

AGENDA ITEM MEMO

BOARD MEETING DATE: April 8, 2021

TO: Board Members

THROUGH: Jeff Walker, Executive Administrator
Ashley Harden, General Counsel
Rebecca Trevino, Chief Financial Officer
Jessica Zuba, DEA, Water Supply & Infrastructure

FROM: Alyssa Azari, State Programs Coordinator, Program Administration

SUBJECT: State Water Implementation Fund for Texas
2021 Funding Cycle Prioritization and Structure

ACTION REQUESTED

Consider approving the 2021 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 approximately \$9 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 have saved over \$1 billion compared to market interest rate financing.

2021 SWIFT FUNDING CYCLE

At the Board meeting held December 3, 2020, the Executive Administrator (EA) presented a preliminary, proposed financing structure for the 2021 SWIFT funding cycle and recommended the 2021 funding cycle utilize projects in the approved 2021 Regional Water

Our Mission

Leading the state's efforts in ensuring a secure water future for Texas and its citizens

Board Members

Peter M. Lake, Chairman | Kathleen Jackson, Board Member | Brooke T. Paup, Board Member
Jeff Walker, Executive Administrator

Plans and the pending 2022 State Water Plan. The funding cycle opened December 3, 2020 with the solicitation of abridged applications that were due on February 1, 2021.

Pursuant to 31 Texas Administrative Code (TAC) §363.1303, the EA provides a prioritization of abridged applications to the Board for approval. The Board is required to identify the amount of funds available by funding 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.

Nine abridged applications were received prior to the deadline requesting a total of \$335,095,000 (after rounding). Based on review of all abridged applications received and follow up with applicants, all of the water management strategy projects are considered eligible and have been prioritized for the 2021 SWIFT cycle, as shown in Attachment 1, for a total eligible amount of \$335,095,000.

The 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 10, 2021.

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, four 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. Several entities requested adjustments to their schedules resulting in a net decrease in 2021 obligation closings of \$245,080,000.

Based on the prioritized list of potential new applicants and existing commitment adjustments, the total requested to close in Fall 2021 is estimated at \$585,150,000 as follows:

Fall 2021 Closings Requested

Existing multi-year commitments	\$634,560,000	Previous amount scheduled to close in 2021
	(\$245,080,000)	Net requested changes to existing commitment closing schedules
2021 Abridged Apps	\$195,670,000	Amount requested to close in 2021 (after rounding) of total new prioritized amount of \$335,095,000
Total	\$585,150,000	

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, with the exception of the standard subsidies for low-interest obligations.

As presented to the Board on December 3, 2020, changes in interest rate subsidies based on the June 2020 TWDB Resolution 20-055 (Attachment 2) are intended to enhance the long-term financial stability of the program and optimize the program’s capacity to finance future State Water Plan projects. These changes will take effect for the 2021 SWIFT funding cycle and remain in place indefinitely, subject to periodic review and reassessment by the Board.

Standard Subsidy for Low-Interest Obligations

Term	Tax-Exempt	Taxable
20 Years	25%	20%
21-25 Years	18%	14%
26-30 Years	14%	10%

***Standard Subsidy for Rural/Agricultural Low-Interest Obligations
(No change from previous cycle)***

Term	Tax-Exempt	Taxable
20 Years	50%	40%
21-25 Years	34%	27%
26-30 Years	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 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 2021 SWIFT requests, based on their submitted multi-year commitment schedules,
- 2) fund existing multi-year closings, and
- 3) accommodate changes to the amount closing in calendar year 2021 under existing multi-year commitments.

IMPLEMENTATION

Below is a proposed schedule for the 2021 SWIFT funding cycle:

April 8, 2021	<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 10, 2021	<ul style="list-style-type: none">• Complete Applications due to the TWDB
Prior to Commitments	<ul style="list-style-type: none">• Board to Adopt the 2022 State Water Plan
Summer 2021	<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 2021	<ul style="list-style-type: none">• TWDB bond sale• Board sets interest rates• Funds Transfer Agreement ratification
Winter 2021	<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 2021 SWIFT program abridged applications as set forth in Attachment 1.
- 2) Authorization of approximately \$335,095,000 in funding for the 2021 SWIFT prioritization cycle and funding by category as set forth in Attachment 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 for a net decrease of \$245,080,000 in calendar year 2021, each of which is to 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.

- Attachments
- 1) 2021 SWIFT Program Abridged Applications – Prioritizations
 - 2) TWDB Resolution 20-055



