

Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: May 9, 2019

TEAM MANAGER: Lee Huntoon

APPLICANT	Ira Water Supply Corporation
TYPE OF ASSISTANCE	\$300,000 Principal Forgiveness Agreement
LEGAL PLEDGE	N/A; 100 Percent Principal Forgiveness

STAFF RECOMMENDATION

Approve No Action

ACTION REQUESTED

Approve by resolution a request from the Ira Water Supply Corporation (Scurry County) for \$300,000 in principal forgiveness from the Drinking Water State Revolving Fund for: a) planning, design, and construction of water system improvements; and b) a waiver from the requirement to include funds to mitigate water loss as a part of this project.

PROJECT

Water Distribution Improvements
Project Number 62845

BACKGROUND

The Ira Water Supply Corporation (Corporation) is located in Scurry County 80 miles northeast of Abilene. The Corporation serves the unincorporated community of Ira which has approximately 699 households with 259 water connections. The Corporation does not provide wastewater services.

The Corporation currently has undersized water lines within its system in contravention of Texas Commission on Environmental Quality (TCEQ) rules which results in low water pressure throughout the system during times of high water demand. Additionally, some water lines were installed over 50 years ago and are prone to breaks and in need of replacement. The Corporation proposes to replace portions of the existing water distribution lines west of Ira with polyvinyl chloride water lines.

FINANCIAL

Key Issues

The Corporation's December 31, 2017 audit resulted in a qualified opinion issued. Due to deficiencies related to accounts receivable and water revenue in its financial audit for the fiscal year that ended on December 31, 2017, a special condition requiring a corrective action plan to be submitted prior to closing has been added. In addition, a condition has

COMMITMENT PERIOD: THREE (3) MONTHS TO EXPIRE AUGUST 30, 2019.

been added that requires the Corporation to adopt a corrective action plan for findings issued for any audit while the commitment is outstanding, if needed.

Principal Forgiveness

The Corporation qualifies for principal forgiveness as a very small system.

Cost Savings

Based on 100 percent principal forgiveness, the Corporation will save \$300,000 over the life of the commitment.

Internal Risk Score

The funding being provided by the Texas Water Development Board (TWDB) is in the form of 100 percent principal forgiveness and therefore is not subject to a risk score analysis. In order to assess the entity's ability to manage existing obligations and business practices, staff reviewed the Corporation's funding application and its audited financial statements for the year ended December 31, 2017. In addition, the TCEQ issued a financial, managerial, and technical (FMT) capability assessment, which was reviewed by staff. Based on this analysis, staff has determined that the Corporation will need to complete a corrective action plan prior to closing in order to address deficiencies noted in its most recent financial statement audit.

LEGAL

Key Issues

The Corporation is requesting a waiver of the requirement that a portion of the financial assistance received from the TWDB be used to mitigate the Corporation's system water loss because the water loss will be addressed through a separate meter replacement project to be funded by the United States Department of Agriculture. As discussed in the attached Water Conservation review, addressing customer meters and taking the other steps listed in the waiver request should help the Corporation address its apparent loss. Pursuant to Texas Water Code § 16.0121, the Corporation must file an annual water audit that complies with TWDB rules, including computation of the Corporation's system water loss. This annual data will permit the TWDB to assess improvements in the Corporation's water loss and determine the effectiveness of its mitigation measures.

Conditions

Standard Drinking Water State Revolving Fund, principal forgiveness conditions, and further conditioned as follows:

- Conversion and conveyance; and
- Corrective action plan.

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

Project Data Summary

Responsible Authority	Ira Water Supply Corporation
Program	Drinking Water State Revolving Fund
Commitment Code	LF1000968
Project Number	62845
Intended Use Plan Year	2019
Type of Pledge	N/A
Revenue Pledge Level	N/A
Legal Description	\$300,000 Principal Forgiveness Agreement
Tax-exempt or Taxable	N/A; 100% principal forgiveness
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay = Escrow
Population	699
Rural	Yes
Water Connections	259
Wastewater Connections	0
Qualifies as Disadvantaged	No
Disadvantaged Level	9
Clean Water State Revolving Fund Type	N/A
SWIFT Financing Type	N/A
SWIFT Characteristic	N/A
Financial Managerial & Technical Complete	Yes
Funding Phase Code	Planning, Design, and Construction
Pre-Design	Yes
Project Consistent with Water Plan	Yes
Water Conservation Plan	Exempt (Less than \$500,000)
Water Rights Certification Required	No
Internal Risk Score	N/A
External Ratings (for SRF rates)	
Standard and Poor's	Non-Rated
Moody's	Non-Rated
Fitch	Non-Rated
Special Issues	Very Small Systems

Project Team

Team Manager	Lee Huntoon
Financial Analyst	Laura Jarzombek
Engineering Reviewer	Thomas Klein
Environmental Reviewer	Chris Caran
Attorney	Ashley Nwonuma

**Ira Water Supply Corporation
62845 Water Distribution Improvements
Engineering and Environmental Review**

Engineering:

Key Issues:

None.

