

Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: December 19, 2019

TEAM MANAGER: Caaren Skrobarczyk

APPLICANT	FHLM Regional Water Supply Corporation
TYPE OF ASSISTANCE	\$8,170,000 Financing \$500,000 Principal Forgiveness
LEGAL PLEDGE	First Lien on Contract Revenues and a Mortgage Lien on the System

STAFF RECOMMENDATION

Approve No Action

ACTION REQUESTED

Approve by resolution a request from the FHLM Regional Water Supply Corporation (Falls, Hill, Limestone, and McLennan Counties) for \$8,670,000 in financial assistance, consisting of \$8,170,000 in financing and \$500,000 in principal forgiveness from the Drinking Water State Revolving Fund for planning, acquisition, design, and construction of a water system improvement project.

PROJECT

McLennan County Regional Arsenic Mitigation
Project Number 51060

BACKGROUND

The FHLM Regional Water Supply Corporation (FHLM) was incorporated in June of 2002 for the purpose of providing potable water service to twenty-two member retail water utilities in the counties of Falls, Hill, Limestone, and McLennan, Texas.

Two of FHLM's members, Axtell Water Supply Corporation (Axtell) and Elk Oak Lake Water Supply Corporation (EOL) (Members), located in McLennan County, get their existing groundwater supplies from the Trinity Aquifer. Their wells are in violation for exceeding the Environmental Protection Agency's (EPA) and Texas Commission on Environmental Quality's (TCEQ) maximum contaminant level allowed for arsenic and both entities are under court order to mitigate the arsenic contamination. FHLM proposes to construct the arsenic mitigation project to blend treated surface water purchased from the City of Waco with existing groundwater supplies. This will require construction of approximately 14 miles of water transmission pipelines and distribution mains as well as four new pump stations in order to transport the treated surface, blend it with the member WSCs' groundwater supplies, and send it to member WSCs' existing pump station plants for distribution.

COMMITMENT PERIOD: SIX (6) MONTHS TO EXPIRE JUNE 30, 2020.

FINANCIAL

Key Issues

A favorable financial, managerial, and technical (FMT) assessment for Axtell and EOL were issued by the TCEQ on June 10, 2019. As a system that currently has no assets or obligations, FHLM currently does not have audited financial statements. Therefore, analysis was completed using audited financial for the member entities Axtell and EOL.

Pledge and Repayment

FHLM is pledging contract revenues from EOL and Axtell for the repayment of the proposed financing as well as a mortgage lien on the system. The percent share of the members will remain the same for the life of the obligation per a resolution adopted by all parties on July 16, 2019. Each member corporation will be responsible for the repayment of the debt service based on the percentages below:

Member City	Percent	Total
Axtell	50%	\$4,085,000
EOL	50%	\$4,085,000

The average monthly water rate of EOL is \$46.00 and of Axtell is \$59.00. According to staff's analysis, this results in net revenues that provides the members a coverage ratio of 1.48 and 1.30 respectively. Per the contract revenue pledge, FHLM will be provided a coverage ratio of at least 1.0 times the proposed debt service for the life of the obligations.

Principal Forgiveness

FHLM is eligible for \$500,000 in principal forgiveness as urgent need.

Cost Savings

Based on a 30-year maturity and a zero percent interest rate, FHLM could save approximately \$5,314,036 over the life of the zero percent financing. FHLM is also saving \$500,000 in principal forgiveness.

Internal Risk Score

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

The results of the Members' financial sustainability indicators are adequate. The revenue available for debt service provide a coverage ratio of at least 1.0 times the proposed debt service. The Members' level of reinvestment in the assets of the utility's infrastructure is strong with an asset condition ratio of 16 years for EOL and 11 years for Axtell. An asset condition ratio of 12 to 24 years is considered typical.

The socioeconomic indicators of the service area are on par with the state overall. While the service area's population has decreased at an average annual rate of 1.10

percent since 2010, McLennan County's population has increased at an average annual rate of 0.65 percent compared to an increase at an annual rate of 1.24 percent for the population of the state overall. The service area's median household income is \$61,667, approximately 108 percent of the median for the state overall. The average, unadjusted, unemployment rate for the County was 3.2 percent in September 2019, compared to 3.3 percent in the state overall.

