

TO: Board Members

THROUGH: Jeff Walker, Executive Administrator
Joe Reynolds, Interim General Counsel
Jessica Zuba, DEA, Water Supply & Infrastructure

FROM: Kimberly Rhodes, State Programs Coordinator, Program Administration

DATE: April 2, 2020

SUBJECT: State Water Implementation Fund for Texas
2020 Funding Cycle Prioritization and Structure

ACTION REQUESTED

Consider approving the 2020 State Water Implementation Fund for Texas (SWIFT) program prioritization list, amount of funds available by category, and terms of subsidy.

BACKGROUND

The SWIFT program was created in 2013 by the Texas legislature to provide financial assistance to communities to develop adequate water supplies during times of drought. The program supports funding of water supply projects in the state water plan and includes two funds, SWIFT and the State Water Implementation Revenue Fund for Texas (SWIRFT). Bonds for the program are issued through SWIRFT.

To date, the Texas Water Development Board (TWDB) has committed over \$8.0 billion in SWIFT program funding in support of 54 recommended water management strategy projects estimated to produce approximately 1.5 million acre-feet of water supply. Program participants are estimated to save over \$1 billion compared to market interest rate financing.

2020 SWIFT FUNDING CYCLE

The funding cycle was opened on December 2, 2019 with the solicitation of abridged applications that were due on February 3, 2020. Pursuant to 31 Texas Administrative Code (TAC) §363.1303, the Executive Administrator (EA) is required to provide a prioritization of abridged applications to the Board for approval as soon as practicable following the receipt of abridged applications, as well as the amount of funds requested by the applicants. The Board is then required to identify the amount of funds available by funding

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category, establish the structure of financing, the terms of any subsidy, and consider abridged applications according to the prioritization criteria outlined in 31 TAC §363.1304.

Ten abridged applications were received prior to the deadline requesting a total of \$1,264,560,000. Based on review of all abridged applications received and follow up with applicants, nine of the water management strategy projects are considered eligible and have been prioritized for the 2020 SWIFT cycle, as shown in Attachment 1 for a total eligible amount of \$1,259,560,000.

TWDB rules require complete applications to be submitted within 30 days after the date of the Board meeting at which the applicant's project received priority for funding during the abridged application process. Should the Board approve the EA's recommendations contained herein, complete applications for financial assistance will be due May 11, 2020.

PRIORITIZATION AND AMOUNT OF FUNDS REQUESTED

Pursuant to rule, 31 TAC §363.1304, the prioritization criteria were applied to the abridged applications as follows:

Highest Consideration (Max Points: 50)	Additional Consideration (Max Points: 50)
<ul style="list-style-type: none">• Serves a large population (30)• Assists a diverse urban/rural population (30)• Provides regionalization (30)• Meets high percentage of water users' needs (30)	<ul style="list-style-type: none">• Local financial contribution (5)• Financial capacity to repay (2)• Emergency need for the project (5)• Readiness to proceed with the project (8)• Effect on water conservation (15)• Priority given by regional water planning group (15)

Multi-year commitments continue to be a popular and effective option for SWIFT borrowers, because they accommodate the financing needs associated with long-term projects and assist the TWDB with strategic planning for financial purposes. Of the nine prioritized projects, five applicants requested multi-year commitments and provided a schedule showing projected need in future years.

Each year, entities with existing multi-year commitments are asked to confirm their schedules or, if warranted, request changes to better align existing commitments with project schedules. Two entities requested adjustments to their schedules with no change in their 2020 obligation closings. Two other entities requested to increase their total project commitment amounts and both submitted abridged applications with requests for the additional funding.

Based on the prioritized list of potential new applicants and existing commitment adjustments, the total requested to close in Fall 2020 is estimated at \$1,094,935,000 as follows:

Fall 2020 Closings Requested

Existing multi-year commitments	\$535,525,000	Previous amount scheduled to close in 2020
	\$0	Net requested changes to existing commitment closing schedules
2020 Abridged Apps	\$559,410,000	Amount requested to close in 2020
Total	\$1,094,935,000	

FINANCING STRUCTURE AND TERMS OF SUBSIDY

After review of the new funding requests, existing commitments, and evaluation of the long-term SWIFT program capacity, the EA recommends the program structure and terms remain the same as the last funding cycle.

