

# Texas Water Development Board

## PROJECT FUNDING REQUEST

BOARD DATE: May 9, 2019

TEAM MANAGER: Luis Farias

<b>APPLICANT</b>	Wolfe City
<b>TYPE OF ASSISTANCE</b>	\$3,935,000 Financing \$988,103 Principal Forgiveness
<b>LEGAL PLEDGE</b>	Ad Valorem Tax and Surplus Net Revenues of the Waterworks and Sewer System

### STAFF RECOMMENDATION

Approve       No Action

### ACTION REQUESTED

Approve by resolution a request from the City of Wolfe City (Hunt County) for \$4,923,103 in financial assistance consisting of \$3,935,000 in financing and \$988,103 in principal forgiveness from the Drinking Water State Revolving Fund for planning, acquisition, design, and construction of water system improvements.

### PROJECT

Wolfe City Water Distribution System Improvements  
Project Number 62827

### BACKGROUND

The City of Wolfe City (City) is located at the intersection of State Highways 34 and 11, approximately 70 miles northeast of Dallas. The City is named after J. Pinckney Wolfe who built a mill near the banks of Oyster Creek in the late 1800s. The City provides water and wastewater services to approximately 1,477 residents with 635 water and 548 wastewater connections.

The City has an active agreed order with the Texas Commission on Environmental Quality (TCEQ) citing that the City does not meet the minimum water capacity requirements for its size of system. The City only has one well and TCEQ requires that a system of its size must have two or more wells that have a total water production capacity of 0.6 gallons per minute per connection. In addition, the majority of the City's existing water lines are deteriorating and causing excessive water loss.

The City proposes to construct a new water well, ground storage tank, and pump station. The project also includes the rehabilitation of the existing ground storage tanks, improvements to an existing pump station, electrical improvements, as well as the

**COMMITMENT PERIOD: SIX (6) MONTHS TO EXPIRE NOVEMBER 30, 2019**

replacement of approximately 25,000 linear feet of water lines and appurtenances throughout the City.

## **FINANCIAL**

### Key Issues

The City is eligible for funding up to \$3,065,000 with an interest rate of zero percent as a disadvantaged and small/rural community. The remaining financing will include a traditional Drinking Water State Revolving fund loan totaling \$870,000 and \$988,103 in principal forgiveness. Additionally, the City is also applying for \$4,760,000 from the Clean 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 net revenues for the repayment of the proposed financing. The City's current combined average monthly water and wastewater rate is \$64.73, and the City collects an interest and sinking fund tax (I&S) at a rate of \$0.1191 per \$100 of assessed valuation.

The City intends to increase system rates to repay the proposed debt. Staff estimates that in order to meet the 1.1 times debt service coverage requirement for the life of the loan, the City may need to increase its monthly water and wastewater bill by \$11.91, which results in a new average monthly bill of \$76.64. The rate increase produces approximately \$90,731 in additional revenues annually and these revenues are sufficient to meet current and future debt service requirements.

### Principal Forgiveness

The project qualifies for \$988,103 in principal forgiveness as a disadvantaged community.

### Cost Savings

Based on a 30-year maturity and current interest rates, the City could save approximately \$2,226,523 over the life of the financing. The City is also saving \$988,103 in principal forgiveness.

### 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 sufficient. 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 representing 0.87 times the current and proposed debt service in the first year of principal repayment. However, with the aforementioned rate increase, the coverage ratio increases to 1.12 times in the first year of principal repayment. In addition, the City's level of reinvestment in the assets of the utility's infrastructure is average with an asset condition ratio of 23 years. An asset condition ratio of 12 to 24 years is considered typical.

The City's socioeconomic indicators are lower than the state overall, apart from unemployment, which is equal to the state. The City's population has increased at an average annual rate of 0.65 percent since 2010, compared to an increase at an annual rate of 1.24 percent for the population of the state overall. The City's median household income is \$41,500, which is 73 percent of the median for the state overall. The average, unadjusted, unemployment rate in February 2019 for the City and state was 3.90 percent.

The household cost factor compares the annual cost of water and wastewater services, including any anticipated rate increases required to pay the proposed debt, to the median household income for the service area. The City's household cost factor is 2.22 percent, with a projected rate increase. The industry benchmark for the household cost factor is 2 percent for the two services.