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. FHLM does not have a household cost factor as it only sells wholesale to the two Members. The household cost factor for Axtell was 1.15 percent and for EOL was 0.90 percent for water service only. The industry benchmark for the household cost factor is 1 percent for water service.

All of FHLM's proposed debt will be supported by the contract revenues from the Members. The utility system self-supporting debt compared to operating revenues of the Member's portion of the proposed loan is high at 9.80 for Axtell and 10.22 for EOL. A debt to operating revenues ratio of 4 to 6 is considered typical for utility systems. The Members do maintain strong reserves with unrestricted cash of approximately 512 days of the operating expenses of the utility system for Axtell and 1,479 for EOL. Any amount over 250 days is considered to be a very high level of liquidity.

The financial management of the Member utility systems is adequate. The Members maintain strong levels of unrestricted cash on hand and are projected to maintain a household cost factor that is close to the industry benchmark. Furthermore, the Members are working with FHLM to improve the overall health of the regional system. The mix of average socioeconomic factors, high level of liquidity, and strong financial sustainability indicators further support the assigned risk score of 2B for both Axtell and EOL.

LEGAL

Key Issues

None.

Conditions

Standard Drinking Water State Revolving, taxable, contract revenue conditions and further conditioned as follows:

- Executed Principal Forgiveness Agreement;
- Return of Unused Principal Forgiveness Funds;
- Conversion and Conveyance;
- Executed Loan Agreement;
- Executed Water Supply Contract with the City of Waco;
- Water Rights Certification; and
- Useful life certification.

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

Project Data Summary

Responsible Authority	FHLM Regional Water Supply Corporation
Program	Drinking Water State Revolving Fund
Commitment Code	L1001015 & LF1001016
Project Number	51060
Intended Use Plan Year	2019
Type of Pledge	4- Contract Revenue and Mortgage Lien on System
Revenue Pledge Level	First
Legal Description	\$8,170,000 FHLM Regional Water Supply Corporation Loan Agreement and \$500,000 Principal Forgiveness Agreement
Tax-exempt or Taxable	Taxable
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay = Escrow
Population	3,411
Rural	Yes
Water Connections	Axtell 595 and EOL 638
Wastewater Connections	0
Qualifies as Disadvantaged	No
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, Acquisition, Design, and Construction
Pre-Design	Yes
Project Consistent with Water Plan	Yes
Water Conservation Plan	Adopted
Water Rights Certification Required	Yes
Internal Risk Score	2B
External Ratings (for SRF rates)	
Standard and Poor's	Non-Rated
Moody's	Non-Rated
Fitch	Non-Rated
Special Issues	Zero Percent Loan

Project Team

Team Manager	Caaren Skrobarczyk
Financial Analyst	Lina Linehan
Engineering Reviewer	Connie Townsend
Environmental Reviewer	Chris Caran
Attorney	Joe Reynolds

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
FHLM Water Supply Corporation

\$8,170,000 FHLM Regional Water Supply Corporation, Loan Agreement

Dated Date:	2/1/2020	Source:	DWSRF
Delivery Date:	2/1/2020	Rate:	0.00%
First Interest:	6/1/2020	IUP Year:	2019
First Principal:	12/1/2020	Case:	Contract Revenue
Last Principal:	12/1/2049	Admin.Fee:	\$171,958
Fiscal Year End:	12/31	Admin. Fee Payment Date:	12/1/2019
Required Coverage:	1.0		

