



PROJECT FUNDING REQUEST

BOARD DATE: July 23, 2024

Team Manager: Tom Barnett

ACTION REQUESTED

Consider approving by resolution a request from the Palo Pinto County Municipal Water District No. 1 (Palo Pinto and Parker counties) for \$200,000,000 in financing from the State Water Implementation Revenue Fund for Texas for construction of a water supply project.

STAFF RECOMMENDATION

☒ Approve ☐ No Action

BACKGROUND

The Palo Pinto County Municipal Water District No. 1 (District) is the owner of the Lake Palo Pinto dam and reservoir, which was constructed in 1964. The District supplies water from the reservoir to the City of Mineral Wells and its wholesale customers, Lake Palo Pinto Area Water Supply Corporation, and the Brazos Electric Power Cooperative. The District provides wholesale water to approximately 34,979 residents.

PROJECT NEED AND DESCRIPTION

Lake Palo Pinto, owned by the Palo Pinto County Municipal Water District No. 1 (District), has lost a large portion of its original storage capacity due to siltation. The project is needed to provide drought resiliency and restore supply to meet the current and future water demands of the District's customers.

The Turkey Peak Reservoir project consists of the construction of a new earthen dam, concrete intake and outlet structures, concrete service spillway, and rock-lined excavated outfall channel on Palo Pinto Creek downstream of Lake Palo Pinto

Additionally, an excavated auxiliary spillway with an adjacent flow training berm and a saddle dam will be constructed approximately 2,000 feet south of the dam, immediately south of Turkey Peak. The proposed project would include the removal of a section of the existing Lake Palo Pinto concrete spillway and construction of a new county road and bridge across the existing Lake Palo Pinto Dam. Portions of Ward Mountain Road would be upgraded and 0.75 miles of a new country road would be constructed to account for sections of FM 4 and county roads that would be taken out of service. This project also includes aspects of permittee-responsible mitigation activities resulting from the United States Army Corps of Engineers (USACE) granting the 404 Permit for the project, including the approved mitigation plan that contains stream restoration and invasive species management. This project will restore the storage capacity of the reservoir as authorized in Certificate of Adjudication 12-4031.

Multi-year Commitment	Expiration
\$60,000,000 Proposed Series 2024	December 31, 2024
\$100,000,000 Proposed Series 2025	December 31, 2025
\$40,000,000 Proposed Series 2026	December 31, 2026

PROJECT SCHEDULE

Task	Schedule Date
Engineering Feasibility Report Completion (End of Planning Phase)	May 3, 2020
Design Phase Completion	July 15, 2024
Closing	November 1, 2024
Start of Construction	March 1, 2025
Construction Completion	February 28, 2028

KEY ISSUES

The requested funding is for construction of the Turkey Peak Reservoir project. The TWDB has previously committed \$37,100,000 to the project through the Economically Distressed Areas Program, Water Infrastructure Fund, and State Water Implementation Revenue Fund for Texas to finance planning, acquisition, and design costs.

SWIFT program rules require that applicants for reservoir construction funds must complete planning, permitting, acquisition, and design before receiving a commitment to fund reservoir construction costs. The District has met these requirements. USACE issued the 404 permit in 2018. The TWDB issued a Surface Water Rights Certification in 2020, verifying that the District has the right to store, impound, and divert the water that this project will provide. The District has completed land acquisition for approximately 95 percent of the acreage for the reservoir site and is in the negotiation process for remaining parcels. The Texas Commission on Environmental Quality's Dam Safety Program approved the Plans & Technical Specifications in June 2024.

LEGAL/SPECIAL CONDITIONS

- Conversion or conveyance

Attachments:

1. Financial Review
2. Project Budget
3. Resolution (24-)
4. Water Conservation Review
5. Location Map

Financial Review

Palo Pinto County Municipal Water District #1

Risk Score: 2C

Audit Reviewed: FY 2023

Key Indicators

Indicator	Result	Benchmark
Population Growth, Average Annual 2010-2020	County: 0.11%	State: 1.49%
Top 10 Customers % of Total Revenue	100%	10-15%
Median Household Income as % of State	69%	100%
Days of Cash on Hand (3-year Average)	2,785 days	30-149 days
Net Fixed Assets/ Annual Depreciation	21 years	12-24 years
Debt Service Coverage Ratio	0.12x	1.0x
Debt-to-Operating Revenues	94.26x	4.00-5.99x
Unemployment Rate (April 2024)	County: 3.40%	State: 3.50%
Working Capital Ratio	14.21	> 1.0

Key Risk Score Strengths

- The District's working capital ratio is above the benchmark, indicating it has high liquidity and ample resources to cover its short-term liabilities.
- The District's days of cash on hand exceed the benchmark, indicating it has the liquidity needed to meet any unexpected increases in expenses. The District's lowest days of cash on hand over the last 3 years was 1,450 in 2023.

