PROJECT FUNDING REQUEST

BOARD DATE: October 30, 2018 TEAM MANAGER: Luis Farias

APPLICANT	City of Terrell
TYPE OF ASSISTANCE	$24,550,000 Financing
LEGAL PLEDGE	Ad Valorem Tax and Surplus Revenues of the Waterworks and Sewer System

STAFF RECOMMENDATION
☒ Approve ☐ No Action

ACTION REQUESTED
Approve by resolution, a request from the City of Terrell (Kaufman County) for $24,550,000 in financing from the Clean Water State Revolving Fund for acquisition, design, and construction of wastewater system improvements.

PROJECT
City of Terrell Clean Water Improvements
Project Number 73807

BACKGROUND
The City of Terrell is located 32 miles east of Dallas and has approximately 5,468 water and wastewater connections.

The City of Terrell (City) needs to make treatment process improvements at its existing wastewater treatment plant (WWTP) in order to stay in compliance with Texas Commission on Environmental Quality's wastewater permit requirements. Also, several collection lines in the City's sewer system require replacement due to age of infrastructure that will reduce main failures, including inflow and infiltration.

The City will make treatment process improvements at its Kings Creek WWTP which will be constructed in two phases. Phase one will consist of adding Chemical Enhanced Primary Treatment and new primary clarifier. Phase two will include a new activated sludge treatment train along with a new secondary clarifier and expanded chemical contact basin. The City will also replace failing main sewer components in the collection system.

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

FINANCIAL

Key Issues

The City is also applying for $7,385,000 in financing from the Drinking Water State Revolving Fund. The analysis below includes both the Clean Water and Drinking Water funding requests.

Pledge and Repayment

The City is pledging ad valorem taxes and surplus revenues for the repayment of the proposed financing. The City intends to repay the debt with water and sewer system revenues. The City's current combined average monthly water and wastewater rate is $114.15, and the current Interest and Sinking Fund (I&S) tax rate is $0.1148. Based on staff's analysis of financial documentation received, current system revenues are sufficient to meet the existing and proposed debt service requirements.

Cost Savings

Based on a 30-year maturity and current interest rates, the City could save approximately $5,405,308 over the life of the financing.

Internal Risk Score

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

The results of the City's financial sustainability indicators are strong. These more heavily weighted risk score indicators show the City's short-term and long-term ability to repay the debt. The revenues available for debt service provide a coverage ratio of 1.28 times the current and proposed debt service in the first year of principal repayment. The City's level of reinvestment in the assets of the utility's infrastructure is high with as asset condition ratio of 34 years. An asset condition ratio of 12 to 24 years is considered typical. In addition, the City has a large tax base with the taxable assessed valuations in the City increasing over 19 percent since 2013. The total assessed valuation on a per capita level is high at $69,441. An assessed valuation per capita of $30,000 to $64,999 is considered typical.

The City's socioeconomic indicators are mixed when compared to the state overall. The City's population has increased at an average annual rate of 0.84 percent since 2010, compared to an increase at an annual rate of 1.17 percent for the population of the state overall. The City's median household income (MHI) is $40,815, which is 75 percent of the median for the state overall. The average, unadjusted, unemployment rate for Kaufman County was 3.7 percent in July 2017, compared to 4 percent in the state overall.

Based on the current MHI and utility system rates, the City has a household cost factor of 3.36 percent for water and wastewater services. The industry benchmark for the household cost factor is 2 percent for the two services.

The City's direct debt burden, the amount of debt paid from taxes, is considered low at 1.28 percent of the taxable assessed valuation. A ratio of 5 percent is considered high, and over

12 percent is not recommended. Similarly, the utility system self-supporting debt compared to operating revenues, including the proposed financing, is low at 3.1. A debt to operating revenues ratio of 4 to 6 is considered typical for utility systems.

The system maintains adequate reserves with unrestricted cash and short-term investments of approximately 61 days of the operating expenses of the utility system. This is a moderate level of liquidity. Any amount between 30 and 150 days is considered to be a moderate level of liquidity. However, the utility system shows concentration in its water revenues, with the top ten customers of the water system accounting for 47 percent of the total water revenues. Most of this concentration is due to the City providing water to several water districts and water supply corporations.

The financial management of the utility system is strong. The City reviews the utility system rates annually and adjusts rates as necessary to meet debt and system requirements. In addition, the City has a sizeable tax base, with increasing property values and a high tax collection rate. Although there is a concentration of revenues within the utility system, the operating income of the system is increasing, and the amount of debt supported by the system is low. The City is assigned a risk score of 2B.