Low-Interest Obligations (No change from previous cycle)

Term	Low-Interest Obligations Standard Subsidy		Low-Interest Rural/Agriculture	
	Tax-Exempt	Taxable	Tax-Exempt	Taxable
20 Years	35%	28%	50%	40%
21-25 Years	25%	20%	34%	27%
26-30 Years	20%	16%	27%	22%

Rural and Agricultural (No change from previous cycle)

Entities qualifying for the Rural/Agricultural interest rate subsidy are those which:

- Meet the definition of agricultural water conservation or irrigation project, or
- Serve a population of 10,000 or less, and fall entirely outside of urbanized areas as those areas are defined by the most recent available U.S. Census.

Deferred Obligations (No change from previous cycle)

- Deferral on interest and principal payments of up to eight years
- Obligation terms up to 30 years
- No interest rate subsidy

Board Participation (No change from previous cycle)

- No interest rate subsidy. Applicant benefits through a combination of non-level debt service, payment deferrals, and repayment of deferred interest on a simple interest basis.

Multi-year Commitments (No change from previous cycle)

- Limit multi-year commitments to no more than five years.
- First year of the multi-year request must include funds to be closed.
- Once committed, subsidies are recommended to be locked in through the end of the following State Fiscal Year only.

Interest rates are set at the time of closing and are based upon the TWDB cost of funds less the applicable subsidy.

FUNDING CAPACITY

To analyze SWIFT funding capacity for this prioritization cycle, the EA considered the long-term funding capacity of the program, existing funding commitments, and new funding requests. SWIFT’s funding capacity is actively managed to achieve the previously established \$27 billion funding target while ensuring continued capacity for new commitments. It is intended that the funding analysis will continue to be regularly updated to reflect current market earnings and interest rate conditions, account for all committed projects, and consider a range of possible future scenarios.

Based on this analysis, the EA has determined that sufficient funding capacity exists to:

- 1) accommodate new 2020 SWIFT requests, based on their submitted multi-year commitment schedules,
- 2) fund existing multi-year closings, and
- 3) accommodate changes to the amounts closing in future years under existing multi-year commitments.

IMPLEMENTATION

Below is a proposed schedule for the ongoing implementation of the SWIFT program.

April 9, 2020	<ul style="list-style-type: none">• Board considers approving prioritization of abridged applications• Board identifies amount of funds available by category, establishes the structure of financing and subsidy terms• Invitations extended to submit complete applications for financial assistance
May 11, 2020	<ul style="list-style-type: none">• Entities submit complete applications
Summer 2020	<ul style="list-style-type: none">• Board considers approval of complete applications• Board authorizes TWDB bond sale, selects co-managing underwriters and approves a not-to-exceed amount• Execution of Financing Agreements with borrowers
Fall 2020	<ul style="list-style-type: none">• TWDB bond sale• Board sets interest rates• Funds Transfer Agreement ratification
Winter 2020	<ul style="list-style-type: none">• TWDB bond closing• Borrowers’ closings

RECOMMENDATION

Based on the above analysis, the EA recommends Board approval of:

- 1) Prioritization of 2020 SWIFT program abridged applications as set forth in Attachment No. 1.
- 2) Authorization of approximately \$1,259,560,000 in funding for the 2020 SWIFT prioritization cycle and funding by category as set forth in Attachment No. 1.
- 3) Authorization of program structure and terms of funding as described previously.

- 4) Accommodating requested shifts in closing amounts under existing multi-year commitments with no change in those amounts for calendar year 2020. Each change for future years must be approved by Board resolution at a later date.

After receipt of the complete applications, the EA will review and recommend projects for funding commitments. The total funding amounts and timing requested may change from the above numbers prior to the time of Board consideration as a result of staff review. Should there be any changes, the EA will detail the differences and make recommendations to the Board based on these changes.