Project Need/Description

Need: The Ira Water Supply Corporation (Corporation) has 1.5-inch water lines within its system which do not meet the Texas Commission on Environmental Quality (TCEQ) rules for minimum line size. This results in low water pressure throughout the system during times of high water demand. Additionally, some water lines were installed over 50 years ago and are prone to breaks.

Description: The Corporation proposes to replace portions of the existing water distribution lines west of Ira, Texas with 2-inch or greater polyvinyl chloride water lines.

Project Schedule:

Project Task	Schedule Date
Closing	8/1/2019
Engineering Feasibility Report Completion (End of Planning Phase)	10/1/2019
Design Phase Complete	12/2/2019
Start of Construction	3/2/2020
Construction Completion	8/3/2020

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 371, 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
 Ira Water Supply Corporation
 62845 - Water Distribution Improvements

Budget Items	This Commitment	TWDB Funds	Total
Construction			
Construction	\$217,650.00	\$217,650.00	\$217,650.00
Subtotal for Construction	\$217,650.00	\$217,650.00	\$217,650.00
Basic Engineering Services			
Construction Engineering	\$5,000.00	\$5,000.00	\$5,000.00
Design	\$19,000.00	\$19,000.00	\$19,000.00
Subtotal for Basic Engineering Services	\$24,000.00	\$24,000.00	\$24,000.00
Special Services			
Application	\$10,000.00	\$10,000.00	\$10,000.00
Environmental	\$5,000.00	\$5,000.00	\$5,000.00
Inspection	\$8,000.00	\$8,000.00	\$8,000.00
Surveying	\$15,000.00	\$15,000.00	\$15,000.00
Subtotal for Special Services	\$38,000.00	\$38,000.00	\$38,000.00
Contingency			
Contingency	\$20,350.00	\$20,350.00	\$20,350.00
Subtotal for Contingency	\$20,350.00	\$20,350.00	\$20,350.00
Total	\$300,000.00	\$300,000.00	\$300,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE
TO IRA WATER SUPPLY CORPORATION
FROM THE DRINKING WATER STATE REVOLVING FUND
THROUGH \$300,000 IN PRINCIPAL FORGIVENESS

(19 -)

WHEREAS, the Ira Water Supply Corporation (Corporation), located in Scurry County, has filed an application for financial assistance in the amount of \$300,000 from the Drinking Water State Revolving Fund (DWSRF) to finance the planning, design, and construction of certain water system improvements identified as Project No. 62845; and

WHEREAS, the Corporation seeks financial assistance from the Texas Water Development Board (TWDB) in the amount of \$300,000 with 100% to be forgiven, as is more specifically set forth in the application and in recommendations of the TWDB's staff; 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 Corporation is requesting a waiver of the requirement that a portion of the financial assistance received from the TWDB be used to mitigate the Corporation's system water loss because the water loss will be addressed through a separate meter replacement project funded by the United States Department of Agriculture; and

WHEREAS, the TWDB hereby finds:

1. that no debt obligations are to be assumed by the Corporation for the financial assistance and no taxes or revenues are required to be pledged by the Corporation;
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 Corporation is exempt from requirements to adopt a water conservation program because the TWDB's financial assistance will be \$500,000 or less;
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 Corporation and filed with the TWDB in accordance with Texas Water Code § 16.053(j);

6. that the Corporation meets the definition of a very small system in accordance with the current Intended Use Plan, and is therefore eligible for principal forgiveness in the amount of \$300,000; and
7. that based on the conditions, as described above, that the Corporation is satisfactorily addressing the Corporation's system water loss which supports a waiver of the requirement that a portion of the financial assistance received from the TWDB be used to mitigate the Corporation's system water loss in accordance with Texas Water Code § 16.0121(g).

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

A commitment is made by the TWDB to the Ira Water Supply Corporation for financial assistance in the amount of \$300,000 from the Drinking Water State Revolving Fund with 100% to be forgiven. This commitment will expire on August 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 Corporation's compliance with all applicable requirements contained in 31 TAC Chapter 371;
3. this commitment is contingent on the Corporation executing a Principal Forgiveness Agreement in a form and substance acceptable to the Executive Administrator;
4. the Corporation shall return any principal forgiveness funds that are determined to be surplus funds in a manner determined by the Executive Administrator;
5. the Principal Forgiveness Agreement must contain a provision that the Corporation agrees to comply with all of the conditions set forth in the TWDB Resolution, which conditions are incorporated herein.
6. the Principal Forgiveness Agreement must contain a provision that the TWDB may exercise all remedies available to it in law or equity, and any provision of the Principal Forgiveness Agreement that restricts or limits the TWDB's full exercise of these remedies shall be of no force and effect;
7. financial assistance funds are public funds and, as such, the Principal Forgiveness Agreement 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;

