

Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: January 22, 2018

TEAM MANAGER : Nancy Richards

APPLICANT	Cypress Creek Utility District
TYPE OF ASSISTANCE	\$2,035,000 Financing
LEGAL PLEDGE	Unlimited Tax

STAFF RECOMMENDATION

Approve No Action

Approve by resolution, a request from the Cypress Creek Utility District (Harris County) for \$2,035,000 in financial assistance from the Drinking Water State Revolving Fund for planning, design, and construction of water distribution system improvements and line repairs.

PROJECT

Water Line Replacement
Project Number 62760

BACKGROUND

The Cypress Creek Utility District (District) is in Harris County, approximately 20 miles northwest of the central business district of the City of Houston. The District is located entirely within the extraterritorial jurisdiction of the City of Houston, within the Cypress-Fairbanks Independent School District, and within the boundaries of the North Harris County Regional Water Authority.

The District water is produced from three water wells and is distributed throughout the District to homes and commercial developments. The District’s wastewater is treated at the Lake Forest Wastewater Treatment Plant of which the District owns a 20.79 percent share. The plant is operated by the Lake Forest Utility District.

The waterlines within the District were constructed in 1970. The majority of the existing pipe material appears to be asbestos concrete and has reached the end of its useful life. The District proposes to replace 12,400 linear feet of outdated lines. The project is necessary to prevent water main breaks and potential damage to surrounding infrastructure.

FINANCIAL

Key Issues

In addition to the Drinking Water State Revolving Fund (DWSRF), the District is applying for \$2,970,000 in financing from the Clean Water State Revolving Fund (CWSRF). Additionally, the District is requesting six months of capitalized interest to cover the first

COMMITMENT PERIOD: ONE (1) YEAR TO EXPIRE ON JANUARY 31, 2019

interest payment due before the District levies a tax rate to pay for the new proceeds. This will allow the District to maintain existing debt service funds and liquidity.

Pledge and Repayment

The District is pledging unlimited taxes for the repayment of the proposed financing. The District currently collects an Interest and Sinking Fund (I&S) tax rate of \$0.095 per \$100 of taxable assessed valuation. Based on the analysis of current tax revenues, existing debt, and the DWSRF and CWSRF proposed financing, the District will need to increase the I&S tax rate to \$0.229 for 2019, and again to \$0.244 in 2025 to support the existing and proposed debt service.

The repayment calculation above is based on the current taxable assessed valuation of properties in the District; however, it is possible that property values will decrease as a result of Hurricane Harvey.

Cost Savings

Based on a 30-year maturity and current interest rates, the District could save approximately \$433,168 over the life of the DWSRF loan.

Internal Risk Score

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

The financial indicators for the District are adequate. These more heavily weighted risk score indicators show the District's short-term and long-term ability to repay the debt. As mentioned above, the District will need to increase the I&S tax rate to produce revenues of 1.0 times the annual debt service requirements for the first year of principal repayment. The District's tax base is fully built out, but assessed values have increased each of the last 5 years, and the collection rate is high at over 98 percent. Additionally, the long-term condition of the system is sound with an asset condition ratio of 22 years. An asset condition ratio of 12-24 years is considered typical.

The District's socioeconomic indicators are on par with the state overall. The median household income of \$54,457 is 102 percent of the state's median income of \$53,207. The average, unadjusted, unemployment rate for Harris County was 4.2 percent in October 2017, compared to 3.5 percent in the state overall. Since the District is fully built out, population has remained stable over the last five years, and is projected to remain stable in future years.

The current utility system rates are low, with a household cost factor of 1.59 percent for water and wastewater services. The industry benchmark for the household cost factor is 2 percent for the two services.

The District maintains a strong liquidity position with cash and short-term investments equal to 329 days of operating expenses of the utility system. An amount between 30 and 150 days is considered to be a moderate level of liquidity. This allows the District to meet

unexpected expenses, if needed, and still maintain operation of the system. In addition, the financial management of the utility system is strong, with the operating revenues of the system increasing over the last five years. The utility system provides an additional source of revenues for the District, although they are not pledged for the repayment of the loan.

The District's strong pledge of unlimited taxes, high level of liquidity, and strong financial position of the utility system, help to partially offset the potential risk of a decrease in property values due to Hurricane Harvey. The District is assigned a risk score of a 2B.