The City's overall debt burden is moderate, with most of the debt supported by the utility system. The utility system self-supporting debt compared to operating revenues, including the proposed loans, is high at 11.27. A debt to operating revenues ratio of 4 to 6 is considered typical for utility systems. The City maintains an average level of debt supported by taxes with a debt to total assessed valuation of 2.11 percent. A typical level of tax-supported debt ranges between 2 and 4.99 percent.

The system does maintain strong reserves with unrestricted cash and short-term investments of approximately 429 days of the operating expenses of the utility system. This is considered to be a high level of liquidity. Any amount greater than 250 days is considered to be a high level of liquidity.

Overall, debt levels are rising due to this issuance, along with the Clean Water State Revolving Fund program issuance, but debt remains manageable. The City intends to increase rates to maintain coverage over the life of the financing, and the combination pledge gives the City flexibility for debt repayment in the future. In addition, healthy liquidity levels mitigate lower socioeconomic factors. The City is assigned a risk score of 2B.

## **LEGAL**

### Key Issues

None.

### Conditions

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

- Water rights certification;
- Executed principal forgiveness agreement;
- Return of surplus principal forgiveness funds;
- Useful life certification; and
- Standard emergency discovery conditions.

- Attachments:
1. Project Data Summary
  2. Debt Service Schedule
  3. Engineering/Environmental Review
  4. Project Budget
  5. Resolution (19- )
  6. Water Conservation Review
  7. Location Map

## Project Data Summary

<b>Responsible Authority</b>	City of Wolfe City
<b>Program</b>	Drinking Water State Revolving Fund
<b>Commitment Code</b>	L1000948 (DWSRF-0%) Financing L1001007 (DWSRF) Financing LF1001008 (Principal Forgiveness)
<b>Project Number</b>	62827
<b>Intended Use Plan Year</b>	2019
<b>Type of Pledge</b>	3- Combo Tax and Rev
<b>Revenue Pledge Level</b>	Third
<b>Legal Description</b>	\$870,000 City of Wolfe City, Texas, Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2019C; \$3,065,000 City of Wolfe City, Texas, Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2019D; \$988,103 Principal Forgiveness Agreement
<b>Tax-exempt or Taxable</b>	Tax-exempt
<b>Refinance</b>	No
<b>Outlay Requirement</b>	Yes
<b>Disbursement Method</b>	Escrow
<b>Outlay Type</b>	Outlay = Escrow
<b>Population</b>	1,477
<b>Rural</b>	Yes
<b>Water Connections</b>	635
<b>Wastewater Connections</b>	548
<b>Qualifies as Disadvantaged</b>	Yes
<b>Clean Water State Revolving Fund Type</b>	N/A
<b>SWIFT Financing Type</b>	N/A
<b>SWIFT Characteristic</b>	N/A
<b>Financial Managerial &amp; Technical Complete</b>	Yes
<b>Funding Phase Code</b>	Planning, Acquisition, Design, and Construction
<b>Pre-Design</b>	Yes
<b>Project Consistent with Water Plan</b>	Yes
<b>Water Conservation Plan</b>	Adopted
<b>Water Rights Certification Required</b>	Yes
<b>Internal Risk Score</b>	2B
<b>External Ratings (for SRF rates)</b>	
<b>Standard and Poor's</b>	Non-Rated
<b>Moody's</b>	Non-Rated
<b>Fitch</b>	Non-Rated
<b>Special Issues</b>	Disadvantaged Community Principal Forgiveness - \$988,103; 0% Drinking Water State Revolving Fund Financing - \$3,065,000

**Project Team**

Team Manager	Luis Farias
Financial Analyst	Laura Jarzombek
Engineering Reviewer	Joe Koen
Environmental Reviewer	Kristin Miller
Attorney	Ashley Nwonuma

ISSUE BEING EVALUATED  
FOR ILLUSTRATION PURPOSES ONLY  
City of Wolfe City, Texas

Attachment 2

**\$2,325,000 City of Wolfe City, Texas, Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2019A**

Dated Date:	7/17/2019	Source:	CWSRF-EQUIVALENCY
Delivery Date:	7/17/2019	Rate:	2.05%
First Interest:	9/1/2019	IUP Year:	2019
First Principal:	3/1/2021	Case:	Tax and Revenue
Last Principal:	3/1/2050	Admin.Fee:	\$39,988
Fiscal Year End:	09/30	Admin. Fee Payment Date:	7/17/2019
Required Coverage:	1.1	Total Assessed Valuation:	\$42,947,149