Key Risk Score Concerns

- The debt to operating revenues ratio is above the benchmark due to the District financing various projects associated with the construction of the new dam and the reservoir for its Lake Palo Pinto storage restoration project. The District, in preparation of funding this project, implemented a substantial rate increase at the beginning of fiscal year 2024.
- The District's cash balance ratio shows a decrease over the past five years. This is based on a decrease in cash and equivalents and investments. However, the District has consistently maintained a high days of cash on hand.
- The debt service coverage ratio is below the benchmark. Based on a no-growth scenario with gallons per month staying the same, the District is projected to require approximately a \$9.82 per 1,000 gallons rate increase to meet debt service coverage. The District is aware of this projected increase and implemented an approximately \$10 rate increase at the beginning of fiscal year 2024.

PLEDGE

Legal Pledge Name	Utility System Revenues
Type of Pledge	<input type="checkbox"/> Tax <input checked="" type="checkbox"/> Revenue <input type="checkbox"/> Tax & Revenue <input type="checkbox"/> Contract <input type="checkbox"/> Other
Revenue Pledge Level	<input checked="" type="checkbox"/> First <input type="checkbox"/> Second <input type="checkbox"/> Third <input type="checkbox"/> N/A

RATES AND CHARGES

Wholesale Customers	Gallons/Month	Current Rates Per 1,000 Gallons	Projected Rates (Year 2028)
City of Mineral Wells	99,579,417	\$12.27	\$12.27
RW Miller Power, LLC.	43,235	\$0.82	\$0.82
Lake Palo Pinto Area Water Supply Corporation	3,250,250	\$0.82	\$0.82

Cost Savings

Based on a 30-year maturity schedule and current interest rates, the District could save approximately \$12,489,065 over the life of the financing.

Project Data Summary

Responsible Authority	Palo Pinto Co Municipal Water District # 1
Program	SWIFT
Commitment Number	LM2401835, LM2401836, LM2501835, LM2501836, LM2601835, LM2601836
Project Number	51020
List Year	2024
Type of Pledge	Revenue Pledge
Pledge Level (if applicable)	First Lien
Legal Description	\$34,800,000 Palo Pinto Co Municipal Water District No. 1 Revenue Bonds, Proposed Series 2024A, \$25,200,000 Palo Pinto Co Municipal Water District No. 1 Revenue Bonds, Proposed Taxable Series 2024B, \$58,000,000 Palo Pinto Co Municipal Water District No. 1 Revenue Bonds, Proposed Series 2025A, \$42,000,000 Palo Pinto Co Municipal Water District No. 1 Revenue Bonds, Proposed Taxable Series 2025B, \$23,200,000 Palo Pinto Co Municipal Water District No. 1 Revenue Bonds, Proposed Series 2026A, \$16,800,000 Palo Pinto Co Municipal Water District No. 1 Revenue Bonds, Proposed Taxable Series 2026B
Tax-exempt or Taxable	Tax-Exempt, Taxable
Refinance	No
Outlay Requirement	No
Disbursement Method	Escrow
Outlay Type	Outlay <> Escrow Release
Qualifies as Disadvantaged	No
SWIFT Financing Type	Low-Interest
Financial Managerial & Technical Complete	N/A
Phases Funded	Construction
Pre-Design	No
Project Consistent with State Water Plan	Yes
Water Conservation Plan	Adopted
Overall Risk Score	2C

PROJECT TEAM

Team Manager	Financial Analyst	Engineering Reviewer	Environmental Reviewer	Attorney
Tom Barnett	Arnoldo Rubio	Connie Townsend	Chris Caran	Michael Perez

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
Palo Pinto Co MWD #1

\$34,800,000 Palo Pinto Co Municipal Water District No. 1 Revenue Bonds, Proposed Series 2024A

Dated Date:	11/1/2024	Source:	SWIFT-LOW-30YR
Delivery Date:	11/1/2024	IUP Year:	2024
First Interest:	6/1/2025	Case:	System Revenue
First Principal:	6/1/2025	Admin.Fee:	\$0
Last Principal:	6/1/2054	Admin. Fee Payment Date:	N/A
Fiscal Year End:	09/30	Required Coverage:	1.0

\$25,200,000 Palo Pinto Co Municipal Water District No. 1 Revenue Bonds, Proposed Taxable Series 2024B