LEGAL

Key Issues

None.

CONDITIONS

Standard Drinking Water State Revolving Fund, tax revenue conditions.

- Emergency discovery,
- Conveyance and Conversion; and
- Useful life certification.

- Attachments:
1. Project Data Summary
 2. Debt Service Schedule
 3. Engineering/Environmental Review
 4. Project Budget
 5. Resolution (18-)
 6. Water Conservation Review
 7. Location Map

Project Data Summary

Responsible Authority	Cypress Creek Utility District
Program	Drinking Water State Revolving Fund
Commitment Code	L1000679
Project Number	62760
Intended Use Plan Year	2017
Fund Number	951
Type of Pledge	1- Tax
Revenue Pledge Level	N/A
Legal Description	\$2,035,000 Cypress Creek Utility District Unlimited Tax Bonds, Proposed Series 2018B
Tax-exempt or Taxable	Tax-exempt
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay = Escrow
Population	2,707
Rural	No
Water Connections	993
Wastewater Connections	980
Qualifies as Disadvantaged	No
Disadvantaged Level	9
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	Adopted
Water Rights Certification Required	No
Internal Risk Score	2B
External Ratings (for SRF rates)	
Standard and Poor's	Non-Rated
Moody's	Baa1
Fitch	Non-Rated
Special Issues	None

Project Team

Manager	Nancy Richards
Financial Analyst	Charles R. Nichols
Engineering Reviewer	Juan Moran-Lopez
Environmental Reviewer	Kristin Miller
Attorney	Annette Mass

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
Cypress Creek Utility District

\$2,035,000 Cypress Creek Utility District Unlimited Tax Bonds, Proposed Series 2018B

Dated Date: 4/1/2018
Delivery Date: 4/1/2018
First Interest: 9/1/2018
First Principal: 9/1/2019
Last Principal: 9/1/2048

Fiscal Year End: 09/30
Required Coverage: 1.0

Source: DWSRF
Rate: 2.10%
Insurance: No
Case: Tax
Admin.Fee: \$44,780

Admin. Fee Payment Date: 4/1/2018
Total Assessed Valuation: \$193,318,294

\$2,970,000 Cypress Creek Utility District Unlimited Tax Bonds, Proposed Series 2018A

Dated Date: 4/1/2018
Delivery Date: 4/1/2018
First Interest: 9/1/2018
First Principal: 9/1/2019
Last Principal: 9/1/2048

Fiscal Year End: 9/30
Required Coverage: 1.0

Source: CWSRF-EQUIVALENCY
Rate: 1.80%
Insurance: No
Case: Tax
Admin.Fee: \$53,947
Admin. Fee Payment Date: 4/1/2018

