

Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: March 21, 2018

TEAM MANAGER: Mireya Loewe

APPLICANT	Valley Municipal Utility District No. 2
TYPE OF ASSISTANCE	\$1,495,000 Financing
LEGAL PLEDGE	Unlimited Tax and Net Revenues of the Utility System

STAFF RECOMMENDATION

Approve No Action

ACTION REQUESTED

Approve by resolution, a request from the Valley Municipal Utility District No.2 (Cameron County) for \$1,495,000 in financing from the Drinking Water State Revolving Fund for planning, design, and construction of a water distribution rehabilitation project.

PROJECT

Water Distribution Rehabilitation Project
Project Number 62781

BACKGROUND

Valley Municipal Utility District No. 2 (District), located northwest of the City of Brownsville in Cameron County, was created in 1972. The District provides water and sewer services to approximately 2,626 people in the Town of Rancho Viejo, Texas and the River Bend Resort as well as the golf course complex. Their total CCN area covers approximately 6.8 square miles. The District also provides irrigation water to land areas within and outside the District's boundaries.

The District owns and operates two water treatment plants (WTP) in Rancho Viejo. The first WTP is a conventional surface plant with a 1.0 million gallons per day (MGD) treatment capacity. It treats raw water from the Rio Grande. The second WTP is a 0.25 MGD reverse osmosis plant. This plant treats brackish groundwater from a well, constructed at the site of the surface water plant. Additionally, the District owns a 2.51 percent interest in the Southmost Regional Water Authority regional desalination plant.

The distribution system was largely constructed between 1972 and 1974 and has exceeded its useful lifetime. Sections of the system experience leaks with other sections subject to instances of low water pressure, contributing to low levels of residual chlorine in portions of the system. The proposed project will address these issues by replacing the existing

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

aged water lines, and in some locations where the existing line is under-sized, larger diameter lines will be installed to improve system pressures.

FINANCIAL

Key Issues

In addition to Drinking Water State Revolving Fund financing, the District is also applying for \$3,730,000 in financing from the Clean Water State Revolving Fund (CWSRF). The CWSRF financing is considered in the financial analysis and the attached debt service schedule.

Pledge and Repayment

The District is pledging unlimited tax and net revenues of the waterworks and sewer system for the repayment of the proposed loan. The District's current combined average monthly water and wastewater rate is \$66.00. The District's current interest and sinking (I&S) tax rate is \$0.25 per \$100 assessed valuation. The District intends to repay this debt utilizing its I&S tax rate and maintain its current water and wastewater rates. Current rates and charges are sufficient to meet existing and proposed debt requirements.

Cost Savings

Based on a 30-year maturity and current interest rates, the District could save approximately \$321,151 over the life of this financing.

Internal Risk Score

Staff assigns a 2A 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 strong.

The results of the District's financial sustainability indicators are mixed. The District will produce net revenues of 1.52 times the annual debt service requirements for the first year of principal repayment. However, the District's level of reinvestment in the assets of the utility's infrastructure is low with an asset condition ratio of 10 years. An asset condition ratio of 6 to 11 years is considered low.

The District's socioeconomic indicators are mixed compared to the state. The District's service area has a median household income of \$55,833, or 102 percent of the state's median. The average, unadjusted unemployment rate for Cameron County was 6.0 percent in December 2017, compared to 3.7 percent in the state overall.

The current utility system rates are low with a household cost factor of 1.42 percent for water and wastewater services. The industry benchmark for the household cost factor is 2 percent for the two services.

The majority of the District's debt is tax supported. The net direct debt compared to tax assessed valuation, including the proposed loans, is moderate at 3.25. A debt to tax assessed valuation ratio of 2 to 5 is moderate. The system maintains strong reserves with unrestricted cash and short-term investments of approximately 151 days of the operating

expenses of the utility system. Any amount between 150 and 249 days is considered to be a strong level of liquidity.

The District's strong liquidity, low household cost factor, strong median household income, and moderate debt to tax assessed valuation revenues ratio further support the assigned risk score of 2A.

LEGAL

Key Issues

None.

