



PROJECT FUNDING REQUEST

BOARD DATE: May 8, 2025

Team Manager: Theresa Finch

ACTION REQUESTED

Consider approving by resolution a request from the City of Shallowater (Lubbock County) for \$8,400,000 in financing from the Texas Water Development Fund II for planning and design of a new water source and water and wastewater system improvement project.

STAFF RECOMMENDATION

☒ **Approve** ☐ **No Action**

BACKGROUND

The City of Shallowater (City) is in Lubbock County approximately 12 miles northwest of Lubbock, Texas. The City provides water and wastewater services to a population of 3,250 residents and approximately 2,772 combined service connections.

PROJECT NEED AND DESCRIPTION

The project is necessary to meet the Texas Commission on Environmental Quality (TCEQ) regulations for public water supply and wastewater treatment. The City of Shallowater (City) currently supplements their water supply by purchasing water from the City of Lubbock. This source will soon be transitioned to emergency use only.

When this change occurs, the City will need to expand their current water supply by installing two to three new Public Water System wells, expand capacity for both water and wastewater treatment plants, and have means to treat the raw water.

The proposed project includes the planning and design for the development of the two to three Public Water System wells, collection piping, and a transmission line to connect the new well field to the City's water treatment plant (WTP), and the planning and design for the expansion of the existing wastewater treatment plant or for a new mechanical wastewater treatment plant (WWTP), and lastly for improvements to the City's irrigation system.

PROJECT SCHEDULE

| Task | Schedule Date |
|--|--------------------|
| Closing | September 31, 2025 |
| Engineering Feasibility Report Completion (End of Planning Phase) | May 31, 2026 |
| Design Phase | October 31, 2026 |

COMMITMENT PERIOD: SIX (6) MONTHS TO EXPIRE NOVEMBER 30, 2025

KEY ISSUES

The City is currently not able to meet the TCEQ minimum capacity regulations for a Public Water System. Currently the combined well capacity of 325 gallons per minute (GPM) is below the requirement of 0.6 GPM per connection. The addition of new wells is still not sufficient to meet the TCEQ capacity per connection because the current water treatment system can only deliver 365.4 GPM of potable water to the distribution system. The addition of new wells and updated water treatment plants would increase capacity and meet the TCEQ regulations.

The City must adopt a Water Conservation Plan prior to closing.

LEGAL/SPECIAL CONDITIONS

- Adopted water conservation plan
- Water rights certification

Attachments:

1. Financial Review
2. Project Budget
3. Resolution (25-)
4. Water Conservation Review
5. Location Map

Financial Review

City of Shallowater

Attachment 1

Risk Score: 2A

Audit Reviewed: FY 2024

Key Indicators

| Indicator | Result | Benchmark |
|---|---------------|--------------|
| Population Growth, Average Annual 2010-2020 | City: 1.78% | State: 1.49% |
| Top 10 Customers % of Total Revenue | 11% | 10-15% |
| Median Household Income as % of State | 98% | 100% |
| Days of Cash on Hand (3-year Average) | 522 days | 30-149 days |
| Net Fixed Assets/ Annual Depreciation | 10 years | 12-24 years |
| Debt Service Coverage Ratio | 1.15x | 1.1x |
| Debt-to-Operating Revenues | 4.66 | 4.00-5.99x |
| Unemployment Rate (January 2025) | County: 3.50% | State: 4.10% |
| Working Capital Ratio | 3.21 | > 1.0 |
| Cash Balance Ratio | 73.08% | 0 – 9.99% |

Key Risk Score Strengths

- The City's days of cash on hand are above the benchmark, indicating ample reserves to pay short-term expenses with the cash available.
- The City's cash balance has grown from \$2.4M in 2019 to \$5.1M in 2024. With a cash balance ratio of 73.08 percent, the City demonstrates solid financial health and resilience.
- With a debt service coverage ratio of 1.15 times, the City has sufficient revenues to cover the existing and proposed obligation without needing a rate increase.