FISCAL YEAR	REQUIRED TAX	REQUIRED TAX REVENUES WITH COLL. @ 90%	PROJECTED NET SYSTEM REVENUES	PROJECTED TOTAL REVENUES	CURRENT DEBT SERVICE	\$2,035,000 ISSUE				\$2,970,000 ISSUE				DEBT SERVICE	ACTUAL COVERAGE
						PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT		
2018	\$0.125	\$216,926	-	\$216,926	\$176,845	-	-	\$17,806	\$17,806	-	-	\$22,275	\$22,275	\$216,926	1.00
2019	0.229	398,480	-	398,480	177,285	\$50,000	2.10%	42,735	92,735	\$75,000	1.80%	53,460	128,460	398,480	1.00
2020	0.228	396,280	-	396,280	177,485	50,000	2.10%	41,685	91,685	75,000	1.80%	52,110	127,110	396,280	1.00
2021	0.232	403,735	-	403,735	182,340	50,000	2.10%	40,635	90,635	80,000	1.80%	50,760	130,760	403,735	1.00
2022	0.190	330,610	-	330,610	106,705	55,000	2.10%	39,585	94,585	80,000	1.80%	49,320	129,320	330,610	1.00
2023	0.188	327,025	-	327,025	105,715	55,000	2.10%	38,430	93,430	80,000	1.80%	47,880	127,880	327,025	1.00
2024	0.189	328,395	-	328,395	104,680	55,000	2.10%	37,275	92,275	85,000	1.80%	46,440	131,440	328,395	1.00
2025	0.244	424,585	-	424,585	203,555	55,000	2.10%	36,120	91,120	85,000	1.80%	44,910	129,910	424,585	1.00
2026	0.244	425,194	-	425,194	206,849	55,000	2.10%	34,965	89,965	85,000	1.80%	43,380	128,380	425,194	1.00
2027	0.187	325,340	-	325,340	104,680	60,000	2.10%	33,810	93,810	85,000	1.80%	41,850	126,850	325,340	1.00
2028	0.190	330,750	-	330,750	107,880	60,000	2.10%	32,550	92,550	90,000	1.80%	40,320	130,320	330,750	1.00
2029	0.190	330,920	-	330,920	110,930	60,000	2.10%	31,290	91,290	90,000	1.80%	38,700	128,700	330,920	1.00
2030	0.187	325,853	-	325,853	108,743	60,000	2.10%	30,030	90,030	90,000	1.80%	37,080	127,080	325,853	1.00
2031	0.193	335,733	-	335,733	111,503	65,000	2.10%	28,770	93,770	95,000	1.80%	35,460	130,460	335,733	1.00
2032	0.190	330,220	-	330,220	109,065	65,000	2.10%	27,405	92,405	95,000	1.80%	33,750	128,750	330,220	1.00
2033	0.190	329,708	-	329,708	111,628	65,000	2.10%	26,040	91,040	95,000	1.80%	32,040	127,040	329,708	1.00
2034	0.189	328,993	-	328,993	108,988	65,000	2.10%	24,675	89,675	100,000	1.80%	30,330	130,330	328,993	1.00
2035	0.191	333,028	-	333,028	111,188	70,000	2.10%	23,310	93,310	100,000	1.80%	28,530	128,530	333,028	1.00
2036	0.191	331,676	-	331,676	113,106	70,000	2.10%	21,840	91,840	100,000	1.80%	26,730	126,730	331,676	1.00
2037	0.193	335,144	-	335,144	114,844	70,000	2.10%	20,370	90,370	105,000	1.80%	24,930	129,930	335,144	1.00
2038	0.192	333,340	-	333,340	111,400	75,000	2.10%	18,900	93,900	105,000	1.80%	23,040	128,040	333,340	1.00
2039	0.193	336,075	-	336,075	112,600	75,000	2.10%	17,325	92,325	110,000	1.80%	21,150	131,150	336,075	1.00
2040	0.192	333,520	-	333,520	113,600	75,000	2.10%	15,750	90,750	110,000	1.80%	19,170	129,170	333,520	1.00
2041	0.193	335,765	-	335,765	114,400	80,000	2.10%	14,175	94,175	110,000	1.80%	17,190	127,190	335,765	1.00
2042	0.128	222,705	-	222,705	-	80,000	2.10%	12,495	92,495	115,000	1.80%	15,210	130,210	222,705	1.00
2043	0.126	218,955	-	218,955	-	80,000	2.10%	10,815	90,815	115,000	1.80%	13,140	128,140	218,955	1.00
2044	0.129	225,205	-	225,205	-	85,000	2.10%	9,135	94,135	120,000	1.80%	11,070	131,070	225,205	1.00
2045	0.127	221,260	-	221,260	-	85,000	2.10%	7,350	92,350	120,000	1.80%	8,910	128,910	221,260	1.00
2046	0.125	217,315	-	217,315	-	85,000	2.10%	5,565	90,565	120,000	1.80%	6,750	126,750	217,315	1.00
2047	0.128	223,370	-	223,370	-	90,000	2.10%	3,780	93,780	125,000	1.80%	4,590	129,590	223,370	1.00
2048	0.129	224,230	-	224,230	-	90,000	2.10%	1,890	91,890	130,000	1.80%	2,340	132,340	224,230	1.00
					\$ 3,106,011	\$2,035,000		\$746,506	\$2,781,506	\$2,970,000		\$922,815	\$3,892,815	\$9,780,333	

\$2,035,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	17.47 YEARS
NET INTEREST RATE	2.100%
COST SAVINGS	\$433,168
AVERAGE ANNUAL REQUIREMENT	\$89,726

\$2,970,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	17.26 YEARS
NET INTEREST RATE	1.800%
COST SAVINGS	\$483,682
AVERAGE ANNUAL REQUIREMENT	\$125,575

TOTAL AVERAGE ANNUAL REQUIREMENTS
\$315,495

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.