FISCAL YEAR	PROJECTED NET SYSTEM REVENUES	CURRENT DEBT SERVICE	\$8,170,000 ISSUE				TOTAL DEBT SERVICE	COVERAGE
			PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT		
2020	\$270,000	\$0	\$270,000	-	\$0	\$270,000	\$270,000	1.00
2021	270,000	-	270,000	-	-	270,000	270,000	1.00
2022	270,000	-	270,000	-	-	270,000	270,000	1.00
2023	270,000	-	270,000	-	-	270,000	270,000	1.00
2024	270,000	-	270,000	-	-	270,000	270,000	1.00
2025	270,000	-	270,000	-	-	270,000	270,000	1.00
2026	270,000	-	270,000	-	-	270,000	270,000	1.00
2027	270,000	-	270,000	-	-	270,000	270,000	1.00
2028	270,000	-	270,000	-	-	270,000	270,000	1.00
2029	270,000	-	270,000	-	-	270,000	270,000	1.00
2030	270,000	-	270,000	-	-	270,000	270,000	1.00
2031	270,000	-	270,000	-	-	270,000	270,000	1.00
2032	270,000	-	270,000	-	-	270,000	270,000	1.00
2033	270,000	-	270,000	-	-	270,000	270,000	1.00
2034	270,000	-	270,000	-	-	270,000	270,000	1.00
2035	270,000	-	270,000	-	-	270,000	270,000	1.00
2036	270,000	-	270,000	-	-	270,000	270,000	1.00
2037	270,000	-	270,000	-	-	270,000	270,000	1.00
2038	270,000	-	270,000	-	-	270,000	270,000	1.00
2039	270,000	-	270,000	-	-	270,000	270,000	1.00
2040	270,000	-	270,000	-	-	270,000	270,000	1.00
2041	270,000	-	270,000	-	-	270,000	270,000	1.00
2042	270,000	-	270,000	-	-	270,000	270,000	1.00
2043	270,000	-	270,000	-	-	270,000	270,000	1.00
2044	270,000	-	270,000	-	-	270,000	270,000	1.00
2045	270,000	-	270,000	-	-	270,000	270,000	1.00
2046	270,000	-	270,000	-	-	270,000	270,000	1.00
2047	270,000	-	270,000	-	-	270,000	270,000	1.00
2048	270,000	-	270,000	-	-	270,000	270,000	1.00
2049	340,000	-	340,000	-	-	340,000	340,000	1.00
		\$0	\$8,170,000		\$0	\$8,170,000	\$8,170,000	

AVERAGE (MATURITY) LIFE	15.62 YEARS
NET INTEREST RATE	0.000%
COST SAVINGS	\$5,814,036
AVERAGE ANNUAL REQUIREMENT	\$272,333

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.



**FHLM Regional WSC
51060 McLennan County Regional Arsenic Mitigation
Engineering and Environmental Review**

Engineering:

Key Issues:

FHLM Regional Water Supply Corporation (FHLM) will be the wholesale surface water supplier to Axtell Water Supply Corporation (Axtell) and Elk Oak Lake Water Supply Corporation (EOL).

Project Need/Description

Need: Two of FHLM's member water supply corporations located in McLennan County, Axtell and EOL, obtain their existing groundwater supplies from the Trinity Aquifer. Their wells are in violation for exceeding the Environmental Protection Agency (EPA) and Texas Commission on Environmental Quality (TCEQ) maximum contaminant level allowed for arsenic and both entities are under court order to mitigate their arsenic contamination.

Description: FHLM proposes to construct an Arsenic Mitigation project for two of their member entities, Axtell and EOL. To decrease the arsenic contamination to levels below the maximum contaminant level allowed by the EPA and TCEQ, the project will blend treated surface water purchased from the City of Waco with existing groundwater supplies. This will require construction of approximately 14 miles of water transmission pipelines and distribution mains as well as four new pump stations in order to transport the treated surface, blend with the member WSCs' groundwater supplies, and sent to member WSCs' existing pump station plants for distribution.

Project Schedule:

Project Task	Schedule Date
Closing	2/1/2020
Engineering Feasibility Report Completion (End of Planning Phase)	11/1/2020
Design Phase Complete	5/1/2021
Start of Construction	8/1/2021
Construction Completion	2/1/2022

Environmental Section:

Key Issues:

None known at this time.

Environmental Summary:

Pursuant to the requirements of 31 Texas Administrative Code Chapter 371, Subchapter E, all financial assistance shall be conditioned that funding for acquisition, 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