Key Risk Score Concerns

- The City's current three-year average assessed valuation collection rate is 90 percent. In 2022, the collection rate declined from 91 percent to 86 percent compared to the previous year; the City is working to determine the cause of that decline. Since then, the assessed valuation collection rate has steadily increased, reaching 95.95 percent for the year 2024, demonstrating ongoing progress in collections.
- The household cost factor is above the benchmark at 2.37; however, there is no projected rate increase, and the City's cash flow has remained stable.

PLEDGE

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

RATES AND CHARGES

| Average Residential Use | Gallons/Month | Current Rates | Projected Rates | Current Household Cost Factor | Projected Household Cost Factor |
|-------------------------|---------------|---------------|-----------------|-------------------------------|---------------------------------|
| Water | 5,000 | \$106.50 | \$106.50 | 2.37 | 2.37 |
| Wastewater | 5,000 | \$23.32 | \$23.32 | | |

TAXES

| | 2023 Tax Year Rate | Max Projected Tax Rate | Maximum Allowable Rate | 3-Year Avg Current Tax Collections | Assessed Valuation |
|-------------------------|--------------------|------------------------|------------------------|------------------------------------|--------------------|
| Maintenance & Operation | \$0.496786 | \$0.496789 | \$1.50 | 90% | \$303,092,238 |
| Interest & Sinking | \$0.065986 | \$0.065986 | | | |
| Total Tax Rate | \$0.562772 | \$0.562772 | | | |

Cost Savings

Based on a 30-year maturity schedule and current interest rates, the City could save approximately \$519,945 over the life of the financing.

Project Data Summary

| | |
|--|---|
| Responsible Authority | City of Shallowater |
| Program | WDF |
| Commitment Number | L1002090 |
| Project Number | 21867 |
| List Year | 2024 |
| Type of Pledge | Combo Tax and Revenue |
| Pledge Level (if applicable) | Third Lien |
| Legal Description | \$8,400,000 City of Shallowater, Texas, Combination Tax and Surplus Revenue Certificates of Obligation, Series 2025 |
| Tax-exempt or Taxable | Tax-Exempt |
| Refinance | No |
| Outlay Requirement | Yes |
| Disbursement Method | Escrow |
| Outlay Type | Outlay <> Escrow Release |
| Qualifies as Disadvantaged | No |
| Financial Managerial & Technical Complete | N/A |
| Phases Funded | Planning and Design |
| Pre-Design | No |
| Project Consistent with State Water Plan | Yes |
| Water Conservation Plan | Approvable |
| Overall Risk Score | 2A |

PROJECT TEAM

| Team Manager | Financial Analyst | Engineering Reviewer | Environmental Reviewer | Attorney |
|---------------------|--------------------------|-----------------------------|-------------------------------|-----------------|
| Theresa Finch | Raul Flores | Cooper Stence | Chris Caran | Breann Hunter |

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
City of Shallowater

\$8,400,000 City of Shallowater, Texas, Combination Tax and Surplus Revenue Certificate of Obligation, Series 2025

| | | | |
|--------------------|-----------|---------------------------|-----------------|
| Dated Date: | 8/1/2025 | Source: | WDF |
| Delivery Date: | 8/1/2025 | Rate: | 4.53% |
| First Interest: | 3/15/2026 | IUP Year: | 2024 |
| First Principal: | 3/15/2027 | Case: | Tax and Revenue |
| Last Principal: | 3/15/2055 | Admin.Fee: | \$0 |
| Fiscal Year End: | 09/30 | Admin. Fee Payment Date: | N/A |
| Required Coverage: | 1.1 | Total Assessed Valuation: | \$303,092,238 |