8. financial assistance funds proceeds shall not be used by the Corporation when sampling, testing, removing or disposing of contaminated soils and/or media at the project site. The Principal Forgiveness Agreement shall include an environmental indemnification provision wherein the Corporation 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 Corporation, its contractors, consultants, agents, officials and employees as a result of activities relating to the project to the extent permitted by law;
9. prior to closing, and if not previously provided with the application, the Corporation 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;
10. prior to closing, when any portion of the financial assistance is to be held in escrow or in trust, the Corporation 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;

State Revolving Fund Conditions

11. the Corporation shall submit outlay reports with sufficient documentation on costs on a quarterly or monthly basis in accordance with TWDB outlay report guidelines;
12. the Principal Forgiveness Agreement 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 Corporation, 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;
13. the Principal Forgiveness Agreement must include a provision stating that the Corporation 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 Corporation 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 the term of the Principal Forgiveness Agreement;

14. the Principal Forgiveness Agreement shall provide that all funds will be timely and expeditiously used, as required by 40 CFR § 35.3135(d), and also shall provide that the Corporation will adhere to the approved project schedule;
15. the Principal Forgiveness Agreement must contain a covenant that the Corporation 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

16. 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 Corporation has demonstrated the necessary financial, managerial, and technical capabilities to proceed with the project or projects to be funded with the proceeds of these Principal Forgiveness Agreement; and
17. prior to release of funds for professional consultants including, but not limited to, the engineer, financial advisor, and bond counsel, as appropriate, the Corporation must provide documentation that it has met all applicable state procurement requirements as well as all federal procurement requirements under the Disadvantaged Business Enterprises program.

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

Special Conditions:

18. during construction of the Project, the Corporation must notify the Executive Administrator in writing thirty (30) days prior to taking any actions to alter its legal status in any manner including the conversion to a conservation and reclamation district or a sale-transfer-merger with another retail public utility, including conveying its assets and liabilities to any nonprofit water supply corporation, for profit water supply corporation, or investor-owned utility, or private person;
19. prior to closing, the Corporation shall provide a corrective action plan, acceptable to the Executive Administrator, addressing deficiencies related to accounts receivable and water revenue in its financial audit for the fiscal year that ended on December 31, 2017; and
20. if material weakness or significant deficiency audit findings (Findings) are issued in audits subsequent to closing, the Corporation shall adopt a plan, acceptable to the Executive Administrator, ensuring that the Corporation will address all Findings issued during any audit while the Obligation of the commitment are outstanding.

APPROVED and ordered of record this 9th 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
Baseline				
5-year Goal				
10-year Goal				

WATER LOSS AUDIT YEAR:

Total water loss (GPCD): _____ Total water loss (percent): _____ Wholesale Water
 Total no. of connections: _____ Length of mains (miles): _____ Connections per mile: _____
 If > 16 connections per mile and > 3,000 connections, Infrastructure Leakage Index (ILI): _____

WATER LOSS THRESHOLDS:

	Apparent Loss Gallons per connection per day	Real Loss Gallons per mile per day	Real Loss Gallons per connection per day	Apparent Threshold Gallons per connection per day	Real Threshold Gallons per mile per day	Real Threshold Gallons per connection per day
If population ≤ 10K, connections/mile < 32 :			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.

**Ira Water Supply Corporation
Ira, TX**

March 22, 2019

Mr. Jeff Walker, Executive Administrator
Texas Water Development Board
1700 N. Congress Avenue
Austin, TX 78701

RE: Ira WSC – DWSRF PIF 12674
Water Loss Waiver Request

Dear Mr. Walker:

Ira WSC has submitted an application to TWDB for funding of a water line replacement project. The project will be funded with \$300,000 of loan forgiveness from the TWDB Very Small Systems (VSS) program.

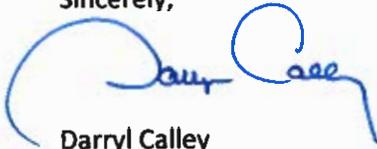
As part of the application process, the WSC also submitted a water use survey and water loss audit for calendar year 2018. The water loss audit indicated that the WSC was above the threshold for apparent water loss (related to data record keeping and metering). The proposed TWDB project would only address real water loss through water line replacement.

There are currently approximately 268 meters in service in our distribution system. Of those, 30 (11%) have been replaced within the past few years. The remaining 238 meters (89%) are 20 years old or more and are past their typical useful service life. We believe that the age of the meters is contributing to the majority the apparent water loss shown in the water loss audit.

The WSC will address apparent water loss through a separate project funded by USDA Rural Development. A letter of conditions was received from USDA in December of 2016 (copy attached). As part of this project, the master meter will be replaced at the take point where water is received from the City of Snyder. Additionally, all customer meters will be replaced and an automatic meter reading (AMR) drive-by system will be included in the USDA project. We anticipate construction starting on this project sometime later this year.

Because the apparent water loss will be addressed through a separate construction project, we would request a waiver for the proposed water line replacement project to address only real water loss.

Sincerely,



Darryl Calley
President, Ira WSC



Ira Water Supply Corporation Scurry County

