below the state's average overall. The average median household income of \$34,952 is 66.5% of the state's median. Hidalgo County reports an unemployment rate of 7.2%, which is above the state's rate of 4.2%.

The District maintains a good liquidity position with cash and short-term investments equal to 719 days of operating expenses. An amount over 250 days is considered to be a very high level of liquidity. Adequate liquidity provides greater stability to the District by providing the resources needed to cover short-term, unplanned needs.

The District does not have any outstanding debt. Based on the proposed debt for the project, the debt per capita related only to the District will be minimal at \$28.69.

The District's net revenues are substantial, the operating reserves are high, and debt per capita is low. The District is assigned a risk score of 2B.

LEGAL

Key Issues

None.

Conditions

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

- Water rights certification;
- Conveyance; and
- Conversion.

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

Responsible Authority	United Irrigation District
Program (Spell Out)	State Water Implementation Fund for Texas
Commitment Codes	L16051 - Series 2016A L16065 - Series 2016 B
Project Number	51030
Intended Use Plan/Fund Year	2016
Fund Number	361
Type of Pledge	2-Revenue
Revenue Pledge Level	First
Legal Description	\$6,455,000 United Irrigation District System Revenue Notes, Proposed Series 2016A, \$1,645,000 United Irrigation District System Revenue Notes, Proposed Taxable Series 2016B
Tax-Exempt or Taxable	Tax Exempt and Taxable
Refinance	No
Outlay Requirement	No
Disbursement Method	Escrow
Outlay Type	N/A
Population	282,344
Rural	No
Water Connections	N/A
Wastewater Connections	N/A
Qualifies as Disadvantaged	N/A
Disadvantaged Level	9
Clean Water State Revolving Fund Type	N/A
SWIFT Financing Type	Low-Interest Loan
SWIFT Project Type	Agriculture
Financial, Managerial and Technical Review Complete?	N/A
Phase Committing	Planning, Acquisition, 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	Non-Rated
Moody's	Non-Rated
Fitch	Non-Rated
Special Issues	None

Project Team

Team Manager	Mireya Loewe
Financial Analyst	Javier Pena
Engineering Reviewer	Donald Dawkins
Environmental Reviewer	Lauren Dill
Attorney	Joe Reynolds

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
United Irrigation District

Attachment 2

\$6,455,000 System Revenue Notes, Proposed Series 2016A
Dated Date: 11/30/2016 **Source: SWIFT-LOW-30YR**
Delivery Date: 11/30/2016 **Insurance: No**
First Interest: 9/1/2017 **Case: Revenue**
First Principal 9/1/2018 **Admin.Fee: \$ -**
Last Principal: 9/1/2046 **Admin. Fee Payment Date: N/A**
Fiscal Year End: 09/30 **Required Coverage: 1.0**

\$1,645,000 System Revenue Notes, Proposed Taxable Series 2016B
Dated Date: 11/30/2016 **Source: SWIFT-LOW-30YR**
Delivery Date: 11/30/2016 **Insurance: -**
First Interest: 9/1/2017 **Case: -**
First Principal 9/1/2018 **Admin.Fee: \$ -**
Last Principal: 9/1/2046 **Admin. Fee Payment Date: N/A**
Fiscal Year End: 9/30 **Required Coverage: 1.0**