| FISCAL YEAR | CURRENT TAX RATE | TAX REVENUES WITH COLL. @ 90% | PROJECTED NET SYSTEM REVENUES | PROJECTED TOTAL REVENUES | CURRENT DEBT SERVICE | \$8,400,000 ISSUE | | | | TOTAL DEBT SERVICE | COVERAGE |
|-------------|------------------|-------------------------------|-------------------------------|--------------------------|----------------------|-------------------|---------------|------------------|---------------|--------------------|----------|
| | | | | | | PRINCIPAL PAYMENT | INTEREST RATE | INTEREST PAYMENT | TOTAL PAYMENT | | |
| 2026 | 0.065986 | \$179,999 | \$1,004,595 | \$1,184,594 | \$571,167 | \$0 | - | \$406,541 | \$406,541 | \$977,708 | 1.21 |
| 2027 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 534,347 | 135,000 | 3.56% | 359,862 | 494,862 | 1,029,209 | 1.15 |
| 2028 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 518,612 | 140,000 | 3.38% | 355,093 | 495,093 | 1,013,705 | 1.17 |
| 2029 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 516,435 | 150,000 | 3.27% | 350,274 | 500,274 | 1,016,709 | 1.17 |
| 2030 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 507,286 | 155,000 | 3.23% | 345,318 | 500,318 | 1,007,605 | 1.18 |
| 2031 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 460,363 | 165,000 | 3.23% | 340,150 | 505,150 | 965,514 | 1.23 |
| 2032 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 147,908 | 170,000 | 3.21% | 334,757 | 504,757 | 652,665 | 1.82 |
| 2033 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 147,008 | 180,000 | 3.23% | 329,122 | 509,122 | 656,129 | 1.81 |
| 2034 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 151,062 | 190,000 | 3.26% | 323,118 | 513,118 | 664,179 | 1.78 |
| 2035 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 149,926 | 200,000 | 3.30% | 316,721 | 516,721 | 666,646 | 1.78 |
| 2036 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 87,726 | 210,000 | 3.54% | 309,704 | 519,704 | 607,429 | 1.95 |
| 2037 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 86,544 | 220,000 | 3.73% | 301,884 | 521,884 | 608,427 | 1.95 |
| 2038 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 85,345 | 230,000 | 3.94% | 293,250 | 523,250 | 608,595 | 1.95 |
| 2039 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 89,004 | 240,000 | 4.06% | 283,847 | 523,847 | 612,850 | 1.93 |
| 2040 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 87,527 | 255,000 | 4.19% | 273,632 | 528,632 | 616,159 | 1.92 |
| 2041 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 86,050 | 265,000 | 4.33% | 262,553 | 527,553 | 613,602 | 1.93 |
| 2042 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 89,467 | 280,000 | 4.42% | 250,628 | 530,628 | 620,095 | 1.91 |
| 2043 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 87,779 | 295,000 | 4.49% | 237,817 | 532,817 | 620,596 | 1.91 |
| 2044 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 86,067 | 310,000 | 4.56% | 224,126 | 534,126 | 620,193 | 1.91 |
| 2045 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 89,223 | 325,000 | 4.63% | 209,534 | 534,534 | 623,757 | 1.90 |
| 2046 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 87,270 | 340,000 | 4.56% | 194,259 | 534,259 | 621,528 | 1.91 |
| 2047 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 85,317 | 355,000 | 4.58% | 178,377 | 533,377 | 618,694 | 1.91 |
| 2048 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 88,255 | 375,000 | 4.61% | 161,604 | 536,604 | 624,859 | 1.90 |
| 2049 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | 86,085 | 395,000 | 4.66% | 143,757 | 538,757 | 624,842 | 1.90 |
| 2050 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | - | 415,000 | 4.70% | 124,801 | 539,801 | 539,801 | 2.19 |
| 2051 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | - | 435,000 | 4.75% | 104,717 | 539,717 | 539,717 | 2.19 |
| 2052 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | - | 455,000 | 4.76% | 83,557 | 538,557 | 538,557 | 2.20 |
| 2053 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | - | 480,000 | 4.79% | 61,232 | 541,232 | 541,232 | 2.19 |
| 2054 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | - | 505,000 | 4.79% | 37,641 | 542,641 | 542,641 | 2.18 |
| 2055 | 0.065986 | 179,999 | 1,004,595 | 1,184,594 | - | 530,000 | 4.82% | 12,773 | 542,773 | 542,773 | 2.18 |
| | | | | | \$4,925,769 | \$8,400,000 | | \$7,210,642 | \$15,610,642 | \$20,536,411 | |

| | |
|----------------------------|-------------|
| AVERAGE (MATURITY) LIFE | 18.94 YEARS |
| NET INTEREST RATE | 4.533% |
| COST SAVINGS | \$ 519,945 |
| AVERAGE ANNUAL REQUIREMENT | \$520,355 |