Dated Date:	11/1/2024	Source:	SWIFT-LOW-30YR
Delivery Date:	11/1/2024	IUP Year:	2024
First Interest:	6/1/2025	Case:	System Revenue
First Principal:	6/1/2025	Admin.Fee:	\$0
Last Principal:	6/1/2054	Admin. Fee Payment Date:	N/A
Fiscal Year End:	09/30	Required Coverage:	1.0

		FUTURE TAX-EXEMPT MULTI-YEAR					FUTURE TAXABLE MULTI-YEAR							
PROJECTED	CURRENT	\$34,800,000 ISSUE					\$25,200,000 ISSUE					TOTAL		
FISCAL YEAR	NET SYSTEM REVENUES	DEBT SERVICE	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	COMMITMENTS 2025-2026	COMMITMENTS 2025-2026	DEBT SERVICE	ACTUAL COVERAGE
2025	\$5,564,719	\$2,005,967	\$1,170,000	3.27%	\$771,574	\$1,941,574	\$870,000	4.82%	\$747,179	\$1,617,179	-	-	\$5,564,719	1.00
2026	11,991,051	2,000,120	635,000	3.24%	1,284,440	1,919,440	390,000	4.82%	1,238,944	1,628,944	\$3,521,758	\$2,920,790	11,991,051	1.00
2027	14,901,926	2,002,191	660,000	3.14%	1,263,866	1,923,866	410,000	4.69%	1,220,146	1,630,146	5,098,408	4,247,316	14,901,926	1.00
2028	15,040,669	2,007,769	685,000	3.13%	1,243,142	1,928,142	430,000	4.62%	1,200,917	1,630,917	5,162,055	4,311,787	15,040,669	1.00
2029	15,040,669	1,761,616	715,000	3.13%	1,221,702	1,936,702	450,000	4.64%	1,181,051	1,631,051	5,161,055	4,303,962	14,794,385	1.02
2030	15,040,669	1,642,911	745,000	3.13%	1,199,322	1,944,322	475,000	4.66%	1,160,171	1,635,171	5,162,814	4,304,314	14,689,530	1.02
2031	15,040,669	1,642,979	770,000	3.14%	1,176,004	1,946,004	500,000	4.68%	1,138,036	1,638,036	5,161,979	4,291,421	14,680,417	1.02
2032	15,040,669	1,645,787	805,000	3.16%	1,151,826	1,956,826	525,000	4.70%	1,114,636	1,639,636	5,158,550	4,285,817	14,686,614	1.02
2033	15,040,669	1,642,350	835,000	3.18%	1,126,388	1,961,388	550,000	4.71%	1,089,961	1,639,961	5,162,350	4,276,926	14,682,974	1.02
2034	15,040,669	1,642,809	870,000	3.19%	1,099,835	1,969,835	575,000	4.74%	1,064,056	1,639,056	5,162,779	4,274,726	14,689,204	1.02
2035	15,040,669	1,641,761	905,000	3.28%	1,072,082	1,977,082	605,000	4.79%	1,036,801	1,641,801	5,159,807	4,263,759	14,684,209	1.02
2036	15,040,669	1,639,286	940,000	3.38%	1,042,398	1,982,398	635,000	4.83%	1,007,821	1,642,821	5,158,605	4,259,029	14,682,138	1.02
2037	15,040,669	1,638,678	980,000	3.49%	1,010,626	1,990,626	670,000	4.88%	977,151	1,647,151	5,157,286	4,249,654	14,683,393	1.02
2038	15,040,669	1,641,448	1,015,000	3.62%	976,424	1,991,424	700,000	4.92%	944,455	1,644,455	5,150,495	4,240,709	14,668,530	1.03
2039	15,040,669	1,637,470	1,055,000	3.69%	939,681	1,994,681	735,000	4.97%	910,015	1,645,015	5,142,628	4,226,697	14,646,489	1.03
2040	15,040,669	1,641,391	1,100,000	3.73%	900,751	2,000,751	775,000	5.14%	873,485	1,648,485	5,132,572	4,212,704	14,635,902	1.03
2041	15,040,669	1,643,529	1,145,000	3.81%	859,721	2,004,721	810,000	5.14%	833,650	1,643,650	5,121,552	4,198,208	14,611,659	1.03
2042	15,040,669	1,633,435	1,190,000	3.86%	816,097	2,006,097	850,000	5.14%	792,016	1,642,016	5,104,966	4,175,696	14,562,208	1.03
2043	15,040,669	1,636,896	1,235,000	3.90%	770,163	2,005,163	895,000	5.14%	748,326	1,643,326	5,081,678	4,158,050	14,525,111	1.04
2044	15,040,669	1,633,319	1,285,000	3.94%	721,998	2,006,998	940,000	5.14%	702,323	1,642,323	5,062,350	4,139,666	14,484,654	1.04
2045	15,040,669	1,632,862	1,340,000	4.12%	671,369	2,011,369	985,000	5.27%	654,007	1,639,007	5,046,690	4,115,242	14,445,168	1.04
2046	15,040,669	720,002	1,390,000	4.12%	616,161	2,006,161	1,035,000	5.27%	602,098	1,637,098	5,019,130	4,094,778	13,477,167	1.12
2047	15,040,669	716,198	1,445,000	4.12%	558,893	2,003,893	1,090,000	5.27%	547,553	1,637,553	4,990,497	4,069,719	13,417,858	1.12
2048	15,040,669	721,414	1,505,000	4.12%	499,359	2,004,359	1,140,000	5.27%	490,110	1,630,110	4,955,639	4,037,564	13,349,085	1.13
2049	15,040,669	715,162	1,565,000	4.12%	437,353	2,002,353	1,200,000	5.27%	430,032	1,630,032	4,929,556	4,008,314	13,285,416	1.13
2050	15,040,669	717,837	1,630,000	4.23%	372,875	2,002,875	1,260,000	5.27%	366,792	1,626,792	4,896,501	3,981,352	13,225,355	1.14
2051	15,040,669	714,038	1,690,000	4.23%	303,926	1,993,926	1,320,000	5.27%	300,390	1,620,390	4,856,474	3,951,060	13,135,887	1.15
2052	15,040,669	708,980	1,760,000	4.23%	232,439	1,992,439	1,390,000	5.27%	230,826	1,620,826	4,815,344	3,917,130	13,054,718	1.15
2053	15,040,669	707,727	1,830,000	4.23%	157,991	1,987,991	1,460,000	5.27%	157,573	1,617,573	4,776,580	3,879,253	12,969,123	1.16
2054	15,040,669	-	1,905,000	4.23%	80,582	1,985,582	1,530,000	5.27%	80,631	1,610,631	4,729,671	3,842,122	12,168,005	1.24
		\$ 41,735,923	\$34,800,000		\$24,578,977	\$59,378,977	\$25,200,000		\$23,841,145	\$49,041,145	\$145,039,759	\$119,237,756	\$414,433,559	