Conditions

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

- Adoption of water conservation plan;
- Notification of conversion;
- Notification of conveyance;
- Useful life determination; and
- Standard emergency discovery conditions

- 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	Valley Municipal Utility District No. 2
Program	Drinking State Revolving Fund
Commitment Code	L1000695
Project Number	62781
Intended Use Plan Year	2018
Fund Number	951
Type of Pledge	3-Tax and Revenue
Revenue Pledge Level	Third
Legal Description	\$1,495,000 Valley Municipal District No. 2 Combination Unlimited Tax and Waterworks and Sewer System Net Revenue Bonds, Proposed Series 2018
Tax-exempt or Taxable	Tax-Exempt
Refinance	No
Outlay Requirement	No
Disbursement Method	Escrow
Outlay Type	Outlay=Escrow
Population	2,626
Rural	Yes
Water Connections	1,527
Wastewater Connections	1,494
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	Yes
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	2A
External Ratings (for SRF rates)	
Standard and Poor's	A-
Moody's	Non Rated
Fitch	Non Rated
Special Issues	None

Project Team

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

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
Valley MUD No. 2

Attachment 2

\$3,730,000 Combination Unlimited Tax and Waterworks and Sewer System Net Revenue Bonds, Proposed Series 2018

Dated Date: 7/1/2018
Delivery Date: 7/1/2018
First Interest: 1/1/2019
First Principal: 7/1/2021
Last Principal: 7/1/2048

Source: CWSRF-EQUIVALENCY
Rate: 1.14%
Insurance: No
Case: Tax and Revenues
Admin.Fee: \$64,152

Fiscal Year End: 09/30
Required Coverage: 1.1

Admin. Fee Payment Date: 7/1/2018
Total Assessed Valuation: \$290,402,348

\$1,495,000 Combination Unlimited Tax and Waterworks and Sewer System Net Revenue Bonds, Proposed Series 2018B

Dated Date: 7/1/2018
Delivery Date: 7/1/2018
First Interest: 1/1/2019
First Principal: 7/1/2021
Last Principal: 7/1/2048

Source: DWSRF
Rate: 1.44%
Insurance: -
Case: -
Admin.Fee: \$31,466
Admin. Fee
Payment Date: 7/1/2018