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

Attachment 2

City of Shallowater

21867 - Water and Wastewater Improvements

| Budget Items | L1002090 | Local Funds | Total |
|---------------------------------------|-----------------------|-----------------------|------------------------|
| Basic Engineering Services | | | |
| Design | \$7,009,881.00 | \$0.00 | \$7,009,881.00 |
| Planning | \$1,260,000.00 | \$0.00 | \$1,260,000.00 |
| Subtotal for Basic Engineering | \$8,269,881.00 | \$0.00 | \$8,269,881.00 |
| Special Services | | | |
| Environmental | \$37,500.00 | \$0.00 | \$37,500.00 |
| Subtotal for Special Services | \$37,500.00 | \$0.00 | \$37,500.00 |
| Fiscal Services | | | |
| Bond Counsel | \$33,400.00 | \$0.00 | \$33,400.00 |
| Financial Advisor | \$44,219.00 | \$0.00 | \$44,219.00 |
| Fiscal/Legal | \$5,000.00 | \$0.00 | \$5,000.00 |
| Issuance Costs | \$10,000.00 | \$0.00 | \$10,000.00 |
| Subtotal for Fiscal Services | \$92,619.00 | \$0.00 | \$92,619.00 |
| Other | | | |
| Land/Easements Acquisition | \$0.00 | \$5,000,000.00 | \$5,000,000.00 |
| Subtotal for Other | \$0.00 | \$5,000,000.00 | \$5,000,000.00 |
| Total | \$8,400,000.00 | \$5,000,000.00 | \$13,400,000.00 |

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF
\$8,400,000 TO THE CITY OF SHALLOWATER
FROM THE FINANCIAL ASSISTANCE ACCOUNT OF
THE TEXAS WATER DEVELOPMENT FUND II
THROUGH THE PROPOSED PURCHASE OF
\$8,400,000 CITY OF SHALLOWATER, TEXAS COMBINATION TAX AND SURPLUS
REVENUE CERTIFICATES OF OBLIGATION
PROPOSED SERIES 2025

(25-)

Recitals:

The City of Shallowater (City), located in Lubbock County, Texas, filed an application for financial assistance in the amount of \$8,400,000 from the Financial Assistance Account of the Texas Water Development Fund II, established by Texas Water Code § 17.959, to finance water system improvements, identified as Project No. 21867.

The City seeks financial assistance from the Texas Water Development Board (TWDB) in the amount of \$8,400,000 through the TWDB's purchase of \$8,400,000 City of Shallowater, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2025 (together with all authorizing documents (Obligations)), all as is more specifically set forth in the application and in recommendations of the TWDB's staff.

The City has offered a pledge of ad valorem taxes and surplus net revenues of the City's combined water and wastewater systems as sufficient security for the repayment of the Obligations.

In accordance with Texas Water Code § 17.124, the TWDB has considered all matters required by law and in particular the following:

1. the needs of the area to be served by the water supply project, the benefit of the water supply project to the area, the relationship of the water supply project to the overall, statewide water needs, and the relationship of the water supply project to the approved regional and state water plans; and
2. the availability of revenue to the City, from all sources, for the ultimate repayment of the cost of the water supply project, including interest.

Findings:

1. The public interest requires state assistance in the water supply project, in accordance with Texas Water Code § 17.125(a)(1).
2. In its opinion the tax or revenue pledged by the City will be sufficient to meet all the Obligations assumed by the City during the succeeding period of not more than 50 years, in accordance with Texas Water Code § 17.125(a)(2).

3. The City has submitted a proposed program of water conservation 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. The application and financial assistance requested meet the requirements of Chapter 17, Subchapters D, E, and L, Water Code, and the TWDB's rules set forth in 31 TAC Chapter 363, Subchapter A.

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

A commitment is made by the TWDB to the City of Shallowater for financial assistance in the amount of \$8,400,000 from the Financial Assistance Account of the Texas Water Development Fund II, to be evidenced by the TWDB's purchase of \$8,400,000 City of Shallowater, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2025. This commitment will expire on November 30, 2025.