\$34,800,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	17.68 YEARS
NET INTEREST RATE	3.996%
COST SAVINGS	\$5,970,420.3
AVERAGE ANNUAL REQUIREMENT	\$1,979,296

\$25,200,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	18.26 YEARS
NET INTEREST RATE	5.181%
COST SAVINGS	\$6,518,644.7
AVERAGE ANNUAL REQUIREMENT	\$1,634,705

TOTAL AVERAGE ANNUAL REQUIREMENTS
\$13,814,452

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.



Project Budget Summary
Palo Pinto County Municipal
Water District No. 1 51020 -
Turkey Peak Reservoir

Budget Items	TWDB Funds Previous 21636 Commitments	TWDB Funds Previous 51020 Commitments	TWDB Funds New 51020 Commitments	Total
Construction				
Construction	\$0	\$0	\$174,050,000	\$174,050,000
Subtotal for Construction	\$0	\$0	\$174,050,000	\$174,050,000
Basic Engineering Services				
Planning	\$3,108,846	\$0	\$0	\$3,108,846
Design	\$0	\$2,674,000	\$0	\$2,674,000
Construction Engineering	\$0	\$0	\$6,800,950	\$6,800,950
Subtotal for Basic Engineering Services	\$3,108,846	\$2,674,000	\$6,800,950	\$12,583,796
Special Services				
Environmental	\$1,661,749	\$1,485,000	\$500,000	\$3,646,749
Environmental (Archaeological)	\$0	\$2,700,000	\$2,000,000	\$4,700,000
Geotechnical	\$2,610,981	\$235,000	\$0	\$2,845,981
Surveying	\$130,170	\$285,000	\$0	\$415,170
Other (Mapping Services)	\$83,136	\$0	\$0	\$83,136
Materials Testing	\$0	\$0	\$1,530,000	\$1,530,000
Project Management (by engineer)	\$0	\$0	\$1,000,000	\$1,000,000
Subtotal for Special Services	\$4,486,035	\$4,705,000	\$5,030,000	\$14,221,035
Fiscal Services				
Bond Counsel	\$45,000	\$171,200	\$648,000	\$864,200
Financial Advisor	\$31,000	\$172,250	\$399,000	\$602,250
Issuance Costs	\$0	\$28,685	\$57,000	\$85,685
Fiscal/Legal	\$0	\$8,340	\$57,000	\$65,340
Bond Reserve Fund	\$0	\$697,296	\$12,187,050	\$12,884,346
Subtotal for Fiscal Services	\$76,000	\$1,077,771	\$13,348,050	\$14,501,821
Other				
Administration	\$0	\$0	\$250,000	\$250,000
Land/Easements Acquisition	\$0	\$11,440,000	\$0	\$11,440,000
Other (Agency Coordination & Funding)	\$0	\$675,000	\$0	\$675,000
Other (Land Appraisals, Titles, & Negotiations)	\$0	\$1,925,000	\$0	\$1,925,000
Other (Mitigation Plan Implementation)	\$0	\$1,924,000	\$0	\$1,924,000
Other (Utility Relocation and Negotiation)	\$157,744	\$3,325,000	\$0	\$3,482,744
Project Legal Expenses	\$171,374	\$750,000	\$500,000	\$1,421,374
Subtotal for Other	\$329,119	\$20,039,000	\$750,000	\$21,118,119
Contingency				
Contingency	\$0	\$604,229	\$21,000	\$625,229
Subtotal for Contingency	\$0	\$604,229	\$21,000	\$625,229
Total	\$8,000,000	\$29,100,000	\$200,000,000	\$237,100,000