State Water Implementation Fund for Texas
2021 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 2021	2022	2023	2024	2025	2026	2027	2028	2029	2030				
84	Upper Trinity Regional Water District	Regional Treated Water System Northeast Transmission Pipelines (Phases 1-6) and Loop	\$ 29,115,000	\$ -	\$ -	\$ 29,115,000	\$ 2,120,000	\$ 4,760,000	\$ 6,635,000	\$ 8,020,000	\$ 7,580,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
83	Brushy Creek Regional Utility Authority	Brushy Creek Regional Utility Authority Phase II	\$ 202,010,000	\$ 202,010,000	\$ -	\$ -	\$ 118,380,000	\$ 40,000,000	\$ 43,630,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
78	Vernon	Odell-Winston Wellfield Pipeline	\$ 12,000,000	\$ 12,000,000	\$ -	\$ -	\$ 12,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		x	
63	Fulshear	Water User Group Infrastructure Expansion - Fulshear	\$ 10,710,000	\$ 10,710,000	\$ -	\$ -	\$ 10,710,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
43	McAllen	McAllen Citywide AMI/AMR Infrastructure Upgrade Project	\$ 20,135,000	\$ 20,135,000	\$ -	\$ -	\$ 20,135,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		x	
39	Hidalgo County Irrigation District #6	Hidalgo County Irrigation District #6 Service Area Expansion	\$ 19,285,000	\$ 19,285,000	\$ -	\$ -	\$ 4,725,000	\$ -	\$ -	\$ 14,560,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
35	Hidalgo County Irrigation District #6	Hidalgo County Irrigation District #6 Conservation	\$ 16,165,000	\$ 16,165,000	\$ -	\$ -	\$ 1,925,000	\$ -	\$ 3,740,000	\$ 6,000,000	\$ 4,500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		x	x
29	White Settlement	Conservation, Water Loss Control	\$ 675,000	\$ 675,000	\$ -	\$ -	\$ 675,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		x	
18	Mission	Mission Brackish Groundwater Desalination Plant	\$ 25,000,000	\$ 25,000,000	\$ -	\$ -	\$ 25,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
			\$ 335,095,000	\$ 305,980,000	\$ -	\$ 29,115,000	\$ 195,670,000	\$ 44,760,000	\$ 54,005,000	\$ 28,580,000	\$ 12,080,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			

<i>Existing Multi-Year Commitments</i>	\$ 634,560,000	\$ 221,005,000	\$ 151,130,000	\$ 147,450,000	\$ 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	\$ (245,080,000)	\$ 313,395,000	\$ (30,455,000)	\$ (26,320,000)	\$ (11,540,000)	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Existing Multi-Year Commitments (with requested changes)</i>	\$ 389,480,000	\$ 534,400,000	\$ 120,675,000	\$ 121,130,000	\$ 11,645,000	\$ 58,205,000	\$ 45,900,000	\$ 183,895,000	\$ 72,790,000	\$ 77,605,000
Grand Total of All Proposed Commitments by Year	\$ 585,150,000	\$ 579,160,000	\$ 174,680,000	\$ 149,710,000	\$ 23,725,000	\$ 58,205,000	\$ 45,900,000	\$ 183,895,000	\$ 72,790,000	\$ 77,605,000

* 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.

**A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
ESTABLISHING PARAMETERS REGARDING FUTURE MANAGEMENT OF
THE STATE WATER IMPLEMENTATION FUND FOR TEXAS PROGRAM**

(20-055)

WHEREAS, on March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization; and

WHEREAS, a continued spread of the COVID-19, and measures taken to prevent or reduce it, are adversely affecting state, national and global economic activities; and

WHEREAS, the State Water Implementation Fund for Texas (SWIFT) Program has successfully financed and built the water infrastructure today that Texas will need tomorrow; and

WHEREAS, the SWIFT Program's investment portfolio is managed by the Texas Treasury Safekeeping Trust and is therefore subject to market risk; and

WHEREAS, the Texas Water Development Board (TWDB) desires to proactively manage risk while also maintaining subsidized and payment deferral financing options for SWIFT Program participants; and

WHEREAS, the TWDB is a fiduciary of the SWIFT Program and has an obligation to manage the program in a manner consistent with current obligations and representations to all current and future stakeholders; and

WHEREAS, the TWDB's active management of the SWIFT Program to date has resulted in the financing of 24% of targeted capital expenditures in only 10% of the anticipated timeframe, and the TWDB desires to continue said active management of the SWIFT Program to maintain financing capacity for current and future State Water Plan projects; and

WHEREAS, in conjunction with setting 2020 SWIFT subsidies and financing terms at the same level as the 2019 cycle, the TWDB wishes to concurrently issue this resolution regarding future program adjustments.

NOW THEREFORE, the Texas Water Development Board resolves as follows:

1. that in order to enhance the long-term financial stability of the SWIFT Program and to optimize the SWIFT Program's capacity to finance future State Water Plan projects, adjustments to the subsidies and financing terms of the SWIFT program are necessary;

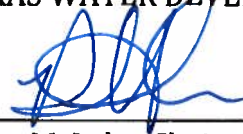
2. that these adjustments may expand the corpus of the SWIFT Fund by several billion dollars over time while, in general, incurring no more than a 3% increase in total debt service to each individual customer of the SWIFT Program;
3. that these adjustments will result in the following subsidies and financing terms for Low-Interest Obligations to be finalized in Dec. 2020:

Term	Tax-Exempt	Taxable
20 Year	25%	20%
21 - 25 Year	18%	14%
26 - 30 Year	14%	10%

4. that at this time no changes are anticipated to the Deferred Loan and Board Participation offerings;
5. that these changes will take effect for the 2021 SWIFT funding cycle and remain in place indefinitely, subject to periodic review and reassessment by the Board.

APPROVED and ordered of record this 4th day of June, 2020.


TEXAS WATER DEVELOPMENT BOARD



Peter M. Lake, Chairman

DATE SIGNED: 6/4/20

ATTEST:



Jeff Walker, Executive Administrator