FHLM Regional WSC
 DWSRF Project No. 51060
 McLennan Co. Arsenic Mitigation

Budget Items	TWDB Funds	Total
Construction		
Construction	\$6,910,000.00	\$6,910,000.00
Subtotal for Construction	\$6,910,000.00	\$6,910,000.00
Basic Engineering Services		
Planning	\$200,000.00	\$200,000.00
Design	\$274,600.00	\$274,600.00
Construction Engineering	\$50,000.00	\$50,000.00
Subtotal for Basic Engineering Services	\$524,600.00	\$524,600.00
Special Services		
Application	\$12,000.00	\$12,000.00
Environmental	\$75,000.00	\$75,000.00
Geotechnical	\$10,000.00	\$10,000.00
Inspection	\$92,000.00	\$92,000.00
O&M Manual	\$15,000.00	\$15,000.00
Permits	\$21,692.00	\$21,692.00
Project Management (by engineer)	\$10,000.00	\$10,000.00
Surveying	\$15,000.00	\$15,000.00
Water Distribution Modeling	\$8,000.00	\$8,000.00
Subtotal for Special Services	\$258,692.00	\$258,692.00
Other		
Land/Easements Acquisition	\$125,000.00	\$125,000.00
Subtotal for Other	\$125,000.00	\$125,000.00
Fiscal Services		
Financial Advisor	\$25,000.00	\$25,000.00
Bond Counsel	\$50,000.00	\$50,000.00
Issuance Costs	\$15,000.00	\$15,000.00
Fiscal/Legal	\$10,000.00	\$10,000.00
Loan Origination Fee	\$171,958.00	\$171,958.00
Subtotal for Fiscal Services	\$271,958.00	\$271,958.00
Contingency		
Contingency	\$579,750.00	\$579,750.00
Subtotal for Contingency	\$579,750.00	\$579,750.00
Total	\$8,670,000.00	\$8,670,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE TO
FHLM REGIONAL WATER SUPPLY CORPORATION
FROM THE DRINKING WATER STATE REVOLVING FUND
THROUGH THE PROPOSED PURCHASE OF
A PROMISSORY NOTE IN THE AMOUNT OF \$8,170,000 AND EXECUTION OF A LOAN
AGREEMENT AND \$500,000 IN PRINCIPAL FORGIVENESS

(19 -)

WHEREAS, the FHLM Regional Water Supply Corporation (Corporation), located in Falls, Hill, Limestone, and McLennan Counties has filed an application for financial assistance in the amount of \$8,670,000 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. 51060; and

WHEREAS, the Corporation seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of a Promissory Note in the amount of \$8,170,000 and execution of a Loan Agreement and \$500,000 in Principal Forgiveness, all as is more specifically set forth in the application and in recommendations of the TWDB's staff; and

WHEREAS, the Corporation has offered a pledge of a first lien on contract revenues and a mortgaged deed of trust on the Corporation's 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 Corporation will be sufficient to meet all the Obligations assumed by the Corporation, 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 Corporation 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); and
5. that the project qualifies as an Urgent Need project in accordance with the applicable Intended Use Plan and 31 TAC § 371.21(f) and is eligible for principal forgiveness in the amount of \$500,000.

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

A commitment is made by the TWDB to the FHLM Regional Water Supply Corporation for financial assistance in the amount of \$8,670,000 from the Drinking Water State Revolving Fund through the TWDB's proposed purchase of a Promissory Note in the amount of \$8,170,000 and execution of a Loan Agreement and \$500,000 in Principal Forgiveness. This commitment will expire on June 30, 2020.

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. prior to closing, the Corporation must submit to the Executive Administrator an attorney's opinion confirming the legal authority for the Corporation to incur the Obligations that is acceptable to the Executive Administrator;
3. this commitment is contingent upon the Corporation's compliance with all applicable requirements contained in 31 TAC Chapter 371;
4. the Obligations must provide that the Corporation may prepay all or part of the amounts of principal and interest then due on the loan on any regularly scheduled payment date as specified in the Repayment Schedule, as revised, beginning no earlier than the first interest payment date that is 10 years from the date of the first delivery of funds from the TWDB to the Corporation pursuant to this Agreement;
5. the Corporation, 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 Corporation'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 Corporation's Obligations, if the TWDB sells or otherwise transfers such Obligations, and the beneficial owners of the TWDB's bonds if the Corporation is an obligated person with respect to such bonds under SEC Rule 15c2-12;

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

12. prior to closing, the Corporation 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 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 under 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 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;
15. the Executive Administrator may require that the Corporation execute a separate financing agreement in form and substance acceptable to the Executive Administrator;
16. the TWDB retains the option to purchase the Obligations in separate lots and/or on an installment basis, with delivery of the purchase price for each installment to be paid against delivery of the relevant installment of Obligations as approved by the Executive Administrator;