Attachment 1: 2020 SWIFT Program Abridged Applications - Prioritizations



State Water Implementation Fund for Texas
2020 Abridged Applications - Prioritizations

Score*	Entity Name	Project Name	Total Eligible Amount	Type of funding requested			SWIFT closing year											Agriculture	Conservation	Reuse	Rural		
				Low-Interest Obligation	Deferred Obligation	Board Participation	Fall 2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030						
80	Upper Trinity Regional Water District	Lake Ralph Hall Reservoir	\$ 15,000,000	\$ -	\$ 15,000,000	\$ -	\$ 15,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
80	Upper Trinity Regional Water District	Lake Ralph Hall Reservoir	\$ 398,000,000	\$ -	\$ -	\$ 398,000,000	\$ 200,000,000	\$ -	\$ 150,000,000	\$ 48,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
19	City of Nassau Bay	Southeast Transmission Line	\$ 1,985,000	\$ 1,985,000	\$ -	\$ -	\$ 1,985,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
68	Alliance Regional Water Authority	Hays-Caldwell Groundwater Project - Phase 1B	\$ 65,000,000	\$ 65,000,000	\$ -	\$ -	\$ 27,000,000	\$ 38,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
80	Houston, City of	Houston - SS Phase I	\$ 38,000,000	\$ 38,000,000	\$ -	\$ -	\$ 38,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
74	Houston, City of	North East Water Purification Plant Expansion	\$ 412,000,000	\$ 412,000,000	\$ -	\$ -	\$ 250,000,000	\$ 162,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
69	Gulf Coast Water Authority	Southeast Transmission Line	\$ 45,000,000	\$ 45,000,000	\$ -	\$ -	\$ 1,000,000	\$ 5,000,000	\$ 20,000,000	\$ 19,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
76	Brazosport Water Authority	DOW Reservoir and Pump Station Expansion	\$ 15,000,000	\$ -	\$ 15,000,000	\$ -	\$ 15,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
73	Corpus Christi	Seawater Desalination Plant	\$ 222,475,000	\$ 222,475,000	\$ -	\$ -	\$ 11,425,000	\$ 211,050,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
70	Guadalupe Blanco River Authority	Carizzo Groundwater Supply Project	\$ 10,654,350	\$ 10,654,350	\$ -	\$ -	\$ -	\$ 10,654,350	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
70	Guadalupe Blanco River Authority	Carrizo Groundwater Supply Project	\$ 735,000	\$ -	\$ 735,000	\$ -	\$ -	\$ 735,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
70	Guadalupe Blanco River Authority	Carrizo Groundwater Supply Project	\$ 35,710,650	\$ -	\$ -	\$ 35,710,650	\$ -	\$ 35,710,650	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
			\$ 1,259,560,000	\$ 795,114,350	\$ 30,735,000	\$ 433,710,650	\$ 559,410,000	\$ 463,150,000	\$ 170,000,000	\$ 67,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				

* Tie scores are priority ranked according to the conservation and emergency criteria, where applicable. The SWIFT program includes two funds, the State Water Implementation Fund for Texas (SWIFT) and the State Water Implementation Revenue Fund for Texas (SWIRFT). Bonds for the program are issued through SWIRFT.

Existing Multi-Year Commitments	\$ 535,525,000	\$ 197,495,000	\$ 120,265,000	\$ 103,130,000	\$ 143,450,000	\$ 23,185,000	\$ 58,205,000	\$ 45,900,000	\$ 183,895,000	\$ 72,790,000	\$ 77,605,000
Net Requested Changes to Multi-Year Commitments	\$ -	\$ 5,260,000	\$ (9,260,000)	\$ -	\$ 4,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Existing Multi-Year Commitments (with requested changes)	\$ 535,525,000	\$ 202,755,000	\$ 111,005,000	\$ 103,130,000	\$ 147,450,000	\$ 23,185,000	\$ 58,205,000	\$ 45,900,000	\$ 183,895,000	\$ 72,790,000	\$ 77,605,000
Grand Total of All Proposed Commitments by Year	\$ 1,094,935,000	\$ 665,905,000	\$ 281,005,000	\$ 170,130,000	\$ 147,450,000	\$ 23,185,000	\$ 58,205,000	\$ 45,900,000	\$ 183,895,000	\$ 72,790,000	\$ 77,605,000