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE TO PALO PINTO
COUNTY MUNICIPAL WATER DISTRICT NO. 1
IN THE FORM OF A MULTI-YEAR COMMITMENT
FROM THE STATE WATER IMPLEMENTATION REVENUE FUND FOR TEXAS
THROUGH THE PROPOSED PURCHASE OF \$200,000,000 PALO PINTO COUNTY
MUNICIPAL WATER DISTRICT NO. 1 REVENUE BONDS,
PROPOSED SERIES 2024A, THROUGH SERIES 2026B

(24-)

Recitals:

The Palo Pinto County Municipal Water District No. 1 (District), located in Palo Pinto County, has filed an application for financial assistance in the amount of \$200,000,000 from the State Water Implementation Revenue Fund for Texas (SWIRFT) to finance the construction of a water supply project identified as Project No. 51020 (Project).

The District seeks financial assistance from the Texas Water Development Board (TWDB) in the form of a multi-year commitment through the TWDB's proposed purchase of \$200,000,000 Palo Pinto County Municipal Water District No. 1 Revenue Bonds, Proposed Series 2024A, through Series 2026B (together with all authorizing documents (Obligations)), all as is more specifically set forth in the application and in recommendations of the Executive Administrator's staff.

The District has offered a pledge of the pledged revenues as sufficient security for the repayment of the Obligations.

For the tax-exempt Obligations, subject to the District's use of an approved debt service structure, interest rate subsidies are available to the District for State Fiscal Year 2024 at up to the following levels: 25% for financial assistance for a term of 20 years, 18% for financial assistance for a term of 21 to 25 years, and 14% for financial assistance for a term of 26 to 30 years. The interest rate subsidy applicable to each subsequent proposed series may be different than the interest rate subsidy available for State Fiscal Year 2024 and will be set through each financing agreement executed between the TWDB and the District.

For the taxable Obligations, subject to the District's use of an approved debt service structure, interest rate subsidies are available to the District for State Fiscal Year 2024 at up to the following levels: 20% for financial assistance for a term of 20 years, 14% for financial assistance for a term of 21 to 25 years, and 10% for financial assistance for a term of 26 to 30 years. The interest rate subsidy applicable to each subsequent proposed series may be different than the interest rate subsidy available for State Fiscal Year 2024 and will be set through each financing agreement executed between the TWDB and the District.

The interest rate subsidies provided above are based on assumptions necessary to generate an optimum debt service structure for the anticipated TWDB SWIRFT bond issuance and are subject to modification as necessary to preserve and maintain the integrity of the SWIRFT Program.

Findings:

1. The application and assistance applied for meet the requirements of Texas Water Code, Chapter 15, Subchapters G and H and 31 TAC Chapter 363, Subchapters A and M.
2. The Project is a recommended water management strategy project in the State Water Plan adopted pursuant to Texas Water Code § 16.051, in accordance with Texas Water Code § 15.474(a).
3. The District has submitted and implemented a water conservation plan in accordance with Texas Water Code § 16.4021 and 31 TAC § 363.1309(b)(1).
4. The District acknowledges its legal obligation to comply with any applicable requirements of federal law related to contracting with disadvantaged business enterprises and any applicable state law related to contracting with historically underutilized businesses, in accordance with Texas Water Code § 15.435(h) and 31 TAC § 363.1309(b)(3).