State Revolving Fund Conditions

17. the Corporation shall submit outlay reports with sufficient documentation on costs on a quarterly or monthly basis in accordance with TWDB outlay report guidelines;
18. 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 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;

19. the Obligations 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 which the Obligations are outstanding;
20. 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 Corporation will adhere to the approved project schedule;
21. The Obligations and 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

22. prior to or at closing, the Corporation shall pay an origination fee approved by the Executive Administrator of the TWDB pursuant to 31 TAC Chapter 371 and the applicable Intended Use Plan;
23. 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 Axtell Water Supply Corporation and Elk Oak Lake Water Supply Corporation have demonstrated the necessary financial, managerial, and technical capabilities to proceed with the project or projects to be funded with the proceeds of these Obligations;
24. 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;

Water Supply Corporation Conditions

25. the Corporation's indebtedness to the TWDB shall be evidenced by loans specifically secured by:
 - a. a first or parity lien on the contract revenues of the Corporation's water system (System); and
 - b. a first or parity lien mortgage on the System;
26. upon closing or within 20 days after closing, the Corporation must file a Deed of Trust with the County Clerk of the county in which the property is located, as required by Business and Commerce Code, Chapter 9, or a Utility Security Instrument with the Secretary of State's Office and corresponding notice with the County Clerk, as required by Business and Commerce Code, Chapter 261, as evidence of the TWDB's security interest in the Corporation's System. Within thirty (30) days of the date of each filing, the Corporation shall submit a copy of the recorded instrument to the TWDB;
27. upon closing or within 20 days after closing, the Corporation must file a security instrument with the Secretary of State's Office, as required by Business and Commerce Code, Chapter 9 or Chapter 261 to evidence the TWDB's security interest in any personal property directly related to water supply and/or sewer service, owned or to be acquired by the Corporation. A copy of the recorded security instrument shall be submitted by the Corporation to the TWDB within thirty (30) days of its filing with the Secretary of State's Office;
28. prior to closing, the Corporation must obtain a commitment from a title insurance company in accordance with the standards established by the Texas Department of Insurance, resulting in the issuance of a mortgagee title insurance policy on the property owned in fee simple, upon which the TWDB will be given a first or parity lien mortgage. A copy of the mortgagee title insurance policy shall be submitted to the TWDB within thirty (30) days of its execution;
29. prior to closing, the Corporation must cure any defects or liens upon the property listed in Schedule C of the title insurance company commitment that the Executive Administrator deems necessary;
30. prior to release of funds for construction, the Corporation must provide the TWDB with evidence that the necessary acquisitions of land, leases, easements, and rights-of-way have been completed, or that the Corporation has the legal authority necessary to complete the acquisitions;

31. prior to closing, the Corporation must submit to the Executive Administrator evidence that the Corporation's bylaws have been amended to include the following requirements:
 - a. as long as the Corporation is indebted for a loan or loans made by or through the TWDB, the bylaws shall not be altered, amended or repealed without the prior written consent of the Executive Administrator; and
 - b. the Corporation is a nonprofit Corporation; no part of the income of the Corporation will be distributed to the Corporation's members, directors, or officers;
32. prior to closing, if the Corporation is pledging a lien on real property that is to be on parity with a lien or liens on real property securing debt that will remain outstanding after closing the TWDB's loan, then the Corporation must execute a Parity Agreement with each entity that holds such debt that is acceptable in form and substance to the Executive Administrator; and
33. the Obligations shall include a special covenant prohibiting the Corporation from encumbering, pledging or otherwise impairing the revenues of the System in any manner with respect to the payment of any Obligations or with respect to any liability, except for the payment of the following: (1) maintenance and operating expenses payable within the current fiscal year with current revenues; and (2) additional debt, and that the Corporation shall in no way encumber, pledge or otherwise impair its title to the land used by or for the System or any interests therein, including improvements and facilities of the System, without prior TWDB approval;

Pledge Conditions for the Loan

34. upon request by the Executive Administrator, the Corporation shall submit annual audits of contracting parties for the Executive Administrator's review;
35. the Obligations must contain a provision requiring the Corporation to maintain and enforce the contracts with its customers so that revenues paid to the Corporation by its customers are sufficient to meet the revenue requirements of the Corporation's obligations arising from the operation of the water system;
36. the Obligations must contain a provision that the pledged contract revenues from the Corporation may not be pledged to the payment of any additional parity obligations of the Corporation secured by a pledge of the same contract revenues unless the Corporation demonstrates to the Executive Administrator's satisfaction that the pledged contract revenues will be

sufficient for the repayment of all Obligations and additional parity obligations;

