

TO: Board Members

THROUGH: Jeff Walker, Executive Administrator
Jessica Zuba, Deputy Executive Administrator, Water Supply and Infrastructure
T. Clay Schultz, Ph.D. Director, Regional Water Planning and Development
Les Trobman, General Counsel

FROM: Joe Reynolds, Assistant General Counsel
Hector Estrada, Financial Analyst

DATE: August 7, 2016

SUBJECT: Partial Release of Lien for Springs Hill Water Supply Corporation
Loan Nos. L100013 and L1000055

ACTION REQUESTED

Consider approving by resolution, a request from Springs Hill Water Supply Corporation (Corporation) for a partial release of lien on and consent to convey property owned by the Corporation.

BACKGROUND

The Texas Water Development Board (TWDB) currently holds the following debt of the Corporation:

Loan ID	Original Principal	Principal Remaining	Call Date	Program	Type of Proceeds
L100013	\$3,130,000	\$2,350,000	11/01/2011	DWSRF	Taxable
L1000055	\$1,100,000	\$980,000	11/01/2022	DWSRF	Taxable

By letter dated April 25, 2015, the Corporation requested that the Board provide its consent to conveyance and partial release of lien on the sale of an approximately 0.22 acre tract of land and an approximately 0.11 acre tract of land (together the “Land”) that the Corporation no longer needs, as well as the tanks located on the land that the Corporation is no longer using (the Land and associated fixtures and equipment are collectively referred to as the “Property”).

The Corporation suspended its request later that year, until it completed the restructuring of a loan agreement it had with Guadalupe Valley Development Corporation to replace Guadalupe Valley with CoBank as the lender. The restructuring of that loan was completed and documents filed and delivered to the TWDB in February 2016. The Corporation states that a buyer or buyers have expressed interest in purchasing the Land; and the Corporation believes it is in its best interest to proceed with the sale of the Property.

As part of the pledged security for the loans listed above, the TWDB holds a Deed of Trust and Security Agreement that creates a security interest in the real property of the Corporation as well as the personal property of the Corporation necessary to operate the Corporation's water supply system. Under Condition No. 7 of TWDB Resolution No. 09-124, Condition No. 36 of TWDB Resolution No. 12-98, and Section 2.03.A of the Loan Agreements dated February 4, 2010 and October 17, 2012, the Corporation may not impair its title to the land used for the water system or the improvements and facilities of the system without prior TWDB approval.

KEY ISSUES

The Corporation represents that two tanks and a concrete building are located on the Property that are no longer in use, or needed by the Corporation for day-to-day operations. With no active water service provided on or to the Property, its sale does not constitute a loss to current income, and should not interfere with the revenues used to repay the loan agreement with the TWDB.

The Executive Administrator's staff has reviewed the request, the outstanding balances on the loan, and the impact of the limited release of lien on the remaining asset base of the Corporation. The remaining security pledged by the Corporation will be sufficient to ensure that the debt obligations of the Corporation are met and the limited release of lien for these tracts will neither compromise the security offered by the Corporation under the Deed of Trust and Security Agreement nor impair the Corporation's ability to meet its debt obligations.

The attached resolution provides the Board's approval of the partial release of lien, consents to the conveyance of the Property, and authorizes the Executive Administrator to take actions necessary to give effect to the resolution. The Resolution also requires that the Corporation: (1) pay any and all costs of documentation and filing of the partial release of lien; and (2) provide to the TWDB all relevant documents regarding the conveyance of the Property.

RECOMMENDATION

The Executive Administrator recommends approving, by resolution, the request from Springs Hill Water Supply Corporation for a partial release of lien and consent to the conveyance of property under the lien. The Executive Administrator further recommends that the Board authorize the Executive Administrator to take all actions necessary to give effect to the attached resolution.

Attachment(s):

1. Resolution (16-)
2. Letter from the Corporation dated April 25, 2015, requesting partial release of lien
3. Description of Property Conveyed

A RESOLUTION OF
THE TEXAS WATER DEVELOPMENT BOARD
APPROVING A REQUEST OF
SPRINGS HILL WATER SUPPLY CORPORATION
FOR PARTIAL RELEASE OF LIEN

(16-___)

WHEREAS, at its October 15, 2009 meeting, the Texas Water Development Board (the "TWDB") made a commitment to the Springs Hill Water Supply Corporation (the "Corporation") to provide financial assistance in the amount of \$3,130,000 from the Drinking Water State Revolving Fund to finance water system improvements; and

WHEREAS, the Corporation authorized and delivered to the Board a Promissory Note and Loan Agreement, dated February 4, 2010, payable to the Board in the principal amount of \$3,130,000 through a loan agreement and promissory note secured by a Deed of Trust and Security Agreement ("Deed of Trust") that provides a security interest in the Corporation's water system real and personal property assets; and

WHEREAS, at its October 17, 2012 meeting, the TWDB made a commitment to the Corporation to provide financial assistance in the amount of \$1,290,350 from the Drinking Water State Revolving Fund with \$190,350 forgiven; and

WHEREAS, the Corporation authorized and delivered to the Board a Promissory Note and Loan Agreement, dated October 17, 2012, payable to the Board in the principal amount of \$1,100,000 through a loan agreement and promissory note secured by a Deed of Trust that provides a security interest in the Corporation's water system real and personal property assets; and

WHEREAS, the Corporation now desires to convey two small tracts of land, located in Guadalupe County and the fixtures and equipment associated with those tracts (the "Property"), which are property covered under the Deed of Trust; and

