

TO: Board Members

THROUGH: Jeff Walker, Executive Administrator
Amanda Lavin, Assistant Executive Administrator
Todd Chenoweth, General Counsel

FROM: Jessica Zuba, Deputy Executive Administrator
Mark Wyatt, Director, Program Administration and Reporting
Tom Entsminger, State Programs Coordinator

DATE: April 16, 2018

SUBJECT: Economically Distressed Areas Program (EDAP) – Remaining Funds

BACKGROUND

EDAP was created in 1989 by the 71st Legislature to assist projects serving areas with inadequate residential water or sewer services. To be eligible for EDAP assistance, a project area, among other requirements, must have an annual median household income no higher than 75 percent of the state-wide level and water or sewer infrastructure must either be absent or inadequate to meet minimal residential needs. Under EDAP, the amount of grant funding provided is determined by a grant-to-loan ratio calculation that reflects the entity’s ability to repay. Projects with documented public health nuisance conditions from the Texas Department of State Health Services are eligible for grant funding greater than 50 percent of costs up to a maximum level of 100 percent.

CAPACITY AND ANTICIPATED DEMAND

The program received constitutional authority to issue bonds of \$250 million on two occasions for a total of \$500 million, and the program was supplemented during its first decade by federal Colonia Wastewater Treatment Assistance Program grants totaling \$300 million, along with additional funds through the Colonia Self Help, Community Self Help, and Research and Planning programs. Each session the Legislature authorizes the EDAP bond issuance level for the biennium.

Currently, the Texas Water Development Board’s (TWDB) remaining EDAP authority to issue bonds is \$53,492,380. Among projects that have received EDAP funding for their preliminary phases and are nearing the Construction phase, future needs are estimated to be approximately \$155 million.

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| <p style="text-align: center;">Our Mission</p> <p>To provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas</p> | <p>⋮</p> <p>⋮</p> <p>⋮</p> <p>⋮</p> <p>⋮</p> <p>⋮</p> | <p style="text-align: center;">Board Members</p> <p>Peter Lake, Chairman Kathleen Jackson, Board Member Brooke T. Paup, Board Member</p> <p>Jeff Walker, Executive Administrator</p> |
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PRIORITIZATION CRITERIA TO ALLOCATE REMAINING FUNDS

When analyzing potential scoring and ranking criteria, the staff focused on a project’s readiness to move forward with its construction phase after having completed its Planning, Acquisition, and Design (PAD) phase activities. This methodology can be scored using objective data and ensures effective utilization of the program’s remaining capacity by financing the projects or phases of projects that are ready for construction and ultimately completion.

The Executive Administrator will award points to a project or current phase of a larger project based on its progression through categories described in TWDB’s EDAP Facility Engineering Plan Scope of Services, WRD-023A, as well as completion of project acquisition and design. These categories track the progress of a project’s planning phase and each category is associated with a specific set of activities. For projects that received PAD funding through EDAP, TWDB staff possesses the information necessary to complete scoring based on these categories. Applicants seeking assistance for projects that completed their PAD phases using other non-EDAP funding sources must provide information within their applications that demonstrates their current PAD status based on the categories in TWDB’s EDAP Facility Engineering Plan Scope of Services, WRD-023A, as well as the current status of their project’s design phase.

In the event of a tie, the Executive Administrator will compare the cost per residential water or sewer connection, as appropriate to the project, with the tie broken in favor of the proposed EDAP-funded portion of the project with the lower cost per residential connection. The number of residential connections used in the tiebreaker calculation for sewer projects will be the connections upon project completion that is consistent with the service provider’s mandatory connection policy.

The chart below sets forth the prioritization criteria and the points that will be received if the project meets the requirements of a scoring factor.

Prioritization Criteria – Remaining Funds

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| Planning – Categories A, B, and C are completed | 1 Point |
| Planning – Category D has been completed and the facility engineering plan has been approved by TWDB by the application due date | 1 Point |
| Design has been completed (including all plans and specifications and acquisitions have been completed) and submitted along with the application before the application due date | 1 Point |
| All acquisitions for the project have been completed (or are not required for the project) and evidence is submitted with the application | 1 Point |
| Design Phase has been completed for at least six months (i.e., 180 days) prior to the application due date (including receiving all necessary TCEQ permits and TWDB’s acceptance or approval and all acquisition has been completed) and the project is ready for construction to begin upon closing on the EDAP financing | 1 Point |
| Maximum Possible | 5 Points |
| <i>Tiebreaker: Lowest Cost per Residential Connection</i> | |

ALLOCATION LEVEL - LIMIT ON TOTAL AMOUNT AVAILABLE FOR ONE ENTITY FROM REMAINING BOND AUTHORITY

The Executive Administrator will establish that not more than 25 percent of the total remaining EDAP bond authority, or \$13,375,000, is the maximum amount that the Executive Administrator will recommend be provided to any entity (based on rounding up to the nearest \$5,000 increment).

APPLICATION INTAKE PROCEDURE

Historically, EDAP applications have been accepted on a first-come, first-served basis. For the Executive Administrator's recommendation for the remaining EDAP funds, the Executive Administrator will evaluate and prioritize the EDAP financial applications received by the established deadline and subsequently deemed complete from entities with unfunded EDAP construction needs. These may include both entities that have previously received EDAP funds for their PAD activities or entities that financed their project's PAD activities through other sources.

TIMELINE

The Executive Administrator will use the following timeline for the EDAP application review, prioritization, and associated bond sale of remaining funds:

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| Board Briefing | 5/3/2018 |
| Begin Accepting Applications | 5/4/2018 |
| Application Due Date | 6/18/2018 |
| Establish funds available | Summer 2018 |
| Prioritization complete | Summer 2018 |
| Board Meeting: Consider Commitments | Summer/Fall 2018 |
| TWDB's EDAP Bond Pricing | Fall 2018 |
| TWDB's EDAP Bond Closing | Fall 2018 |
| Recipient's Closing | By the deadline established in TWDB's commitment |

SUMMARY

The Executive Administrator will recommend the allocation of remaining EDAP funds by prioritizing projects that are ready to move forward with the construction phase in a timely manner. This will ensure that the remaining EDAP bond authority will be used to complete projects that have funds invested in the planning and design phases of their water or sewer projects. This approach will further ensure the timely delivery of the adequate water and sewer services in economically distressed areas.