LEGAL

Key Issues

None.

Conditions

Standard Clean Water State Revolving Fund, tax-exempt, and tax and surplus net revenue 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	City of Terrell
Program	Clean Water State Revolving Fund
Commitment Code	L1000882
Project Number	73807
Intended Use Plan Year	2018
Type of Pledge	3- Combo Tax and Rev
Revenue Pledge Level	Third
Legal Description	$24,550,000 City of Terrell, Texas, Combination Tax and Waterworks and Sewer System (Surplus Pledge) Revenue Certificates of Obligation, Proposed Series 2019A
Tax-exempt or Taxable	Tax-exempt
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay <> Escrow
Population	17,329
Rural	No
Water Connections	5,468
Wastewater Connections	5,468
Qualifies as Disadvantaged	Yes
Disadvantaged Level	9
Clean Water State Revolving Fund Type	Non-Equivalency
SWIFT Financing Type	N/A
SWIFT Characteristic	N/A
Financial Managerial & Technical Complete	N/A
Funding Phase Code	Acquisition, 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	AA-
Moody's	A1
Fitch	Non-Rated
Special Issues	None

Project Team

Team Manager	Luis Farias
Financial Analyst	Ben Munguia
Engineering Reviewer	David Dera
Environmental Reviewer	Kristin Miller
Attorney	Ashley Nwonuma

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
City of Terrell

$24,550,000 City of Terrell, Texas Combination Tax and Waterworks and Sewer System (Surplus Pledge) Revenue Certificates of Obligation, Proposed Series 2019A

Dated Date:	**1/15/2019**	**Source:**	**CWSRF-NON-EQUIVALENCY**
Delivery Date:	**1/15/2019**	**Rate:**	**1.69%**
First Interest:	**8/15/2019**	**IUP Year:**	**2018**
First Principal	**2/15/2020**	**Case:**	**Revenues**
Last Principal:	**2/15/2049**	**Admin.Fee:**	**$422,236**
Fiscal Year End:	**09/30**	**Admin. Fee Payment Date:**	**1/15/2019**
Required Coverage:	**1.1**	**Total Assessed Valuation:**	**$ 1,154,529,944**

$7,385,000 City of Terrell, Texas Combination Tax and Waterworks and Sewer System (Surplus Pledge) Revenue Certificates of Obligation, Proposed Series 2019B

Dated Date:	**1/15/2019**	**Source:**	**DWSRF**
Delivery Date:	**1/15/2019**	**Rate:**	**1.64%**
First Interest:	**8/15/2019**	**IUP Year:**	**2018**
First Principal	**2/15/2020**	**Case:**	**Revenues**
Last Principal:	**2/15/2049**	**Admin.Fee:**	**$155,436**
Fiscal Year End:	**9/30**	**Admin. Fee Payment Date:**	**1/15/2019**
Required Coverage:	**1.1**		