Fiscal Year End: 9/30
Required Coverage: 1.1

FISCAL YEAR	CURRENT TAX	REQUIRED		CURRENT DEBT SERVICE	\$3,730,000 ISSUE				\$1,495,000 ISSUE				DEBT SERVICE	ACTUAL COVERAGE	
		TAX REVENUES WITH COLL. @ 90%	PROJECTED NET SYSTEM REVENUES		PROJECTED TOTAL REVENUES	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT			TOTAL PAYMENT
2019	0.250	\$ 653,405	\$ 523,419	\$ 1,176,824	\$ 614,380	\$ -	-	\$ 42,522	\$ 42,522	\$ -	-	\$ 21,528	\$ 21,528	\$ 678,430	1.73
2020	0.250	653,405	523,419	1,176,824	644,289	-	-	42,522	42,522	-	-	21,528	21,528	708,339	1.66
2021	0.250	653,405	523,419	1,176,824	651,300	40,000	1.14%	42,522	82,522	20,000	1.44%	21,528	41,528	775,350	1.52
2022	0.250	653,405	523,419	1,176,824	659,069	40,000	1.14%	42,066	82,066	20,000	1.44%	21,240	41,240	782,375	1.50
2023	0.250	653,405	523,419	1,176,824	666,589	40,000	1.14%	41,610	81,610	20,000	1.44%	20,952	40,952	789,151	1.49
2024	0.250	653,405	523,419	1,176,824	679,228	40,000	1.14%	41,154	81,154	20,000	1.44%	20,664	40,664	801,046	1.47
2025	0.250	653,405	523,419	1,176,824	691,911	40,000	1.14%	40,698	80,698	20,000	1.44%	20,376	40,376	812,985	1.45
2026	0.250	653,405	523,419	1,176,824	698,531	40,000	1.14%	40,242	80,242	20,000	1.44%	20,088	40,088	818,861	1.44
2027	0.250	653,405	523,419	1,176,824	525,350	115,000	1.14%	39,786	154,786	55,000	1.44%	19,800	74,800	754,936	1.56
2028	0.250	653,405	523,419	1,176,824	542,377	120,000	1.14%	38,475	158,475	60,000	1.44%	19,008	79,008	779,860	1.51
2029	0.250	653,405	523,419	1,176,824	520,200	130,000	1.14%	37,107	167,107	60,000	1.44%	18,144	78,144	765,451	1.54
2030	0.250	653,405	523,419	1,176,824	495,000	155,000	1.14%	35,625	190,625	65,000	1.44%	17,280	82,280	767,905	1.53
2031	0.250	653,405	523,419	1,176,824	307,296	155,000	1.14%	33,858	188,858	65,000	1.44%	16,344	81,344	577,498	2.04
2032	0.250	653,405	523,419	1,176,824	322,190	155,000	1.14%	32,091	187,091	65,000	1.44%	15,408	80,408	589,689	2.00
2033	0.250	653,405	523,419	1,176,824	337,806	160,000	1.14%	30,324	190,324	65,000	1.44%	14,472	79,472	607,602	1.94
2034	0.250	653,405	523,419	1,176,824	337,806	160,000	1.14%	28,500	188,500	70,000	1.44%	13,536	83,536	609,842	1.93
2035	0.250	653,405	523,419	1,176,824	337,806	165,000	1.14%	26,676	191,676	70,000	1.44%	12,528	82,528	612,010	1.92
2036	0.250	653,405	523,419	1,176,824	337,806	165,000	1.14%	24,795	189,795	70,000	1.44%	11,520	81,520	609,121	1.93
2037	0.250	653,405	523,419	1,176,824	337,806	170,000	1.14%	22,914	192,914	70,000	1.44%	10,512	80,512	611,232	1.93
2038	0.250	653,405	523,419	1,176,824	337,806	170,000	1.14%	20,976	190,976	70,000	1.44%	9,504	79,504	608,286	1.93
2039	0.250	653,405	523,419	1,176,824	337,806	175,000	1.14%	19,038	194,038	75,000	1.44%	8,496	83,496	615,340	1.91
2040	0.250	653,405	523,419	1,176,824	337,806	155,000	1.14%	17,043	172,043	55,000	1.44%	7,416	62,416	572,265	2.06
2041	0.250	653,405	523,419	1,176,824	-	160,000	1.14%	15,276	175,276	55,000	1.44%	6,624	61,624	236,900	4.97
2042	0.250	653,405	523,419	1,176,824	-	160,000	1.14%	13,452	173,452	55,000	1.44%	5,832	60,832	234,284	5.02
2043	0.250	653,405	523,419	1,176,824	-	165,000	1.14%	11,628	176,628	55,000	1.44%	5,040	60,040	236,668	4.97
2044	0.250	653,405	523,419	1,176,824	-	165,000	1.14%	9,747	174,747	55,000	1.44%	4,248	59,248	233,995	5.03
2045	0.250	653,405	523,419	1,176,824	-	170,000	1.14%	7,866	177,866	60,000	1.44%	3,456	63,456	241,322	4.88
2046	0.250	653,405	523,419	1,176,824	-	170,000	1.14%	5,928	175,928	60,000	1.44%	2,592	62,592	238,520	4.93
2047	0.250	653,405	523,419	1,176,824	-	175,000	1.14%	3,990	178,990	60,000	1.44%	1,728	61,728	240,718	4.89
2048	0.250	653,405	523,419	1,176,824	-	175,000	1.14%	1,995	176,995	60,000	1.44%	864	60,864	237,859	4.95
				\$ 35,304,728	\$ 10,720,158	\$ 3,730,000		\$ 810,426	\$ 4,540,426	\$ 1,495,000		\$ 392,256	\$ 1,887,256	\$ 17,147,840	

\$3,730,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	19.06 YEARS
NET INTEREST RATE	1.140%
COST SAVINGS	\$ 1,172,985
AVERAGE ANNUAL REQUIREMENT	\$151,348

\$1,495,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	18.22 YEARS
NET INTEREST RATE	1.440%
COST SAVINGS	\$ 321,151
AVERAGE ANNUAL REQUIREMENT	\$62,909

TOTAL AVERAGE ANNUAL REQUIREMENTS
\$571,595

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.

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.

**Valley MUD No. 2
62781 Water Distribution Rehabilitation Project
Engineering and Environmental Review**

Engineering:

Key Issues:

None.