NOW THEREFORE, based on these findings, the TWDB commits to the following:

The TWDB will provide financial assistance to Palo Pinto County Municipal Water District No. 1 in the amount of \$200,000,000 from the State Water Implementation Revenue Fund for Texas to be evidenced by the TWDB's proposed purchase of Palo Pinto County Municipal Water District No. 1 Revenue Bonds as follows:

- a. \$34,800,000 Proposed Series 2024A, to expire on December 31, 2024;
- b. \$25,200,000 Proposed Taxable Series 2024B, to expire on December 31, 2024;
- c. \$58,000,000 Proposed Series 2025A, to expire on December 31, 2025;
- d. \$42,000,000 Proposed Taxable Series 2025B, to expire on December 31, 2025;
- e. \$23,200,000 Proposed Series 2026A, to expire on December 31, 2026;
- f. \$16,800,000 Proposed Taxable Series 2026B, to expire on December 31, 2026.

The commitment is subject to the following:

Standard Conditions:

1. This commitment is contingent on a future sale of bonds by the TWDB or on the availability of funds on hand.
2. This commitment is contingent upon the issuance of a written approving opinion of the Attorney General of the State of Texas stating that the District has complied with all of the requirements of the laws under which the Obligations were issued, that the Obligations were issued in conformity with the Constitution and laws of the State of Texas, and that the Obligations are valid and binding obligations of the District.
3. This commitment is contingent upon the District's continued compliance with all applicable laws, rules, policies, and guidance as these may be amended from time to time to adapt to a change in law, in circumstances, or any other legal requirement.
4. This commitment is contingent upon the District executing a separate financing agreement, approved as to form and substance by the Executive Administrator, and submitting the executed agreement to the TWDB consistent with the terms and conditions described in it.
5. Interest rate subsidies for non-level debt service structure are subject to adjustment by the Executive Administrator.
6. The District shall use a paying agent/registrar in accordance with 31 TAC § 363.42(c)(2) and shall require the paying agent/registrar to provide a copy of all receipts documenting debt service payments to the TWDB and to the TWDB's designated Trustee.

Required Obligation Conditions:

7. The Obligations must provide that the Obligations can be called for early redemption on any date beginning on or after the first interest payment date that is 10 years from the dated date of the Obligations, at a redemption price of par, together with accrued interest to the date fixed for redemption.
8. The Obligations must provide that the District will comply with all applicable TWDB laws and rules related to the use of the financial assistance.
9. The Obligations must provide that the District must comply with all conditions as specified in the final environmental finding of the Executive Administrator when issued, including the standard emergency discovery conditions for threatened and endangered species and cultural resources.

10. The Obligations must contain a provision requiring the District to maintain insurance coverage sufficient to protect the TWDB's interest in the project.
11. The Obligations must include a provision wherein the District, 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 District'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 the 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 SEC rule 15c2-12, the continuing disclosure undertaking being for the benefit of the TWDB and the beneficial owners of the District's Obligations, if the TWDB sells or otherwise transfers the Obligations, and the beneficial owners of the TWDB's bonds if the District is an obligated person with respect to the bonds under SEC Rule 15c2-12.
12. The Obligations must contain a provision requiring the District to levy a tax 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.
13. The Obligations must include a provision requiring the District to use any proceeds from the Obligations that are determined to be surplus proceeds remaining after completion of the Project and completion of a final accounting in a manner approved by the Executive Administrator.
14. 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.
15. Financial assistance 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.
16. Financial assistance proceeds shall not be used by the District when sampling, testing, removing, or disposing of contaminated soils or media at the Project site. The Obligations shall include a provision that states the District is solely responsible for liability resulting from acts or omissions of the District, its employees, contractors, or agents arising from the sampling, analysis, transport, storage, treatment, recycling, and disposition of any contaminated sewage sludge, contaminated sediments or contaminated media that may be generated by the

District, its contractors, consultants, agents, officials, and employees as a result of activities relating to the Project to the extent permitted by law.