						$24,550,000 ISSUE				**$7,385,000 ISSUE**					
FISCAL YEAR	**CURRENT TAX RATE**	**REQUIRED TAX REVENUES WITH COLL. @ 90%**	**PROJECTED NET SYSTEM REVENUES**	**PROJECTED TOTAL REVENUES**	**CURRENT DEBT SERVICE**	**PRINCIPAL PAYMENT**	**INTEREST RATE**	**INTEREST PAYMENT**	**TOTAL PAYMENT**	**PRINCIPAL PAYMENT**	**INTEREST RATE**	**INTEREST PAYMENT**	**TOTAL PAYMENT**	**DEBT SERVICE**	**ACTUAL COVERAGE**
2019	0.115	1,192,860	$4,018,389	$5,211,249	$2,932,969	$0	-	$242,022	$242,022	-	-	$70,650	$70,650	$3,245,641	1.61
2020	0.115	1,192,860	4,018,389	5,211,249	2,700,287	635,000	1.69%	409,529	1,044,529	195,000	1.64%	119,515	314,515	4,059,331	1.28
2021	0.115	1,192,860	4,018,389	5,211,249	2,717,896	645,000	1.69%	398,713	1,043,713	195,000	1.64%	116,317	311,317	4,072,926	1.28
2022	0.115	1,192,860	4,018,389	5,211,249	2,732,620	655,000	1.69%	387,728	1,042,728	200,000	1.64%	113,078	313,078	4,088,426	1.27
2023	0.115	1,192,860	4,018,389	5,211,249	2,481,649	670,000	1.69%	376,532	1,046,532	200,000	1.64%	109,798	309,798	3,837,979	1.36
2024	0.115	1,192,860	4,018,389	5,211,249	2,481,790	680,000	1.69%	365,125	1,045,125	205,000	1.64%	106,477	311,477	3,838,391	1.36
2025	0.115	1,192,860	4,018,389	5,211,249	2,109,103	690,000	1.69%	353,548	1,043,548	210,000	1.64%	103,074	313,074	3,465,725	1.50
2026	0.115	1,192,860	4,018,389	5,211,249	2,107,030	700,000	1.69%	341,803	1,041,803	210,000	1.64%	99,630	309,630	3,458,463	1.51
2027	0.115	1,192,860	4,018,389	5,211,249	2,018,674	715,000	1.69%	329,846	1,044,846	215,000	1.64%	96,145	311,145	3,374,665	1.54
2028	0.115	1,192,860	4,018,389	5,211,249	1,921,540	725,000	1.69%	317,678	1,042,678	220,000	1.64%	92,578	312,578	3,276,796	1.59
2029	0.115	1,192,860	4,018,389	5,211,249	1,639,748	740,000	1.69%	305,299	1,045,299	225,000	1.64%	88,929	313,929	2,998,975	1.74
2030	0.115	1,192,860	4,018,389	5,211,249	1,644,393	750,000	1.69%	292,708	1,042,708	225,000	1.64%	85,239	310,239	2,997,340	1.74
2031	0.115	1,192,860	4,018,389	5,211,249	1,645,588	765,000	1.69%	279,906	1,044,906	230,000	1.64%	81,508	311,508	3,002,002	1.74
2032	0.115	1,192,860	4,018,389	5,211,249	1,643,194	775,000	1.69%	266,893	1,041,893	235,000	1.64%	77,695	312,695	2,997,782	1.74
2033	0.115	1,192,860	4,018,389	5,211,249	1,647,700	790,000	1.69%	253,669	1,043,669	240,000	1.64%	73,800	313,800	3,005,169	1.73
2034	0.115	1,192,860	4,018,389	5,211,249	1,644,544	805,000	1.69%	240,191	1,045,191	240,000	1.64%	69,864	309,864	2,999,599	1.74
2035	0.115	1,192,860	4,018,389	5,211,249	447,919	815,000	1.69%	226,502	1,041,502	245,000	1.64%	65,887	310,887	1,800,308	2.89
2036	0.115	1,192,860	4,018,389	5,211,249	453,431	830,000	1.69%	212,602	1,042,602	250,000	1.64%	61,828	311,828	1,807,861	2.88
2037	0.115	1,192,860	4,018,389	5,211,249	452,463	845,000	1.69%	198,448	1,043,448	255,000	1.64%	57,687	312,687	1,808,598	2.88
2038	0.115	1,192,860	4,018,389	5,211,249	450,138	860,000	1.69%	184,041	1,044,041	260,000	1.64%	53,464	313,464	1,807,643	2.88
2039	0.115	1,192,860	4,018,389	5,211,249	451,334	875,000	1.69%	169,380	1,044,380	260,000	1.64%	49,200	309,200	1,804,915	2.89
2040	0.115	1,192,860	4,018,389	5,211,249	450,925	890,000	1.69%	154,466	1,044,466	265,000	1.64%	44,895	309,895	1,805,286	2.89
2041	0.115	1,192,860	4,018,389	5,211,249	448,909	905,000	1.69%	139,298	1,044,298	270,000	1.64%	40,508	310,508	1,803,716	2.89
2042	0.115	1,192,860	4,018,389	5,211,249	-	920,000	1.69%	123,877	1,043,877	275,000	1.64%	36,039	311,039	1,354,916	3.85
2043	0.115	1,192,860	4,018,389	5,211,249	-	935,000	1.69%	108,202	1,043,202	280,000	1.64%	31,488	311,488	1,354,690	3.85
2044	0.115	1,192,860	4,018,389	5,211,249	-	950,000	1.69%	92,274	1,042,274	285,000	1.64%	26,855	311,855	1,354,129	3.85
2045	0.115	1,192,860	4,018,389	5,211,249	-	965,000	1.69%	76,092	1,041,092	290,000	1.64%	22,140	312,140	1,353,232	3.85
2046	0.115	1,192,860	4,018,389	5,211,249	-	980,000	1.69%	59,657	1,039,657	295,000	1.64%	17,343	312,343	1,352,000	3.85
2047	0.115	1,192,860	4,018,389	5,211,249	-	1,000,000	1.69%	42,926	1,042,926	300,000	1.64%	12,464	312,464	1,355,390	3.84
2048	0.115	1,192,860	4,018,389	5,211,249	-	1,015,000	1.69%	25,899	1,040,899	305,000	1.64%	7,503	312,503	1,353,402	3.85
2049	0.115	1,192,860	4,018,389	5,211,249	-	1,025,000	1.69%	8,661	1,033,661	305,000	1.64%	2,501	307,501	1,341,162	3.89
				$161,548,729	$37,223,841	$24,550,000		$6,983,517	$31,533,517	$7,385,000		$2,034,099	$9,419,099	$78,176,457	