**\$870,000 City of Wolfe City, Texas, Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2019C**

Dated Date:	7/17/2019	Source:	DWSRF
Delivery Date:	7/17/2019	Rate:	2.35%
First Interest:	9/1/2019	IUP Year:	2019
First Principal:	3/1/2021	Case:	Tax and Revenue
Last Principal:	3/1/2050	Admin.Fee:	\$18,311
Fiscal Year End:	9/30	Admin. Fee Payment Date:	7/17/2019
Required Coverage:	1.1		

FISCAL YEAR	CURRENT TAX RATE	REQUIRED TAX REVENUES WITH COLL. @ 90%	PROJECTED NET SYSTEM REVENUES	PROJECTED TOTAL REVENUES	CURRENT DEBT SERVICE	CWSRF \$2,325,000 ISSUE, SERIES 2019A				DWSRF \$870,000 ISSUE, SERIES 2019C				COMBINED CWSRF SERIES 2019B & DWSRF SERIES 2019D ZERO PERCENT		DEBT SERVICE	ACTUAL COVERAGE
						PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	TOTAL PAYMENT	TOTAL PAYMENT		
2019	0.1191	\$46,035	\$363,797	\$409,833	\$58,884	-	-	\$5,825	\$5,825	-	-	\$2,499	\$2,499	-	\$67,208	6.10	
2020	0.1191	46,035	363,797	409,833	59,289	-	-	47,663	47,663	-	-	20,445	20,445	-	127,396	3.22	
2021	0.1191	46,035	363,797	409,833	58,645	\$50,000	2.05%	47,150	97,150	\$15,000	2.35%	20,269	35,269	\$175,000	366,064	1.12	
2022	0.1191	46,035	363,797	409,833	60,001	50,000	2.05%	46,125	96,125	15,000	2.35%	19,916	34,916	175,000	366,043	1.12	
2023	0.1191	46,035	363,797	409,833	59,259	50,000	2.05%	45,100	95,100	20,000	2.35%	19,505	39,505	175,000	368,864	1.11	
2024	0.1191	46,035	363,797	409,833	59,516	55,000	2.05%	44,024	99,024	20,000	2.35%	19,035	39,035	175,000	372,575	1.10	
2025	0.1191	46,035	363,797	409,833	58,724	55,000	2.05%	42,896	97,896	20,000	2.35%	18,565	38,565	175,000	370,185	1.11	
2026	0.1191	46,035	363,797	409,833	58,931	55,000	2.05%	41,769	96,769	20,000	2.35%	18,095	38,095	175,000	368,795	1.11	
2027	0.1191	46,035	363,797	409,833	59,089	60,000	2.05%	40,590	100,590	20,000	2.35%	17,625	37,625	175,000	372,304	1.10	
2028	0.1191	46,035	363,797	409,833	59,198	60,000	2.05%	39,360	99,360	20,000	2.35%	17,155	37,155	175,000	370,713	1.11	
2029	0.1191	46,035	363,797	409,833	58,256	60,000	2.05%	38,130	98,130	20,000	2.35%	16,685	36,685	175,000	368,071	1.11	
2030	0.1191	46,035	363,797	409,833	46,315	65,000	2.05%	36,849	101,849	25,000	2.35%	16,156	41,156	175,000	364,320	1.12	
2031	0.1191	46,035	363,797	409,833	45,925	65,000	2.05%	35,516	100,516	25,000	2.35%	15,569	40,569	175,000	362,010	1.13	
2032	0.1191	46,035	363,797	409,833	46,535	70,000	2.05%	34,133	104,133	25,000	2.35%	14,981	39,981	175,000	365,649	1.12	
2033	0.1191	46,035	363,797	409,833	47,096	70,000	2.05%	32,698	102,698	25,000	2.35%	14,394	39,394	170,000	359,188	1.14	
2034	0.1191	46,035	363,797	409,833	46,609	70,000	2.05%	31,263	101,263	25,000	2.35%	13,806	38,806	170,000	356,678	1.15	
2035	0.1191	46,035	363,797	409,833	47,121	75,000	2.05%	29,776	104,776	25,000	2.35%	13,219	38,219	170,000	360,116	1.14	
2036	0.1191	46,035	363,797	409,833	47,585	75,000	2.05%	28,239	103,239	30,000	2.35%	12,573	42,573	170,000	363,396	1.13	
2037	0.1191	46,035	363,797	409,833	35,000	80,000	2.05%	26,650	106,650	30,000	2.35%	11,868	41,868	165,000	348,518	1.18	
2038	0.1191	46,035	363,797	409,833	35,000	80,000	2.05%	25,010	105,010	30,000	2.35%	11,163	41,163	165,000	346,173	1.18	
2039	0.1191	46,035	363,797	409,833	35,000	85,000	2.05%	23,319	108,319	30,000	2.35%	10,458	40,458	165,000	348,776	1.18	
2040	0.1191	46,035	363,797	409,833	35,000	85,000	2.05%	21,576	106,576	35,000	2.35%	9,694	44,694	165,000	351,270	1.17	
2041	0.1191	46,035	363,797	409,833	5,000	90,000	2.05%	19,783	109,783	35,000	2.35%	8,871	43,871	165,000	323,654	1.27	
2042	0.1191	46,035	363,797	409,833	-	90,000	2.05%	17,938	107,938	35,000	2.35%	8,049	43,049	165,000	315,986	1.30	
2043	0.1191	46,035	363,797	409,833	-	95,000	2.05%	16,041	111,041	35,000	2.35%	7,226	42,226	165,000	318,268	1.29	
2044	0.1191	46,035	363,797	409,833	-	95,000	2.05%	14,094	109,094	35,000	2.35%	6,404	41,404	165,000	315,498	1.30	
2045	0.1191	46,035	363,797	409,833	-	100,000	2.05%	12,095	112,095	40,000	2.35%	5,523	45,523	165,000	322,618	1.27	
2046	0.1191	46,035	363,797	409,833	-	100,000	2.05%	10,045	110,045	40,000	2.35%	4,583	44,583	165,000	319,628	1.28	
2047	0.1191	46,035	363,797	409,833	-	105,000	2.05%	7,944	112,944	40,000	2.35%	3,643	43,643	165,000	321,586	1.27	
2048	0.1191	46,035	363,797	409,833	-	110,000	2.05%	5,740	115,740	45,000	2.35%	2,644	47,644	165,000	328,384	1.25	
2049	0.1191	46,035	363,797	409,833	-	110,000	2.05%	3,485	113,485	45,000	2.35%	1,586	46,586	165,000	325,071	1.26	
2050	0.1191	46,035	363,797	409,833	-	115,000	2.05%	1,179	116,179	45,000	2.35%	529	45,529	175,000	336,708	1.22	
<b>\$13,114,640</b>						<b>\$1,121,978</b>	<b>\$2,325,000</b>	<b>\$872,002</b>	<b>\$3,197,002</b>	<b>\$870,000</b>		<b>\$382,729</b>	<b>\$1,252,729</b>	<b>\$5,100,000</b>	<b>\$10,671,708</b>		