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**Cypress Creek UD
62760 2017 Waterline Replacements
Engineering and Environmental Review**

Engineering:

Key Issues:

None know at this time.

Project Need/Description

Need: Water lines within Cypress Creek Utility District (District) were constructed around 1970. The majority of the existing pipe material appears to be asbestos concrete and has reached the end of its service life. The project is necessary to prevent water main breaks and potential damage to surrounding infrastructure.

Project Description: The project includes design and construction of water line replacements along Jones Road (a major thoroughfare) and Balcrest Drive (a minor arterial street). In addition, water lines along the easterly portions of two streets will be replaced. Approximately 80% of the proposed water lines will be constructed by auger construction to avoid driveways, trees, and re-paving. The District has requested a total of \$2,035,000 in funding from the DWSRF program.

Project Schedule:

Project Task	Schedule Date
Closing	4/1/2018
Engineering Feasibility Report Completion (End of Planning Phase)	5/25/2018
Design Phase Complete	8/31/2018
Start of Construction	10/5/2018
Construction Completion	6/29/2019

Environmental Section:

Key Issues:

None.

Environmental Summary:

As set forth in the preliminary environmental information submitted by the applicant, there are no known environmental, social, or permitting issues that would preclude construction of the project. Based on this initial environmental review, it is not anticipated that the proposed project's primary environmental impacts should be significant or adverse, nor should they affect project implementation.

As required by 31 Texas Administrative Code 371.41, the environmental review of the proposed project has been completed. A Categorical Exclusion was issued on November 13, 2017. The proposed project is in compliance with the National Environmental Policy Act.



Project Budget Summary
 Cypress Creek UD
 62760 - 2017 Waterline Replacements

Budget Items	This Commitment	TWDB Funds	Total
Construction			
Construction	\$1,300,000.00	\$1,300,000.00	\$1,300,000.00
Subtotal for Construction	\$1,300,000.00	\$1,300,000.00	\$1,300,000.00
Basic Engineering Services			
Construction Engineering	\$35,000.00	\$35,000.00	\$35,000.00
Design	\$170,000.00	\$170,000.00	\$170,000.00
Planning	\$20,000.00	\$20,000.00	\$20,000.00
Subtotal for Basic Engineering Services	\$225,000.00	\$225,000.00	\$225,000.00
Special Services			
Application	\$10,000.00	\$10,000.00	\$10,000.00
Geotechnical	\$10,000.00	\$10,000.00	\$10,000.00
Inspection	\$15,000.00	\$15,000.00	\$15,000.00
Project Management (by engineer)	\$10,000.00	\$10,000.00	\$10,000.00
Special Service Other (Traffic Control Engineering)	\$20,000.00	\$20,000.00	\$20,000.00
Surveying	\$65,000.00	\$65,000.00	\$65,000.00
Testing	\$5,000.00	\$5,000.00	\$5,000.00
Subtotal for Special Services	\$135,000.00	\$135,000.00	\$135,000.00
Fiscal Services			
Bond Counsel	\$72,020.00	\$72,020.00	\$72,020.00
Capitalized Interest	\$60,000.00	\$60,000.00	\$60,000.00
Financial Advisor	\$40,680.00	\$40,680.00	\$40,680.00
Issuance Costs	\$10,000.00	\$10,000.00	\$10,000.00
Loan Origination Fee	\$44,780.00	\$44,780.00	\$44,780.00
Subtotal for Fiscal Services	\$217,335.00	\$217,335.00	\$217,335.00
Contingency			
Contingency	\$147,520.00	\$147,520.00	\$147,520.00
Subtotal for Contingency	\$147,520.00	\$147,520.00	\$147,520.00
Total	\$2,035,000.00	\$2,035,000.00	\$2,035,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF
\$2,035,000 TO CYPRESS CREEK UTILITY DISTRICT
FROM THE DRINKING WATER STATE REVOLVING FUND
THROUGH THE PROPOSED PURCHASE OF
\$2,035,000 CYPRESS CREEK UTILITY DISTRICT UNLIMITED TAX BONDS,
PROPOSED SERIES 2018B

(18-)

WHEREAS, the Cypress Creek Utility District (District), located in Montgomery County, has filed an application for financial assistance in the amount of \$2,035,000 from the Drinking Water State Revolving Fund (DWSRF) to finance the planning, acquisition, design and construction of certain water system improvements identified as Project No. 62760; and