17. The Obligations must include a provision stating that the District shall report to the TWDB the amounts of Project funds, if any, that were used to compensate historically underutilized businesses that worked on the Project, in accordance with 31 TAC § 363.1312.
18. The Obligations must contain a provision that the TWDB will purchase the Obligations, acting through the TWDB's designated Trustee, and the Obligations shall be registered in the name of Cede & Co. and closed in book-entry-only form in accordance with 31 TAC § 363.42(c)(1).
19. The District must immediately notify TWDB in writing of any suit against it by the Attorney General of Texas under Texas Government Code § 2.103 and Texas Penal Code § 1.10(f), related to federal laws regulating firearms, firearm accessories, and firearm ammunition.
20. The Obligations must provide that the District will submit annually an audit prepared by a certified public accountant in accordance with generally accepted auditing standards.
21. The Obligations must include a provision that if the collateral or credit pledged by the District securing the Obligations is rated by a nationally-recognized statistical rating agency, the District, or other obligated person, will not discontinue the rating issued by a nationally-recognized statistical rating agency until the underlying Obligations are retired or no longer held by TWDB.

Tax-Exempt Conditions that Apply to Tax-Exempt Series:

22. The Obligations must include a provision prohibiting the District from using the proceeds of this financial assistance in a manner that would cause the Obligations to become "private activity bonds" within the meaning of section 141 of the Internal Revenue Code as amended (Code) and the Treasury Regulations promulgated under it (Regulations).
23. The Obligations must provide that no portion of the proceeds of the financial assistance will be used, directly or indirectly, in a manner that would cause the Obligations to be "arbitrage bonds" within the meaning of section 148(a) of the Code and Regulations, including to acquire or to replace funds that were used, directly or indirectly, to acquire Nonpurpose Investments, as defined in the Code and Regulations, that produce a yield materially higher than the yield on the TWDB's bonds issued to provide the financial assistance (Source Series Bonds), other than Nonpurpose Investments acquired with;

- a. proceeds of the TWDB's Source Series Bonds invested for a reasonable temporary period of up to three (3) years after the issue date of the Source Series Bonds until the proceeds are needed for the facilities to be financed;
 - b. amounts invested in a bona fide debt service fund within the meaning of section 1.148-1(b) of the Regulations; and
 - c. amounts deposited in any reasonably required reserve or replacement fund to the extent the amounts do not exceed the lesser of maximum annual debt service on the Obligations, 125% of average annual debt service on the Obligations, or 10 percent of the stated principal amount (or, in the case of a discount, the issue price) of the Obligations.
24. The Obligations must include a provision that the District must take all necessary steps to comply with the requirement that amounts earned on the investment of gross proceeds of the Obligations be rebated to the federal government in order to satisfy the requirements of section 148 of the Code. The Obligations must provide that the District will:
- a. account for all Gross Proceeds, as defined in the Code and Regulations, (including all receipts, expenditures, and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures, and investments thereof) and retain all records of the accounting for at least six years after the final Computation Date. The District may, however, to the extent permitted by law, commingle Gross Proceeds of its financial assistance with other money of the District, provided that the District separately accounts for each receipt and expenditure of the Gross Proceeds and the obligations acquired with the Gross Proceeds;
 - b. calculate the Rebate Amount, as defined in the Code and Regulations, with respect to its financial assistance, not less frequently than each Computation Date, in accordance with rules set forth in section 148(f) of the Code, section 1.148-3 of the Regulations, and the associated rulings. The District shall maintain a copy of the calculations for at least six years after the final Computation Date;
 - c. pay to the United States the amount described in paragraph (b) above within 30 days after each Computation Date as additional consideration for providing financial assistance and in order to induce providing financial assistance by measures designed to ensure the excludability of the interest on the TWDB's Source Series Bonds from the gross income of the owners of TWDB's Bonds for federal income tax purposes;
 - d. exercise reasonable diligence to ensure that no errors are made in the calculations required by paragraph (b) and, if an error is made, to discover

and promptly correct the error within a reasonable amount of time, including payment to the United States of any interest and any penalty required by the Regulations.

25. The Obligations must include a provision prohibiting the District from taking any action that would cause the interest on the Obligations to be includable in gross income for federal income tax purposes.
26. The Obligations must provide that the District will not cause or permit the Obligations to be treated as “federally guaranteed” obligations within the meaning of section 149(b) of the Code.
27. The Obligations must contain a covenant that the District will refrain from using the proceeds of the Obligations to pay debt service on another issue of the borrower’s obligations in contravention of section 149(d) of the Code (related to “advance refundings”).
28. The Obligations must provide that neither the District nor a party related to it will acquire any of the TWDB’s Source Series Bonds in an amount related to the amount of the Obligations to be acquired from the District by the TWDB.

Pledge Conditions:

29. The Obligations shall be on parity with any existing obligations that are secured with the same pledge of security as the proposed Obligations.
30. The Obligations shall be governed by the additional debt test and reserve requirement as provided in the outstanding Palo Pinto County Municipal Water District No. 1 Revenue Bonds, Series 2015A, Palo Pinto County Municipal Water District No. 1 Revenue Bonds, Taxable Series 2015B, Palo Pinto County Municipal Water District No. 1 Revenue Bonds, Series 2023A, and Palo Pinto County Municipal Water District No. 1 Revenue Bonds, Taxable Series 2023B.