$24,550,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	16.83 YEARS
NET INTEREST RATE	1.690%
COST SAVINGS	$ 5,405,308
AVERAGE ANNUAL REQUIREMENT	$1,017,210

$7,385,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	16.79 YEARS
NET INTEREST RATE	1.640%
COST SAVINGS	$ 1,657,531
AVERAGE ANNUAL REQUIREMENT	$303,842

TOTAL AVERAGE ANNUAL REQUIREMENTS
$2,521,821

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. The TWDB does not function as a financial advisor to anyone in connection with this financing. The information contained in this document is used by TWDB staff to analyze the application for financing is illustrative only and does not constitute any guaranty of future rates. The TWDB makes no claim regarding the applicability of the information at closing, at which time actual rates will be set.

Texas Water Development Board

Terrell
73807 City of Terrell Clean Water Improvements
Engineering and Environmental Review

Engineering:

Key Issues:

None.

Project Need/Description

Project Need: The City of Terrell (City) needs to make treatment process improvements at its existing wastewater treatment plant (WWTP) in order to stay in compliance with Texas Commission on Environmental Quality's wastewater permit requirements. Also, several collection lines in the City's sewer system require replacement due to age of infrastructure that will reduce main failures, including inflow and infiltration.

Project Description: The City will make treatment process improvements at its Kings Creek WWTP which will be constructed in two phases. Phase one will consist of adding Chemical Enhanced Primary Treatment and new primary clarifier. Phase two will include a new activated sludge treatment train along with a new secondary clarifier and expanded chemical contact basin. The main sewer components in the collection system require replacement due to age of infrastructure and to reduce main failures, including inflow and infiltration.

Project Schedule:

Project Task	Schedule Date
Engineering Feasibility Report Completion (End of Planning Phase)	8/1/2019
Closing	1/15/2019
Design Phase Complete	11/4/2019
Start of Construction	1/2/2020
Construction Completion	12/29/2023

Environmental Section:

Key Issues:

None known at this time.

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 completion of the project. Based on this initial review, it is not anticipated that the proposed project's primary environmental impacts should be significant or adverse, nor should they affect implementation of the project.

Pursuant to the requirements of 31 Texas Administrative Code Chapter 375, Subchapter E, all financial assistance shall be conditioned that funding for design and construction of specific project elements will not be released until an environmental review has been completed and a favorable environmental determination has been issued.

Project Budget Summary Attachment 4

Terrell

73807 - City of Terrell Clean Water Improvements

Budget Items	TWDB Funds	Total
Construction		
Construction	$21,442,764.00	$21,442,764.00
Subtotal for Construction	**$21,442,764.00**	**$21,442,764.00**
Basic Engineering Services		
Construction Engineering	$120,000.00	$120,000.00
Design	$2,280,000.00	$2,280,000.00
Subtotal for Basic Engineering Services	**$2,400,000.00**	**$2,400,000.00**
Special Services		
Inspection	$250,000.00	$250,000.00
Subtotal for Special Services	**$250,000.00**	**$250,000.00**
Fiscal Services		
Loan Origination Fee	$422,236.00	$422,236.00
Subtotal for Fiscal Services	**$422,236.00**	**$422,236.00**
Other		
Land/Easements Acquisition	$35,000.00	$35,000.00
Subtotal for Other	**$35,000.00**	**$35,000.00**
Total	$24,550,000.00	$24,550,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF $24,550,000 TO THE CITY OF TERRELL FROM THE CLEAN WATER STATE REVOLVING FUND THROUGH THE PROPOSED PURCHASE OF $24,550,000 CITY OF TERRELL, TEXAS COMBINATION TAX AND WATERWORKS AND SEWER SYSTEM (SURPLUS PLEDGE) REVENUE CERTIFICATES OF OBLIGATION, PROPOSED SERIES 2019A