WHEREAS, the District seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of \$2,035,000 Cypress Creek Utility District Unlimited Tax Bonds, Proposed Series 2018B (together with all authorizing documents "Obligations"), all as is more specifically set forth in the application and in recommendations of the TWDB's staff; and

WHEREAS, the District has offered a pledge of unlimited taxes 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 § 371.13; and

WHEREAS, the TWDB hereby finds:

1. that the revenue and/or taxes pledged by the District will be sufficient to meet all the Obligations assumed by the District, 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 District has adopted and implemented a water conservation program 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 District and filed with the TWDB in accordance with Texas Water Code § 16.053(j); and
6. that the Executive Administrator issued a Categorical Exclusion on November 13, 2017, such findings being subject to the standard emergency discovery conditions for threatened and endangered species and cultural resources in the Project contract documents. The TWDB concurs with the environmental finding issued by the Executive Administrator.

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

A commitment is made by the TWDB to the Cypress Creek Utility District for financial assistance in the amount of \$2,035,000 from the Drinking Water State Revolving Fund through the TWDB's proposed purchase of \$2,035,000 Cypress Creek Utility District Unlimited Tax Bonds, Proposed Series 2018B. This commitment will expire on January 31, 2019.

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 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 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;

6. 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;
7. the Obligations must include a provision requiring the District to use any loan proceeds from the Obligations that are determined to be remaining unused funds, which are those funds unspent after the original approved project is completed, for enhancements to the original project that are explicitly approved by the Executive Administrator or if no enhancements are authorized by the Executive Administrator, requiring the District to submit a final accounting and disposition of any unused funds;
8. the Obligations must include a provision requiring the District to use any loan proceeds from the Obligations that are determined to be surplus funds remaining after completion of the project and completion of a final accounting 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) deposit into a reserve fund;
9. the Obligations must contain a provision that the TWDB may exercise all remedies available to it in law or equity, and any provision of the Obligations that restricts or limits the TWDB's full exercise of these remedies shall be of no force and effect;
10. loan proceeds are public funds and, as such, the Obligations must include a provision requiring that these proceeds shall be held at a designated state depository institution or other properly chartered and authorized institution in accordance with the Public Funds Investment Act, Government Code, Chapter 2256, and the Public Funds Collateral Act, Government Code, Chapter 2257;
11. loan proceeds shall not be used by the 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 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;

12. 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;
13. 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;
14. prior to closing, when any portion of the financial assistance is to be held in escrow or in trust, the District 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;
15. the Executive Administrator may require that the District execute a separate financing agreement in form and substance acceptable to the Executive Administrator;
16. 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 To Tax-Exempt Status:

17. the District's bond counsel must prepare a written opinion that states that the interest on the Obligations is excludable from gross income or is exempt from federal income taxation. Bond counsel may rely on covenants and representations of the District when rendering this opinion;
18. the District's bond counsel opinion must also state that the Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the District when rendering this opinion;
19. 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 of 1986, as amended (Code) and the Treasury Regulations promulgated thereunder (Regulations);

20. 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;
21. 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;
22. 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;
23. 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;
24. 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 Obligations;
25. 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;
26. 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;

State Revolving Fund Conditions:

27. the District shall submit outlay reports with sufficient documentation on costs on a quarterly or monthly basis in accordance with TWDB outlay report guidelines;
28. 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 District, 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;

29. the Obligations must include a provision stating that the District 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 District 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;
30. 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 District will adhere to the approved project schedule;
31. The Obligations must contain a covenant that the District 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 31 TAC § 371.4 and related State Revolving Fund Policy Guidelines;

Drinking Water State Revolving Fund Conditions:

32. prior to or at closing, the District shall pay a 2.25% origination fee to the TWDB calculated pursuant to 31 TAC Chapter 371;
33. 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 District 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;
34. prior to release of funds for professional consultants including, but not limited to, the engineer, financial advisor, and bond counsel, as appropriate, the District 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 Loan:

35. the Obligations must contain a provision that for each year the Bonds are outstanding, the District will levy a debt service tax rate, and collect taxes sufficient for the repayment of annual principal and interest requirements on the Obligations;

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

Special Conditions:

36. 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;
37. 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;
38. prior to the release of funds, the District 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; and
39. the District must comply with all conditions as specified in the final environmental finding of the Executive Administrator, including the standard emergency discovery conditions for threatened and endangered species and cultural resources.