Project Need/Description

The existing water distribution system, constructed in the early 1970s, has exceeded its useful lifetime. Sections of the system experience leaks with other sections subject to instances of low water pressure, contributing to low levels of residual chlorine in portions of the system.

The project will replace approximately 9,600 linear feet of waterlines to reduce water losses and improve water distribution system efficiency. The project also includes creation of an asset management plan.

Project Schedule:

Project Task	Schedule Date
Closing	07/01/2018
Engineering Feasibility Report Completion (End of Planning Phase)	01/31/2018
Design Phase Complete	03/31/2018
Start of Construction	07/01/2018
Construction Completion	07/31/2019

Environmental Section:

Key Issues:

None.

Environmental Summary:

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 December 14, 2017. The proposed project is in compliance with the National Environmental Policy Act.



**Project Budget
Summary**
Valley MUD No. 2
62781 - Water Distribution
Rehabilitation Project

Budget Items	TWDB Funds	Total Project
Construction		
Construction	\$1,160,000.00	\$1,160,000.00
Subtotal for Construction	\$1,160,000.00	\$1,160,000.00
Basic Engineering Services		
Construction Engineering	\$20,000.00	\$20,000.00
Design	\$64,000.00	\$64,000.00
Planning	\$6,000.00	\$6,000.00
Subtotal for Basic Engineering Services	\$90,000.00	\$90,000.00
Special Services		
Application	\$2,450.00	\$2,450.00
Environmental	\$6,000.00	\$6,000.00
Inspection	\$19,000.00	\$19,000.00
Surveying	\$16,000.00	\$16,000.00
Subtotal for Special Services	\$43,450.00	\$43,450.00
Fiscal Services		
Bond Counsel	\$12,250.00	\$12,250.00
Financial Advisor	\$35,204.00	\$35,204.00
Fiscal/Legal	\$6,140.00	\$6,140.00
Issuance Costs	\$1,500.00	\$1,500.00
Loan Origination Fee	\$31,466.00	\$31,466.00
Subtotal for Fiscal Services	\$86,560.00	\$86,560.00
Contingency		
Contingency	\$114,990.00	\$114,990.00
Subtotal for Contingency	\$114,990.00	\$114,990.00
Total	\$1,495,000.00	\$1,495,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF \$1,495,000 TO
VALLEY MUNICIPAL UTILITY DISTRICT NO. 2
FROM THE DRINKING WATER STATE REVOLVING FUND
THROUGH THE PROPOSED PURCHASE OF
\$1,495,000 VALLEY MUNICIPAL UTILITY DISTRICT NO. 2 COMBINATION UNLIMITED TAX AND
WATERWORKS AND SEWER SYSTEM NET REVENUE BONDS,
PROPOSED SERIES 2018

(18 -)

WHEREAS, the Valley Municipal Utility District No. 2 (District), located in Cameron County, has filed an application for financial assistance in the amount of \$1,495,000 from the Drinking Water State Revolving Fund (DWSRF) to finance the planning, design, and construction of certain water system improvements identified as Project No. 62781; and

WHEREAS, the District seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of \$1,495,000 Valley Municipal Utility District No. 2 Combination Unlimited Tax and Waterworks and Sewer System Net Revenue Bonds, Proposed Series 2018 (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 property tax and waterworks and sewer system net revenues 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 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 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 December 14, 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 issues by the Executive Administrator.

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

A commitment is made by the TWDB to the Valley Municipal Utility District No. 2 for financial assistance in the amount of \$1,495,000 from the Drinking Water State Revolving Fund through the TWDB's proposed purchase of \$1,495,000 Valley Municipal Utility District No. 2 Combination Unlimited Tax and Waterworks and Sewer System Net Revenue Bonds, Proposed Series 2018. This commitment will expire on March 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 2.15% origination fee to the TWDB calculated pursuant to 31 TAC Chapter 371 and the applicable Intended Use Plan;
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;

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

Special Conditions:

35. prior to closing, the District shall adopt and implement the water conservation program approved by the TWDB.
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 21st day of March 2018.

TEXAS WATER DEVELOPMENT BOARD

Peter Lake
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.



Valley MUD #2 Cameron County