(18 -)

WHEREAS, the City of Terrell (City), located in Kaufman County, has filed an application for financial assistance in the amount of $24,550,000 from the Clean Water State Revolving Fund (CWSRF) to finance the acquisition, design, and construction of certain wastewater system improvements identified as Project No. 73807; and

WHEREAS, the City seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of $24,550,000 City of Terrell, Texas Combination Tax and Waterworks and Sewer System (Surplus Pledge) Revenue Certificates of Obligation, Proposed Series 2019A (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 City has offered a pledge of ad valorem taxes and a surplus pledge of the City's waterworks and sewer system 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 § 375.14; and

WHEREAS, the TWDB hereby finds:

1. that the revenue and/or taxes pledged by the City will be sufficient to meet all the Obligations assumed by the City, in accordance with Texas Water Code § 15.607;

2. that the application and assistance applied for meet the requirements of the Federal Water Pollution Control Act, 33 U.S.C. §§ 1251 *et seq*., as well as state law, in accordance with Texas Water Code § 15.607;

3. that the City 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 City has considered cost-effective, innovative, and nonconventional methods of treatment, in accordance with Texas Water Code § 15.007.

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

A commitment is made by the TWDB to the City of Terrell for financial assistance in the amount of $24,550,000 from the Clean Water State Revolving Fund through the TWDB's proposed purchase of $24,550,000 City of Terrell, Texas Combination Tax and Waterworks and Sewer System (Surplus Pledge) Revenue Certificates of Obligation, Proposed Series 2019A. This commitment will expire on October 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 City;

3. this commitment is contingent upon the City's compliance with all applicable requirements contained in 31 TAC Chapter 375;

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 City, 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 City'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 City's Obligations, if the TWDB sells or otherwise transfers such Obligations, and the beneficial owners of the TWDB's bonds if the City is an obligated person with respect to such bonds under SEC Rule 15c2-12;

6. the Obligations must contain a provision requiring the City 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 City 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 City to submit a final accounting and disposition of any unused funds;

8. the Obligations must include a provision requiring the City 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 City 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 City 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 City, 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 City 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 City 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 City 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 City execute a separate financing agreement in form and substance acceptable to the Executive Administrator;

Conditions Related to Tax-Exempt Status

16. the City'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 City when rendering this opinion;

17. the City'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 City when rendering this opinion;

18. the Obligations must include a provision prohibiting the City 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);

19. 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;

20. the Obligations must include a provision requiring the City 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 City 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 City may, however, to the extent permitted by law, commingle Gross Proceeds of its loan with other money of the City, provided that the City 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 City 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;

21. the Obligations must include a provision prohibiting the City from taking any action that would cause the interest on the Obligations to be includable in gross income for federal income tax purposes;

22. the Obligations must provide that the City will not cause or permit the Obligations to be treated as "federally guaranteed" obligations within the meaning of § 149(b) of the Code;

23. the transcript must include a No Arbitrage Certificate or similar Federal Tax Certificate setting forth the City's reasonable expectations regarding the use, expenditure and investment of the proceeds of the Obligations;

24. 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;

25. the Obligations must provide that neither the City 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 City by the TWDB;

<u>State Revolving Fund Conditions</u>

26. the City shall submit outlay reports with sufficient documentation on costs on a quarterly or monthly basis in accordance with TWDB outlay report guidelines;

27. 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 City, 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;

28. the Obligations must include a provision stating that the City 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 City 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;

29. 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 City will adhere to the approved project schedule;

30. the Obligations must contain a covenant that the City 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 § 375.3, 33 U.S.C. § 1388, and related State Revolving Fund Policy Guidelines;

31. the Obligations must contain language detailing compliance with the requirements set forth in 33 U.S.C. § 1382 *et seq*. related to maintaining project accounts containing financial assistance for planning, design, acquisition, or construction, as applicable, in accordance with generally accepted accounting principles (GAAP). These standards and principles also apply to the reporting of underlying infrastructure assets;

32. the City shall submit, prior to the release of funds, 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 projected useful life of the project, as determined by the schedule;