FISCAL YEAR	PROJECTED NET SYSTEM REVENUES	CURRENT DEBT SERVICE	\$6,455,000 ISSUE			\$1,645,000 ISSUE			TOTAL DEBT SERVICE	ACTUAL COVERAGE		
			PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL PAYMENT	INTEREST RATE			INTEREST PAYMENT	TOTAL PAYMENT
2017	609,619	-	-	0.00%	121,817	121,817	-	0.00%	38,547	38,547	160,364	3.80
2018	609,619	-	110,000	0.89%	161,824	271,824	20,000	1.11%	51,206	71,206	343,030	1.78
2019	609,619	-	110,000	0.99%	160,845	270,845	20,000	1.25%	50,984	70,984	341,829	1.78
2020	609,619	-	110,000	1.11%	159,756	269,756	20,000	1.43%	50,734	70,734	340,490	1.79
2021	609,619	-	110,000	1.21%	158,535	268,535	20,000	1.67%	50,448	70,448	338,983	1.80
2022	609,619	-	165,000	1.31%	157,204	322,204	35,000	1.82%	50,114	85,114	407,318	1.50
2023	609,619	-	185,000	1.41%	155,042	340,042	45,000	2.02%	49,477	94,477	434,519	1.40
2024	609,619	-	185,000	1.51%	152,434	337,434	45,000	2.06%	48,568	93,568	431,002	1.41
2025	609,619	-	190,000	1.59%	149,640	339,640	45,000	2.18%	47,641	92,641	432,281	1.41
2026	609,619	-	190,000	1.67%	146,619	336,619	45,000	2.34%	46,660	91,660	428,279	1.42
2027	609,619	-	195,000	1.91%	143,446	338,446	50,000	2.86%	45,607	95,607	434,053	1.40
2028	609,619	-	200,000	2.08%	139,722	339,722	50,000	2.86%	44,177	94,177	433,899	1.40
2029	609,619	-	205,000	2.23%	135,562	340,562	50,000	2.86%	42,747	92,747	433,309	1.41
2030	609,619	-	210,000	2.36%	130,990	340,990	55,000	2.86%	41,317	96,317	437,307	1.39
2031	609,619	-	215,000	2.48%	126,034	341,034	55,000	2.86%	39,744	94,744	435,778	1.40
2032	609,619	-	220,000	2.58%	120,702	340,702	55,000	3.27%	38,171	93,171	433,873	1.41
2033	609,619	-	225,000	2.67%	115,026	340,026	60,000	3.27%	36,373	96,373	436,399	1.40
2034	609,619	-	230,000	2.74%	109,019	339,019	60,000	3.27%	34,411	94,411	433,429	1.41
2035	609,619	-	240,000	2.80%	102,717	342,717	60,000	3.27%	32,449	92,449	435,165	1.40
2036	609,619	-	245,000	2.86%	95,997	340,997	65,000	3.27%	30,487	95,487	436,483	1.40
2037	609,619	-	250,000	2.91%	88,990	338,990	65,000	3.59%	28,361	93,361	432,351	1.41
2038	609,619	-	260,000	2.95%	81,715	341,715	70,000	3.59%	26,028	96,028	437,742	1.39
2039	609,619	-	270,000	2.99%	74,045	344,045	70,000	3.59%	23,515	93,515	437,559	1.39
2040	609,619	-	275,000	3.02%	65,972	340,972	75,000	3.59%	21,002	96,002	436,973	1.40
2041	609,619	-	285,000	3.04%	57,667	342,667	75,000	3.59%	18,309	93,309	435,976	1.40
2042	609,619	-	295,000	3.07%	49,003	344,003	80,000	3.59%	15,617	95,617	439,619	1.39
2043	609,619	-	305,000	3.09%	39,946	344,946	85,000	3.59%	12,745	97,745	442,691	1.38
2044	609,619	-	315,000	3.11%	30,522	345,522	85,000	3.59%	9,693	94,693	440,215	1.38
2045	609,619	-	325,000	3.13%	20,725	345,725	90,000	3.59%	6,642	96,642	442,367	1.38
2046	609,619	-	335,000	3.15%	10,553	345,553	95,000	3.59%	3,411	98,411	443,963	1.37
		\$ -	\$ 6,455,000		\$ 3,262,060	\$ 9,717,060	\$ 1,645,000		\$ 1,035,179	\$ 2,680,179	\$ 12,397,239	

\$6,455,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	18.09 YEARS
NET INTEREST RATE	2.794%
COST SAVINGS	\$742,123
AVERAGE ANNUAL REQUIREMENT	\$323,902

\$1,645,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	18.74 YEARS
NET INTEREST RATE	3.357%
COST SAVINGS	\$ 238,128
AVERAGE ANNUAL REQUIREMENT	\$89,339

TOTAL AVERAGE ANNUAL REQUIREMENTS
\$413,241

Disclaimer: This is a working document and is provided as a courtesy. All information contained herein, including the proposed interest rate, is subject to change upon further review of the TWDB in accordance with 31 Texas Administrative Code Chapters 363, 371, 375, or 384, as applicable.



**United Irrigation District
51030 Off Channel Storage Facility
Engineering and Environmental Review**

Engineering:

Key Issues:

Funding includes acquisition of land for storage facility.

Project Need/Description

Need: United Irrigation District (District) obtains its water from the Rio Grande River through the Falcon Reservoir system to supply water to its customers. Water is usually ordered two to eight days in advance of forecasted needs. It may take two to three days to travel from the Falcon Reservoir to the District's diversion point because of the distance the water must travel through canals. During this period, rainfall can fill the main canals while also reducing the demand for water delivery. When this happens, the District has no place to store the water already requested and has to forego diverting it; yet, their water right holder account is still charged with 90 percent of the volume that was released. The District estimates that from 2008 to 2012, annual water losses due to insufficient storage averaged 3.7 percent of their annual diversions.