APPROVED and ordered of record this 22nd day of January 2018.

TEXAS WATER DEVELOPMENT BOARD

Peter Lake
Authorized Representative of the
Texas Water Development Board

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.

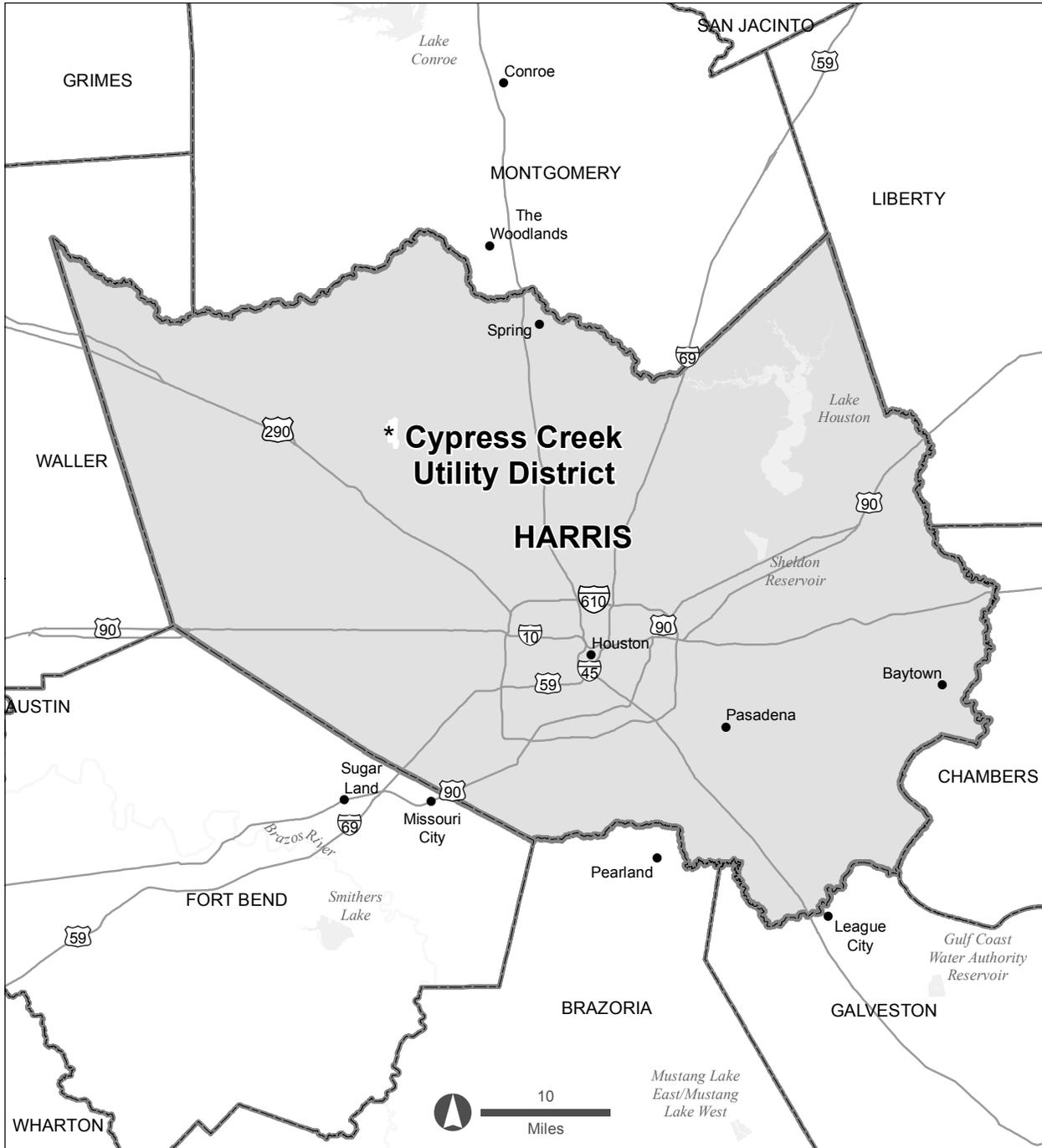
Total water loss is the sum of the apparent and real water losses.

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.



Cypress Creek Utility District Harris County



* indicates boundary of Cypress Creek Utility District