Clean Water State Revolving Fund Conditions

33. prior to or at closing, the City shall pay a 1.75% origination fee to the TWDB calculated pursuant 31 TAC Chapter 375 and the applicable Intended Use Plan;

34. at the TWDB's option, the TWDB may fund the financial assistance under this Resolution with either available cash-on-hand or from bond proceeds. If the financial assistance is funded with available cash-on-hand, the TWDB reserves the right to change the designated source of funds to bond proceeds issued for the purpose of reimbursing funds used to provide the financial assistance approved in this Resolution;

Pledge Conditions For The Loan

35. the Obligations must contain a provision that provides as follows:

    a. if system revenues are actually on deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of taxes which otherwise would have been required to be levied and collected may be reduced to the extent and by the amount of revenues then on deposit in the Interest and Sinking Fund; or

    b. if surplus revenues are based upon budgeted amounts:

        i. the Obligations must include a requirement that the City transfer and deposit in the Interest and Sinking Fund each month an amount of not less than 1/12th of the annual debt service on the Obligations until the amount on deposit in the Interest and Sinking Fund equals the amount required for annual debt service on the Obligations; further, that the ordinance authorizing the issuance of the Obligations must include a requirement that the City shall not transfer any funds from the City's

pledged system revenues to any fund other than the Interest and Sinking Fund until such time as an amount equal to the annual debt service on the Obligations for the then-current fiscal year has been deposited in the Interest and Sinking Fund;

ii. the Obligations must include a requirement that for each year the Obligations are outstanding, and prior to the time taxes are to be levied for such year, the City shall establish, adopt, and maintain an annual budget that provides for either the monthly deposit of sufficient surplus pledged revenues and/or tax revenues, the monthly deposit of any other legally available funds on hand at the time of the adoption of the annual budget, or a combination thereof, into the Interest and Sinking Fund for the repayment of the Obligations; and

iii. the Obligations must include a requirement that the City shall at all times maintain and collect sufficient rates and charges in conjunction with any other legally available funds so that after payment of the costs of operating and maintaining the system, it produces revenues in an amount not less than 1.10 times debt service requirements of all outstanding Obligations of the City and other obligations of the City which are secured in whole or in part by the pledged revenues, for which the City is budgeting the repayment of such Obligations, or the City shall provide documentation which evidences the levy and collection of an ad valorem tax rate dedicated to the Interest and Sinking Fund, in conjunction with any other legally available funds, sufficient for the repayment of debt service requirements.

APPROVED and ordered of record this 30th day of October, 2018.

TEXAS WATER DEVELOPMENT BOARD

_____

Peter M. Lake, Chairman

DATE SIGNED: _____

ATTEST:

_____

Jeff Walker, Executive Administrator

WATER CONSERVATION REVIEW

Entity: City of Terrell

Review date: August 2018

WATER CONSERVATION PLAN DATE: May 2014 ☐ **Approvable** ☑ **Adopted**

	Total GPCD	Residential GPCD	Water Loss GPCD	Water Loss Percent
Baseline	163	79	15	7
5-year Goal	156	72	15	12
10-year Goal	153	70	15	12

WATER LOSS AUDIT YEAR: 2017

Total water loss (GPCD): 21

Total water loss (percent): 14

Wholesale Water ☐

Total no. of connections: 6,486

Length of mains (miles): 149

Connections per mile: 44

If > 16 connections per mile and > 3,000 connections, Infrastructure Leakage Index (*ILI*): 2.85

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 :	NA	NA	NA	NA	NA	NA
If population ≤ 10K, connections/mile ≥ 32 :	NA	NA	NA	NA	NA	NA
If population > 10K :	NA	NA	NA	NA	NA	NA

Does the applicant meet Water Loss Threshold requirements? Yes ☐ No ☐ NA ☑

ADDITIONAL INFORMATION:

According to the city's water conservation plan, it performs monthly water audits in an effort to track progress in reducing losses. Further, it has implemented a main and service line replacement program to eliminate old and deteriorated pipes from the system. The city also enforces landscape water management measures as required by the North Texas Municipal Water District (NTMWD) for all its member cities. Measures include prohibiting water waste, time of day restrictions, and maintaining sprinkler systems in good order. The city also participates in NTMWD's Water My Yard program, so customers receive weekly emails informing them of the amount of water needed for lawn irrigation based on location and evapotranspiration rates. This effort is combined with extended water management measures, such as discouraging cool season grasses and encouraging native, drought tolerant, or adaptive plants.