This 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 as determined by the TWDB.
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 City complied with all of the requirements of the laws under which the Obligations were issued; that the Obligations were issued in conformance with the Constitution and laws of the State of Texas; and that the Obligations are valid and binding obligations of the City.
3. This commitment is contingent upon the City's 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), including but not limited to 31 TAC Chapter 363.
4. The Obligations must provide that the Obligations can be called for early redemption only in inverse order of maturity, and 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.
5. The Obligations must provide that the City, 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 City's Obligations or obligated persons, will, at a minimum, 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 City's Obligations, if the TWDB sells or otherwise transfers such Obligations, and the beneficial owners of the TWDB's bonds if the City is an obligated person with respect to the bonds under SEC Rule 15c2-12.

6. The Obligations must require the City 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 required by the Obligations.
7. The Obligations must require the City to use any surplus financial assistance proceeds from the Obligations remaining after completion of a final accounting in a manner approved by the Executive Administrator.
8. The Obligations must provide 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 will be of no force and effect.
9. Financial assistance proceeds are public funds. Therefore, the Obligations must require that these proceeds 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.
10. Proceeds of this commitment must not be used by the City when sampling, testing, removing, or disposing of contaminated soils or media at the project site. The Obligations must provide that the City is solely responsible for liability resulting from acts or omissions of the City, 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 City, its contractors, consultants, agents, officials, and employees as a result of activities relating to the Project to the extent permitted by law.
11. Before closing, the City must 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.
12. Before closing, and if required under the TWDB's financial assistance program and not previously provided with the application, the City must submit an executed engineering contract as appropriate for the project scope of work, and an executed financial advisor contract and executed bond counsel contract as appropriate for the work to be performed in obtaining the TWDB's financial assistance for the project, in a form and substance satisfactory to the Executive Administrator. Fees

to be reimbursed under any consulting contract must be reasonable in relation to the services performed, must be reflected in the contract, and must be acceptable to the Executive Administrator.

13. Before closing, when any portion of financial assistance proceeds are to be held in escrow or in trust, the City must execute an escrow agreement or trust agreement, approved as to form and substance by the Executive Administrator, and must submit that executed agreement to the TWDB.
14. The Executive Administrator may require that the City execute a separate financing agreement in form and substance acceptable to the Executive Administrator.
15. The City must abide by all applicable construction contract requirements related to the use of iron and steel products produced in the United States, as required by Texas Government Code, Chapter 2252, Subchapter F and Texas Water Code § 17.183.
16. The City must immediately notify TWDB, in writing, of any suit against it by the Attorney General of Texas under Texas Penal Code § 1.10(f) (related to federal laws regulating firearms, firearm accessories, and firearm ammunition).

Conditions Related To Tax-Exempt Status:

17. Before closing, the City's bond counsel must prepare a written opinion that states 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 City when rendering this opinion.
18. Before closing, the City's bond counsel must prepare a written opinion that states the Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the City when rendering this opinion.
19. The Obligations must include a provision prohibiting the City 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 § 141 of the Internal Revenue Code of 1986, as amended (Code) and the Treasury Regulations promulgated thereunder (Regulations).
20. 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 § 148(a) of the Code and Regulations, including to acquire or to replace funds 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 such proceeds are needed for the facilities to be financed;
 - b. amounts invested in a bona fide debt service fund, within the meaning of § 1.148-1(b) of the Regulations; and
 - c. amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed the least 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.
21. The Obligations must require the City to take all necessary steps to comply with the requirement that certain amounts earned on the investment of gross proceeds of the Obligations be rebated to the federal government in order to satisfy the requirements of § 148 of the Code. The Obligations must provide that the City will:
- a. account for all Gross Proceeds, as defined in the Code and Regulations, (including all receipts, expenditures, and investments on its books of account) separately and apart from all other funds (and receipts, expenditures, and investments) and retain all records of such accounting for at least six years after the final Computation Date. The City may, however, to the extent permitted by law, commingle Gross Proceeds of its financial assistance with other money of the City, provided that the City separately accounts for each receipt and expenditure of such Gross Proceeds and the obligations acquired with those 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 § 148(f) of the Code, § 1.148-3 of the Regulations, and the rulings under the Code. The City must maintain a copy of such calculations for at least six years after the final Computation Date;
 - c. as additional consideration for the making of the financial assistance, and in order to induce the making of the 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 for federal income tax purposes, pay to the United States the amount described in paragraph (b) above within 30 days after each Computation Date; and
 - d. exercise reasonable diligence to assure 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 after discovery, including payment to the United States of any interest and any penalty required by the Regulations.