Description: The District proposes to construct an off-channel storage facility between its diversion point in the Rio Grande and its first pumping station to better manage pumping of water ordered from the Falcon Reservoir and reduce river losses. The proposed facility will have a storage capacity of 600 acre-feet.

Project Schedule:

Project Task	Schedule Date
Closing	11/30/2016
Engineering Feasibility Report Completion (End of Planning Phase)	4/15/2017
Design Phase Complete	10/2/2017
Start of Construction	3/12/2018
Construction Completion	12/7/2019

Environmental Section:

Key Issues:

None known at this time.

Environmental Summary:

Pursuant to the requirements of 31 Texas Administrative Code (TAC) §363.14, all financial assistance shall be conditioned to read that funding for acquisition, design, and construction costs for specific project elements will not be released until the environmental review has been completed and a favorable Environmental Determination (ED) has been issued.



Project Budget Summary
 United Irrigation District
 51030 - Off Channel Storage Facility

Budget Items	TWDB Funds	Total
Construction		
Construction	\$5,385,519.00	\$5,385,519.00
Subtotal for Construction	\$5,385,519.00	\$5,385,519.00
Basic Engineering Services		
Construction Engineering	\$75,398.00	\$75,398.00
Design	\$263,890.00	\$263,890.00
Planning	\$37,699.00	\$37,699.00
Subtotal for Basic Engineering Services	\$376,987.00	\$376,987.00
Special Services		
Application	\$8,259.00	\$8,259.00
Environmental	\$15,000.00	\$15,000.00
Geotechnical	\$53,855.00	\$53,855.00
Inspection	\$150,000.00	\$150,000.00
O&M Manual	\$5,000.00	\$5,000.00
Permits	\$25,000.00	\$25,000.00
Surveying	\$53,855.00	\$53,855.00
Testing	\$53,855.00	\$53,855.00
Subtotal for Special Services	\$364,824.00	\$364,824.00
Fiscal Services		
Bond Counsel	\$50,135.00	\$50,135.00
Issuance Cost	\$12,237.00	\$12,237.00
Financial Advisor	\$64,528.00	\$64,528.00
Fiscal/Legal	\$8,100.00	\$8,100.00
Subtotal for Fiscal Services	\$135,000.00	\$135,000.00
Other		
Land/Easements Acquisition	\$1,250,000.00	\$1,250,000.00
Project Legal Expenses	\$25,000.00	\$25,000.00
Subtotal for Other	\$1,275,000.00	\$1,275,000.00
Contingency		
Contingency	\$562,670.00	\$562,670.00
Subtotal for Contingency	\$562,670.00	\$562,670.00
Total	\$8,100,000.00	\$8,100,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT
OF \$8,100,000 TO UNITED IRRIGATION DISTRICT
FROM THE STATE WATER IMPLEMENTATION REVENUE FUND FOR TEXAS
THROUGH THE PROPOSED PURCHASE OF
\$6,455,000 UNITED IRRIGATION DISTRICT SYSTEM REVENUE NOTES,
PROPOSED SERIES 2016A, AND
\$1,645,000 UNITED IRRIGATION DISTRICT SYSTEM REVENUE NOTES,
PROPOSED TAXABLE SERIES 2016B

(16-)

WHEREAS, the United Irrigation District (District) has filed an application for financial assistance in the amount of \$8,100,000 from the State Water Implementation Revenue Fund for Texas (SWIRFT) to finance the planning, acquisition, design and construction of certain water supply project(s) identified as Project No. 51030; and

WHEREAS, the District seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of \$6,455,000 United Irrigation District System Revenue Notes, Proposed Series 2016A, and \$1,645,000 United Irrigation District System Revenue Notes, Proposed Taxable Series 2016B (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 District has offered a pledge of a first lien on net system revenues of the District's drainage and irrigation distribution system as sufficient security for the repayment of the Obligations; 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, interest rate subsidies are available to the District at the following levels: 35.0% for a loan of a term of 20 years, 25.0% for a loan of a term of 21 to 25 years, and 20.0% for a loan of a term of 26 to 30 years. The interest rate subsidy applicable to each proposed series will be set through each financing agreement executed between the TWDB and the District, pursuant to this Resolution; and