\$2,325,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	18.3 YEARS
NET INTEREST RATE	2.050%
COST SAVINGS	\$2,710,693
AVERAGE ANNUAL REQUIREMENT	\$99,906

\$870,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	18.72 YEARS
NET INTEREST RATE	2.350%
COST SAVINGS	\$3,899,419
AVERAGE ANNUAL REQUIREMENT	\$39,148

TOTAL AVERAGE ANNUAL REQUIREMENTS
<b>\$333,491</b>

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. The loan origination fees for the above debt is anticipated, as follows: Series 2019A:\$39,988; Series 2019B:\$35,000; Series 2019C: \$18,311; Series 2019D: \$64,511.

**Wolfe City  
62827 Wolfe City Water Distribution System  
Improvements  
Engineering and Environmental Review**

**Engineering:**

Key Issues:

None.

Project Need/Description

Project Need: Wolfe City (City) has an active agreed order with the Texas Commission on Environmental Quality (TCEQ) citing that the City does not meet the minimum water capacity requirements for its size of system. The City only has one well and TCEQ requires that a system of its size must have two or more wells that have a total water production capacity of 0.6 gallons per minute per connection. In addition, the majority of the City's existing water lines are deteriorating and causing excessive water loss.

Project Description: The City will construct a new water well, ground storage tank, and pump station. The project also includes the rehabilitation of the existing ground storage tanks, improvements to an existing pump station, electrical improvements, as well as the replacement of approximately 25,000 linear feet of water lines and appurtenances throughout the City.