STAFF NOTES AND RECOMMENDATIONS:

In accordance with 31 TAC §358.6(f), review of a retail public utility's water loss in conjunction with an application for financial assistance is limited to water supply projects. This application for financial assistance is for a wastewater project; therefore, water loss thresholds are not applicable.

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 bench marking 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.

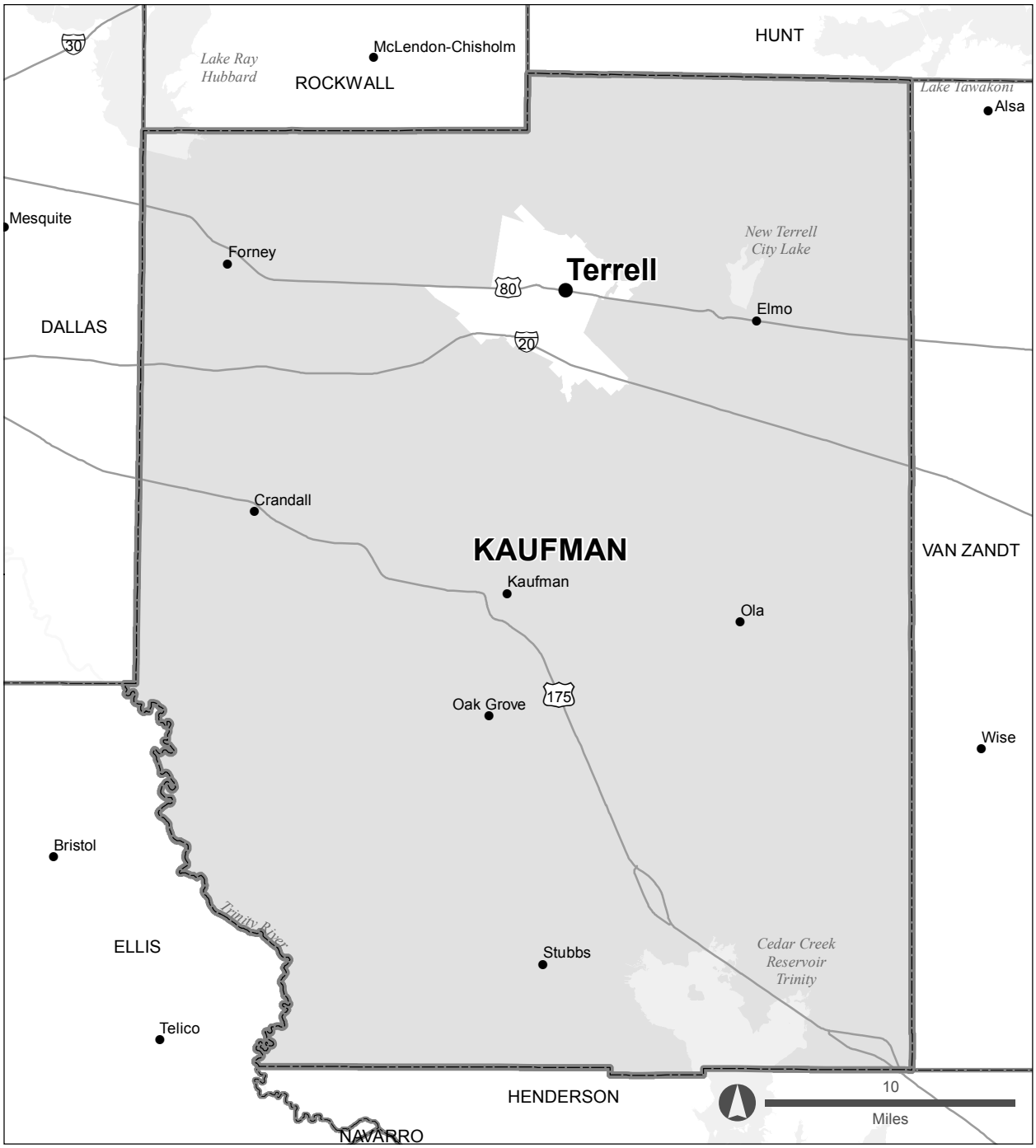
Real loss comes from main breaks and leaks, storage tank overflows, customer service line breaks, and leaks.

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.

City of Terrell
Kaufman County