WHEREAS, the TWDB has carefully considered all matters required by law and in particular whether the project as set forth in the application meets the criteria provided by Texas Water Code § 15.434(b); 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 has been submitted and implemented in accordance with Texas Water Code § 11.1271 and 31 TAC § 363.1309(b)(1);
4. that the District 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 District and filed with the TWDB in accordance with 31 TAC § 358.6;
6. that the project supports agricultural water conservation;
7. that the District 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 the United Irrigation District for financial assistance in the amount of \$8,100,000 from the State Water Implementation Revenue Fund for Texas, to be evidenced by the TWDB's proposed purchase of \$6,455,000 United Irrigation District System Revenue Notes, Proposed Series 2016A, and \$1,645,000 United Irrigation District System Revenue Notes, Proposed Taxable Series 2016B. This commitment will expire on December 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 District;

3. this commitment is contingent upon the District'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 District 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 District shall use a paying agent/registrar in accordance with 31 TAC § 363.42(c)(2), and shall require the paying agent/registrar 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 District, 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 District'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 District's Obligations, if the TWDB sells or otherwise transfers such Obligations, and the beneficial owners of the TWDB's bonds if the District is an obligated person with respect to such bonds under SEC Rule 15c2-12;
8. the Obligations must contain a provision requiring the District 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;
9. the Obligations must include a provision requiring the District 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;

10. 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;
11. 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;
12. loan proceeds shall not be used by the District 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 District 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 District, its contractors, consultants, agents, officials and employees as a result of activities relating to the project to the extent permitted by law;
13. the Obligations must include a provision stating that the District 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;
14. 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 § 363.42(c)(1);

Conditions Related to the \$6,455,000 Tax-exempt Notes, Proposed Series 2016A

15. the Obligations must include a provision prohibiting the District 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);
16. 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;
17. the Obligations must include a provision requiring the District 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 District 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 District may, however, to the extent permitted by law, commingle Gross Proceeds of its loan with other money of the District, provided that the District 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 District 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;
18. the Obligations must include a provision prohibiting the District from taking any action that would cause the interest on the Obligations to be includable in gross income for federal income tax purposes;
19. the Obligations must provide that the District will not cause or permit the Obligations to be treated as “federally guaranteed” obligations within the meaning of § 149(b) of the Code;
20. the Obligations must provide that neither the District 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 District by the TWDB;

Pledge Conditions for the Loans

21. the Obligations must require the accumulation of a reserve fund of no less than average annual debt service requirements, to be accumulated in equal monthly installments over the initial sixty (60) months following the issuance of the Obligations;
22. if the District has existing revenue obligations with the same pledge of security as the proposed Obligations that will remain outstanding after any loan(s) made by the TWDB pursuant to this commitment, the Obligations must contain a provision providing that the lien or liens securing the Obligations issued to the TWDB shall be at least on a parity with lien or liens securing such outstanding obligations;
23. the Obligations must contain a provision providing that additional revenue obligations may only be incurred if net system revenues are at least 1.25 times the average annual debt service requirements after giving effect to the additional obligations when net revenues are determined from the last completed fiscal year or a 12 consecutive calendar month period ending not more than ninety (90) days preceding the adoption of the additional obligations as certified by a certified public accountant;

Conditions to Close or for Release of Funds

24. prior to closing, the District 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;

25. prior to closing, and if not previously provided with the application, the District 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;
26. prior to closing, when any portion of financial assistance is to be held in escrow or in trust, the District 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;
27. prior to closing, the District'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 District when rendering this opinion;
28. prior to closing, the District's bond counsel must prepare a written opinion that also states that the tax-exempt Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the District when rendering this opinion;
29. the transcript must include a No Arbitrage Certificate or similar Federal Tax Certificate setting forth the District's reasonable expectations regarding the use, expenditure and investment of the proceeds of the tax-exempt 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;

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

31. 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 District has the right to use the water that the project financed by the TWDB will provide;
32. the District must notify the Executive Administrator prior to taking any actions to alter its legal status in any manner, such as by conversion to a conservation and reclamation district or a sale-transfer-merger with another retail public utility; and
33. the Obligations must include a provision requiring that, prior to any action by the District to convey its Obligations held by the TWDB to another entity, the

conveyance and the assumption of the Obligations must be approved by the TWDB.

APPROVED and ordered of record this, the 21st day of July, 2016.

TEXAS WATER DEVELOPMENT BOARD

Bech K. Bruun, Chairman

DATE SIGNED: _____

ATTEST:

Jeff Walker
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.

United Irrigation District Hidalgo County