**Project Schedule:**

<b>Project Task</b>	<b>Schedule Date</b>
Engineering Feasibility Report Completion (End of Planning Phase)	6/1/2019
Closing	7/17/2019
Design Phase Complete	9/5/2019
Start of Construction	12/29/2019
Construction Completion	12/28/2020

**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 February 28, 2019. The proposed project is in compliance with the National Environmental Policy Act.

Budget Items	This Commitment	Total
<b>Construction</b>		
Construction	\$3,425,000.00	\$3,425,000.00
<b>Subtotal for Construction</b>	<b>\$3,425,000.00</b>	<b>\$3,425,000.00</b>
<b>Basic Engineering Services</b>		
Construction Engineering	\$85,000.00	\$85,000.00
Design	\$307,000.00	\$307,000.00
Planning	\$35,000.00	\$35,000.00
<b>Subtotal for Basic Engineering Services</b>	<b>\$427,000.00</b>	<b>\$427,000.00</b>
<b>Special Services</b>		
Application	\$15,000.00	\$15,000.00
Environmental	\$30,000.00	\$30,000.00
Geotechnical	\$15,000.00	\$15,000.00
O&M Manual	\$20,000.00	\$20,000.00
Permits	\$25,000.00	\$25,000.00
Project Management (by engineer)	\$100,000.00	\$100,000.00
Special Service Other (Bidding)	\$20,000.00	\$20,000.00
Surveying	\$100,000.00	\$100,000.00
Water Conservation Plan	\$20,000.00	\$20,000.00
<b>Subtotal for Special Services</b>	<b>\$345,000.00</b>	<b>\$345,000.00</b>
<b>Fiscal Services</b>		
Bond Counsel	\$34,000.00	\$34,000.00
Financial Advisor	\$39,000.00	\$39,000.00
Fiscal/Legal	\$4,925.00	\$4,925.00
Issuance Costs	\$1,750.00	\$1,750.00
Loan Origination Fee	\$82,822.00	\$82,822.00
<b>Subtotal for Fiscal Services</b>	<b>\$162,497.00</b>	<b>\$162,497.00</b>
<b>Other</b>		
Land/Easements Acquisition	\$10,000.00	\$10,000.00
<b>Subtotal for Other</b>	<b>\$10,000.00</b>	<b>\$10,000.00</b>
<b>Contingency</b>		
Contingency	\$553,606.00	\$553,606.00
<b>Subtotal for Contingency</b>	<b>\$553,606.00</b>	<b>\$553,606.00</b>
<b>Total</b>	<b>\$4,923,103.00</b>	<b>\$4,923,103.00</b>

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD  
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF  
\$4,923,103 TO THE CITY OF WOLFE CITY  
FROM THE DRINKING WATER STATE REVOLVING FUND  
THROUGH THE PROPOSED PURCHASE OF  
\$870,000 CITY OF WOLFE CITY COMBINATION TAX AND SURPLUS REVENUE  
CERTIFICATES OF OBLIGATION, PROPOSED SERIES 2019C  
AND  
\$3,065,000 CITY OF WOLFE CITY COMBINATION TAX AND SURPLUS REVENUE  
CERTIFICATES OF OBLIGATION, PROPOSED SERIES 2019D  
AND  
\$988,103 IN PRINCIPAL FORGIVENESS

(19 - )

WHEREAS, the City of Wolfe City (City), located in Hunt County, has filed an application for financial assistance in the amount of \$4,923,103 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. 62827; and