Conditions To Close Or For Release Of Funds:

31. Before closing, the District 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.
32. Before closing, if not previously provided with the application, the District shall submit executed contracts for engineering and, if applicable, financial advisor and bond counsel 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.

33. Before closing, when any portion of financial assistance is to be held in escrow or in trust, the District shall execute an escrow agreement or trust agreement, approved as to form and substance by the Executive Administrator, and shall submit that executed agreement to the TWDB.
34. Before closing, the District shall provide certification that the average weighted maturity of the Obligations purchased by the TWDB does not exceed 120% of the average reasonably expected economic life of the Project.
35. Before closing, the District's bond counsel must prepare a written opinion that states that the interest on the Obligations is excludable from gross income or is exempt from federal income taxation. Bond counsel may rely on covenants and representations of the District when rendering this opinion.
36. Before closing, the District's bond counsel must prepare a written opinion that states that the Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the District when rendering this opinion.
37. The transcript must include a No Arbitrage Certificate or similar Federal Tax Certificate setting forth the District's reasonable expectations regarding the use, expenditure, and investment of the proceeds of the Obligations.
38. The transcript must include evidence that the information reporting requirements of section 149(e) of the Internal Revenue Code will be satisfied. This requirement may be satisfied by filing an IRS Form 8038 with the Internal Revenue Service. In addition, the applicable completed IRS Form 8038 or other evidence that the information reporting requirements of section 149(e) have been satisfied must be provided to the Executive Administrator within fourteen (14) days of closing. The Executive Administrator may withhold the release of funds for failure to comply.

Special Conditions:

39. The District must notify the Executive Administrator before taking any actions to alter its legal status in any manner, such as by conversion to a conservation and reclamation district or a sale-transfer-merger with another retail public utility.
40. The Obligations must include a provision requiring that, before any action by the District 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.

APPROVED and ordered of record this, the 23rd day of July 2024.

TEXAS WATER DEVELOPMENT BOARD

Brooke T. Paup, Chairwoman

DATE SIGNED: _____

ATTEST:

Bryan McMath, Interim Executive Administrator

Review Date:

Project ID:

Water

Wastewater

Other

WATER CONSERVATION REVIEW

Entity:

Other entity:

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

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

WATER LOSS AUDIT YEAR:

Service connections:

Length of main lines (miles):

Water Loss GCD:

Retail population:

Connections per mile:

Water Loss GPCD:

ILI¹:*1 – Infrastructure Leakage Index only applicable if > 16 connections per mile and > 3,000 service connections***WATER LOSS THRESHOLDS****Water Loss Project:**

Wholesale Adjusted:

Threshold Type:

Apparent Loss Gallons per connection per day	Real Loss Gallons per mile per day	Real Loss Gallons per connection per day	Apparent Loss Threshold Gallons per connection per day	Real Loss Threshold Gallons per mile per day	Real Loss Threshold Gallons per connection per day

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 losses are paper losses that occur when the water reaches a customer, but the volume is not accurately measured and/or recorded due to unauthorized consumption, customer meter inaccuracy, or billing system and collection data errors.

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.

GCD means gallons per connection 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 3,000 connections and a connection density of more than 16 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 bench marking 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.

Real losses are the physical losses, largely leakage, from the infrastructure: mains, valves, and storage tank overflows. Real loss constitutes background leakage (unreported and difficult to detect), unreported leakage (leaks that do not surface but could be detected), and reported leakage (leaks that often surface and those that are detected by the utility through leak detection).

Residential GPCD is the amount of residential water use (single and multi-family customer use) divided by the residential population divided by 365.

Total GPCD is the amount of total system input volume divided by the retail population 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 GPCD is the amount of water loss divided by the retail population divided by 365.

Water Loss per Connection per Day Calculated as the water loss volume divided by the number service connections divided by 365. This indicator allows for reliable performance tracking in the water utility's efforts to reduce water losses. It replaces water loss percentage.

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.

Wholesale Adjusted represents that some utilities provide large volumes of wholesale water to other providers that travel through the general distribution system, so a calculation has been established to adjust for that volume of wholesale water. These adjustments are only applicable for use in determining whether a utility meets or exceeds water loss thresholds in review of their application for financial assistance. These adjustments should not be used for performance tracking or benchmarking.



Palo Pinto County Municipal Water District #1 Palo Pinto County