WHEREAS, Section 2.03.A of the loan agreements states that the Corporation must receive the prior written consent of the TWDB in order to sell, transfer, or otherwise convey all or any part of the Trust Estate; and

WHEREAS, the TWDB finds that the Property is not a significant part of the Corporation's water system; and

WHEREAS, the TWDB finds that in its opinion the security pledged by the Corporation will be sufficient to meet the debt obligations of the Corporation, and that a limited release of the TWDB's lien on the Property under the Deeds of Trust and loan agreements will not compromise the security offered by the Corporation nor impair the Corporation's ability to meet its obligations; and

WHEREAS, the TWDB further finds that it is in the public interest for the TWDB to grant a partial release of lien and to permit the Corporation to convey the Property.

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

1. The TWDB approves a release of lien for the Property.
2. The TWDB consents to the conveyance of the Property.
3. The TWDB authorizes the Executive Administrator to take all actions necessary to give effect to this resolution.

Such resolution is conditioned as follows:

1. The Corporation will pay any and all costs of documentation and filing of the release of lien; and
2. The Corporation must provide to the TWDB all relevant documents regarding the conveyance of the Property.

APPROVED and ordered of record this the 25th day of August, 2016.

TEXAS WATER DEVELOPMENT BOARD

Bech K. Bruun, Chairman

DATE SIGNED: _____

ATTEST:

Jeff Walker
Executive Administrator

Ms. Dickenson's Direct Line: (512) 322-5804
Email: cdickenson@lglawfirm.com

April 25, 2015

Texas Water Development Board
Joe Reynolds, Assistant General Counsel
P.O. Box 13231
Austin, Texas 78711-3231

VIA FIRST CLASS MAIL
AND ELECTRONIC TRANSMISSION

Re: Springs Hill WSC Request for Release of Lien
ARRA Loan Agreement dated February 4, 2010 and DWSRF Loan Agreement
dated April 23, 2013

Dear Mr. Reynolds:

I am writing to you on behalf of my firm's client, Springs Hill Water Supply Corporation ("**Springs Hill**"), to follow up on our April 22, 2015 request for a partial release of collateral pledged to the Texas Water Development Board ("**TWDB**") in connection with the above referenced loan agreements ("**Loan Agreements**"). After requesting the release last year, Springs Hill temporarily suspended this initiative until it completed the redocumentation of a separate loan agreement Springs Hill had with Guadalupe Valley Development Corporation ("**GVDC**"), which was subject to a Parity Agreement with TWDB for the Loan Agreements. The GVDC loan agreement has now been restructured to replace GVDC with CoBank as the direct lender (the "**Refinancing**").

Springs Hill would now like to renew its request for a partial release of collateral from the TWDB. Specifically, Springs Hill would like to sell an approximately 0.22 acre tract of land and an approximately 0.11 acre tract of land (together the "**Land**") that it no longer needs, as well as the tanks located on the Land that Springs Hill is no longer using (the Land and associated fixtures and equipment are collectively referred to as the "**Property**"). Two individuals have expressed interest in purchasing the Land, and Springs Hill believes it to be in its best interest to sell the Property.

The Property is pledged to the TWDB under the Deeds of Trust and Security Agreements ("**Deeds of Trust**") associated with the Loan Agreements. The Land is described as Tracts One and Twenty Six in Exhibits A of both of the Deeds of Trust (copies of the property descriptions are included with this correspondence). Springs Hill respectfully requests that the TWDB release its liens on the Property to allow Springs Hill to sell these non-essential assets.

Mr. Joe Reynolds
Texas Water Development Board
April 25, 2016
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Please note that the collateral for both Loan Agreements had been subject to a Parity Agreement between Springs Hill, the TWDB, and GVDC. That Parity Agreement is no longer in effect after the Refinancing with CoBank. CoBank has executed a new Parity Agreement with the TWDB and Springs Hill, but Springs Hill did not pledge the Property to CoBank.

Should you have any questions or need additional information, please do not hesitate to contact me at (512) 322-5804, or my colleague, David Klein, at (512) 322-5818.

Sincerely,

A handwritten signature in black ink, appearing to read "Christie Dickenson". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Christie Dickenson

CLD/dsr
Enclosures

cc: Jeanne Schnuriger, Springs Hill
Jessica Kohlenken, TWDB
David J. Klein, Lloyd Gosselink

TRACT ONE:

tract and parcel of land situated in the E. Cortari League Survey in Guadalupe County, Texas, being a part of an original 10.74 acre tract described in a deed from William Schmidt to W. S. Barcus, et ux recorded in Volume 188, page 179 of the deed records of Guadalupe County Texas and being out of the unsold portion of 10.74 acres and described by metes and bounds as follows:

BEGINNING at the northeast corner thereof in the south line of a public road;

THENCE N 76° 29' West 50 feet with the south line of the boundary of said road;

THENCE South 11° 11' West 51.2 feet;

THENCE S. 77° 49' East about 50 feet to the east line of said original tract;

THENCE N 12° 11' East 50 feet with the east line of said original tract to the place of beginning.

TRACT TWENTY-SIX:

Lot 267, TOR Properties II Subdivision, located in the E. Gortari Survey, A-23, Seguin, Guadalupe County, Texas, as shown on Amended Plat recorded in Volume 6, page 772, Map and Plat Records of Guadalupe County, Texas