22. The Obligations must include a provision prohibiting the City from taking any action that would cause the interest on the Obligations to be includable in gross income for federal income tax purposes.
23. The Obligations must provide that the City will not cause or permit the Obligations to be treated as “federally guaranteed” obligations within the meaning of § 149(b) of the Code.
24. The Obligations must contain a covenant that the City will refrain from using the proceeds of the Obligations to pay debt service on another issue of obligations of the borrower in contravention of section 149(d) of the Code (related to “advance refundings”).
25. The transcript must include a No Arbitrage Certificate or similar Federal Tax Certificate setting forth the City’s reasonable expectations regarding the use, expenditure and investment of the proceeds of the Obligations.
26. The transcript must include evidence that the information reporting requirements of § 149(e) of the Code will be satisfied. This requirement may be satisfied by filing an IRS Form 8038 with the Internal Revenue Service. In addition, the completed IRS Form 8038, or other evidence that the information reporting requirements of § 149(e) have been satisfied, must be provided to the Executive Administrator within 14 days of closing. The Executive Administrator may withhold the release of funds for failure to comply.
27. The Obligations must provide that neither the City nor a related party 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 City by the TWDB.
28. Prior to closing, the City must provide certification that the average weighted maturity of the Obligations purchased by the TWDB does not exceed 120 percent of the average reasonably expected economic life of the Project.

Pledge Conditions:

29. The Obligations must provide as follows:
 - a. if system revenues are actually on deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of taxes which otherwise would have been required to be levied and collected may be reduced to the extent and by the amount of revenues then on deposit in the Interest and Sinking Fund. or
 - b. if surplus revenues are based upon budgeted amounts:
 - c. the Obligations must require that the City transfer and deposit in the Interest and Sinking Fund each month an amount of not less than 1/12th of the

annual debt service on the Obligations until the amount on deposit in the Interest and Sinking Fund equals the amount required for annual debt service on the Obligations; further, that the ordinance authorizing the issuance of the Obligations must include a requirement that the City will not transfer any funds from the City's pledged system revenues to any fund other than the Interest and Sinking Fund until such time as an amount equal to the annual debt service on the Obligations for the then-current fiscal year has been deposited in the Interest and Sinking Fund.

- d. the Obligations must require that for each year the Obligations are outstanding, and before the time taxes are to be levied for that year, the City must adopt and maintain an annual budget that provides for either the monthly deposit of sufficient surplus pledged revenues or tax revenues, the monthly deposit of any other legally available funds on hand at the time of the adoption of the annual budget, or a combination of the two, into the Interest and Sinking Fund for the repayment of the Obligations.
30. The Obligations must include a requirement that the City will at all times maintain and collect sufficient rates and charges in conjunction with any other legally available funds so that, after payment of the costs of operating and maintaining the system, it produces revenues in an amount not less than 1.10 times debt service requirements of all outstanding Obligations of the City and other obligations of the City which are secured in whole or in part by the pledged revenues, for which the City is budgeting the repayment of the Obligations, or the City must provide documentation which evidences the collection of an ad valorem tax rate dedicated to the Interest and Sinking Fund, in conjunction with any other legally available funds, sufficient for the repayment of debt service requirements.

Special Conditions:

- 31. Before closing, the City must adopt and implement the water conservation program approved by the TWDB.
- 32. Before 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 City 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.

APPROVED and ordered of record this the 8th day of May 2025.

TEXAS WATER DEVELOPMENT BOARD

L'Oreal Stepney, P.E., Chairwoman

DATE SIGNED: _____

ATTEST:

Bryan McMath, 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:

ILI:

Real Loss GMD:

WATER LOSS THRESHOLDS

Water Loss Project:

Waiver Requested:

Wholesale Adjusted:

Threshold Type:

| Apparent Loss GCD | | Real Loss GCD | |
|--------------------------|------------------|----------------------|------------------|
| Reported | Threshold | Reported | Threshold |
| | | | |

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.

GMD means gallons per mile 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 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.



City of Shallowater Lubbock County