WHEREAS, the City seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of \$870,000 City of Wolfe City Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2019C and \$3,065,000 City of Wolfe City Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2019D (together with all authorizing documents (Obligations)), and the execution of a Principal Forgiveness Agreement in an amount of \$988,103, 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 the surplus net revenues of the City's waterworks and sewer system 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 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 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 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 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 City and filed with the TWDB in accordance with Texas Water Code § 16.053(j);
6. that the City meets the definition of "Disadvantaged Community" in 31 TAC § 371.1(23) and is therefore eligible for principal forgiveness in the amount of 988,103; and that the City meets the definition of a "small" or "rural" disadvantaged community in the applicable IUP and is therefore eligible for a low interest rate; and
7. that the Executive Administrator issued a Categorical Exclusion on February 28, 2019, 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 City of Wolfe City for financial assistance in the amount of \$4,923,103 from the Drinking Water State Revolving Fund through the TWDB's proposed purchase of \$870,000 City of Wolfe City Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2019C and \$3,065,000 City of Wolfe City Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2019D, and the execution of a Principal Forgiveness Agreement in the amount of \$988,103. This commitment will expire on November 30, 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 371;
4. the Obligations must provide that the City agrees to comply with all of the conditions set forth in the TWDB Resolution, which conditions are incorporated herein;
5. the Obligations must provide that the Obligations can be called for early redemption 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;
6. 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;
7. the Obligations must contain a provision requiring the City to levy a tax and/or maintain and collect sufficient rates and charges, as applicable, to produce system funds 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;
8. 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;
9. 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 in a manner as approved by the Executive Administrator;

10. 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;
11. 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;
12. 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;
13. prior to closing, the City shall submit documentation evidencing the adoption and implementation of sufficient system rates and charges and/or the levy of an interest and sinking tax rate (if applicable) sufficient for the repayment of all system debt service requirements;
14. 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;
15. 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;
16. the Executive Administrator may require that the City execute a separate financing agreement in form and substance acceptable to the Executive Administrator;
17. 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

18. 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;
19. 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;
20. 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 section 141 of the Internal Revenue Code of 1986, as amended (Code) and the Treasury Regulations promulgated thereunder (Regulations);
21. 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 section 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 section 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;
22. 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 section 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 section 148(f) of the Code, section 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;
23. 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;
  24. 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 section 149(b) of the Code;
  25. 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;
  26. the Obligations must contain a provision that the City will refrain from using the proceeds provided by this TWDB commitment or the proceeds of any prior bonds to pay debt service on another issue more than 90 days after the date of issue of the Obligations in contravention of the requirements of section 149(d) of the Code (relating to advance refundings);

27. the transcript must include evidence that the information reporting requirements of section 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 section 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;
28. 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;

#### State Revolving Fund Conditions

29. the City shall submit outlay reports with sufficient documentation on costs on a quarterly or monthly basis in accordance with TWDB outlay report guidelines;
30. 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;
31. 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;
32. 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;
33. Obligations and Principal Forgiveness Agreement 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 § 371.4 and related State Revolving Fund Policy Guidelines;

### Drinking Water State Revolving Fund Conditions

34. the City shall pay at closing an origination fee approved by the Executive Administrator or the TWDB pursuant to 31 TAC Chapter 371;
35. 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 City 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;
36. prior to the release of funds for professional consultants including, but not limited to, the engineer, financial advisor, and bond counsel, as appropriate, the City 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

37. 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;
- 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

- ii. 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.

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

Special Conditions:

38. prior to the release of funds for the costs of planning, engineering, architectural, legal, title, fiscal, or economic investigation, studies, surveys, or designs for that portion of a project that proposes surface water or groundwater development, the Executive Administrator must either issue a written finding that the City has the right to use the water that the project financed by the TWDB will provide or a written determination that a reasonable expectation exists that such a finding will be made before the release of funds for construction;
39. prior to the release of construction funds for that portion of a project that proposes surface water or groundwater development, the Executive Administrator must have issued a written finding that the City has the right to use the water that the project financed by the TWDB will provide;
39. prior to closing, the City shall execute a Principal Forgiveness Agreement in a form and substance acceptable to the Executive Administrator;
40. the Principal Forgiveness Agreement must include a provision stating that the City shall return any principal forgiveness funds that are determined to be surplus funds in a manner determined by the Executive Administrator;
41. prior to the release of funds, the City 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

- 42. the City 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 9<sup>th</sup> day of May, 2019.

TEXAS WATER DEVELOPMENT BOARD

\_\_\_\_\_  
Peter M. Lake  
Chairman

DATE SIGNED: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Jeff Walker  
Executive Administrator

Water  
 Wastewater  
 Other

## WATER CONSERVATION REVIEW

Entity: \_\_\_\_\_

Review date: \_\_\_\_\_

**WATER CONSERVATION PLAN DATE:** **Approvable**      **Adopted**

	Total GPCD	Residential GPCD	Water Loss GPCD	Water Loss Percent
<b>Baseline</b>				
<b>5-year Goal</b>				
<b>10-year Goal</b>				

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

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.



# Wolfe City Hunt County