37. prior to closing, the Corporation must submit executed contracts between the Corporation and the contracting parties regarding the contract revenues pledged to the payment of the Corporation's Obligations, in form and substance acceptable to the Executive Administrator. Such contracts shall include provisions consistent with the provisions of this Resolution regarding the contracting parties' annual audits, the setting of rates and charges and collection of revenues sufficient to meet the Corporation's debt service obligations and additional parity obligations;

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 Corporation 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 Corporation has the right to use the water that the project financed by the TWDB will provide;
40. prior to closing, the Corporation must submit an executed contract between the Corporation and the City of Waco for the supply of water in an amount sufficient to provide the contracting parties, in form and substance acceptable to the Executive Administrator;
41. prior to the release of funds, the Corporation 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;
42. 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;
43. the Obligations must include a provision requiring that the Corporation notify the Executive Administrator in writing prior to any action by it to convey its

Obligations held by the TWDB to another entity, the conveyance and the assumption of the Obligations must be approved by the TWDB;

44. prior to closing, the Corporation shall execute a Principal Forgiveness Agreement in a form and substance acceptable to the Executive Administrator; and
45. the Principal Forgiveness Agreement must include a provision stating that the Corporation shall return any principal forgiveness funds that are determined to be surplus funds in a manner determined by the Executive Administrator.

APPROVED and ordered of record this 19th day of December, 2019.

TEXAS WATER DEVELOPMENT BOARD

Peter M. Lake, Chairman

DATE SIGNED: _____

ATTEST:

Jeff Walker, Executive Administrator

WATER CONSERVATION REVIEW

Entity: _____

Review date: _____

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

	Total GPCD	Residential GPCD	Water Loss GPCD	Water Loss Percent
Baseline				
5-year Goal				
10-year Goal				

WATER LOSS AUDIT YEAR:

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

WATER LOSS THRESHOLDS:

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

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

ADDITIONAL INFORMATION:

STAFF NOTES AND RECOMMENDATIONS:

DEFINITIONS

Adopted refers to a water conservation plan that meets the minimum requirements of the water conservation plan rules and has been formally approved and adopted by the applicant's governing body.

Apparent loss refers to unauthorized consumption, meter inaccuracy, billing adjustments, and waivers.

Approvable refers to a water conservation plan that substantially meets the minimum requirements of the water conservation plan rules but has not yet been adopted by the applicant's governing body.

Best Management Practices are voluntary efficiency measures that save a quantifiable amount of water, either directly or indirectly, and that can be implemented within a specific time frame.

GPCD means gallons per capita per day.

Infrastructure Leakage Index (ILI) is the current annual real loss divided by the unavoidable annual real loss (theoretical minimum real loss) and only applies to utilities with more than 5,000 connections, average pressure greater than 35 psi, and a connection density of more than 32 connections per mile. The **ILI** is recommended to be less than 3 if water resources are greatly limited and difficult to develop, between 3 and 5 if water resources are adequate to meet long-term needs but water conservation is included in long-term water planning, and between 5 and 8 if water resources are plentiful, reliable, and easily extracted. The **ILI** is recommended as a benchmarking tool, but until there is increased data validity of the variables used in the calculation, the **ILI** should be viewed with care.

NA means not applicable.

Produced water is the total amount of water purchased or produced by the utility.

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

Residential GPCD is the amount of water per capita used solely for residential use and ideally includes both single and multi-family customer use.

Total baseline GPCD is the amount of all water purchased or produced by the utility divided by the service area population and then divided by 365.

Total water loss is the sum of the apparent and real water losses.

Water loss is the difference between the input volume and the authorized consumption within a water system. Water Loss consists of real losses and apparent losses.

Water Loss Thresholds are levels of real and apparent water loss determined by the size and connection density of a retail public utility, at or above which a utility receiving financial assistance from the Texas Water Development Board must use a portion of that financial assistance to mitigate the utility's system water loss.



FHLM Regional WSC McLennan County

