

Contributions from Other
Revenue Sources

Item A.11

Board Policy No. 2013-011



TEXAS WATER DEVELOPMENT BOARD

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ITEM SUMMARY CONSENT BOARD AGENDA May 18, 1999

MEMORANDUM

TO: Members of the Board

THRU: Craig D. Pedersen, Executive Administrator
J. Kevin Ward, Deputy Executive Administrator, OPFCA
Ignacio Madera, Jr., Director, Border Project Management Division

FROM: Lana Jean Lutringer, Interim Asst. Director, Border Project Management Division 

DATE: May 7, 1999

SUBJECT: Consideration of a Policy Revision Addressing the Utilization of Contributions from other Revenue Sources in Lieu of an Affordable Loan Amount

RECOMMENDATION SUMMARY

Approve a policy revision clarifying the acceptable revenue sources that an applicant may provide as contributions towards eligible project costs in lieu of an affordable loan amount under the Economically Distressed Areas Program (EDAP).

BACKGROUND

In April 1998, the Board approved five policy initiatives as improvements to the grant/loan financial assistance calculation, three of which were adopted by rule in July 1998. These initiatives were:

- 1) **Develop a clear definition of living unit equivalency that may include the actual conversion factors for meter sizes;**
- 2) **Incorporate into the rules, criteria similar to the Drinking Water State Revolving Fund rules that allows a promissory note to be used for loans less than \$100,000 to water supply corporations;**
- 3) **Incorporate a process that will ensure that a municipality contributes from other sources in lieu of an affordable loan amount less than \$100,000;**

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- 4) Proceed to define "comparable service" in a process that will consider a broader regional benchmark that will utilize "of similar size" and "of similar service" as a component and incorporate the concept of a predetermined regional benchmark; and
- 5) Provide for a process where loans resulting from increases be added to original loan amounts if the original loan amount was less than \$100,000.

Prior to rules being developed, the Board's legal staff determined that the Board's existing rules allowed for loan agreements (Item #2) and for applicants' securing loan funds from other sources (Item #3); these initiatives were already available options through EDAP.

Where the process described under Item # 3 for ensuring that a municipality contributed from other sources has been incorporated into EDAP's procedures, several consultants and applicants have strongly questioned the types of revenue sources that staff considers appropriate as contributions in lieu of an affordable loan.

The following policy amendment clarifies the TWDB's position on the sources of contributions that may be used in lieu of an affordable loan under the EDAP program. Incorporating this policy amendment within EDAP's procedures will continue to offer our applicants maximum flexibility in structuring their financing needs while still maintaining the integrity of the program's goals.

Contributions In Lieu Of Affordable Loans:

Sources of revenue that are considered suitable resources for an applicant's affordable loan component in an EDAP financing are:

- ◆ available cash-on-hand (the use of which will not jeopardize the integrity of an applicant's system or any other financing an applicant may have incurred).
- ◆ private donations from corporations, foundations, industry or an individual.
- ◆ contributions from participants (that are not directly related to a participant's share in financing the cost of the project).
- ◆ bank loan or other bond proceeds (that are not directly related to financing the cost of the project).

Contributions/sources of revenue that will not be considered appropriate as a resource in lieu of an applicant's affordable loan are:

- ◆ in-kind contributions, which are typically defined as work efforts by an applicant or its participants that are not expected to be funded through any financial assistance; it is a cost that is absorbed by an applicant or its participants.
- ◆ force account, which is defined as work efforts that are considered reimbursable through financial assistance, but has never been considered eligible under the EDAP program.
- ◆ any resource that is state or federally funded, such as monies from the Texas Department of Housing and Community Affairs.

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Note: In addition, any bank loan or bond proceeds that are utilized to effectively replace an affordable loan under the EDAP program will not be considered when determining the grant to loan calculation.

Application Process, Rules and Procedures:

It is staff's intention to provide our applicants and their consultants with this policy amendment, thereby effectively informing them of this program clarification. Neither the application process nor TWDB rules require an amendment to implement this revision. EDAP procedures will be revised to incorporate those resources that may be considered in lieu of an affordable loan component to an EDAP financing.

RECOMMENDATION

Staff recommends the Board approve the policy amendments that clarify the use of contributions in lieu of affordable loans under EDAP using existing rules, with the understanding that staff will begin utilizing the methodology immediately.

Methodology for Financing
Residential Hook-Ups with
Federal & EDAP Funds

Item A.12



TEXAS WATER DEVELOPMENT BOARD

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ITEM SUMMARY REGULAR BOARD AGENDA April 8, 1999

MEMORANDUM

TO: Members of the Board

THRU: Craig D. Pedersen, Executive Administrator *CDP*
J. Kevin Ward, Deputy Executive Administrator, OPFCA *JKW*

FROM: Ignacio Madera, Jr., Director, Border Project Management Division *IMJ*
Lana Jean Lutringer, Interim Asst. Director, Border Project Management Division *LJL*

DATE: March 23, 1999

SUBJECT: Consideration of the methodology by which the Board will finance hook-up costs through the Economically Distressed Areas Program using Colonia Wastewater Treatment Assistance Program funds.

RECOMMENDATION SUMMARY

Approve the methodology for financing residential tie-in and connection costs (hook-ups) for projects financed through the Economically Distressed Areas Program (EDAP); those costs associated with connecting residents to the water and wastewater systems being constructed.

BACKGROUND

At the February Board meeting, staff outlined a proposal for financing hook-ups through the EDAP using the Colonia Wastewater Treatment Assistance Program funds.

Four contributing factors were identified at that time which substantially affect a resident's ability to connect to a utility system resulting in a low number of residential hook-ups in some projects. These factors are:

- the affordability of connection fees and associated costs,
- the absence of mandatory hookups,
- the lack of enforcement of mandatory connection requirements at the local level, and
- the lack of established monitoring and enforcement procedures by the grantor agency.

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Of these factors, the **affordability** aspect for most colonia residents clearly results in a financing necessity that must be bridged in order to effectively connect these residents and meet the intended goals of EDAP and CWTAP. To meet this financing need the following methodology has been developed, thereby providing the maximum flexibility in structuring the financing needs of individual projects while still maintaining the integrity of the TWDB's financing programs.

Methodology For Processing Hook-Ups:

The methodology constitutes a four-pronged approach to ensure successful implementation of hook-ups: **Eligible Applicants and Activities, Evaluation of Available Funding, Up-front Financial Assistance and Enforcement of Mandatory Connection Policies.**

Eligible Applicants and Activities:

Applicants. For this financing initiative, any applicant that is considered an **eligible applicant** (political subdivisions and water supply corporations) under the current **EDAP program and eligible for CWTAP funding** can access CWTAP funding to finance hook-ups if the following is met:

- the area to be served must be environmentally cleared as prescribed by current CWTAP provisions;
- the applicant must document the process by which residents will be identified by the applicant for hook-up funding. If an applicant is accessing other agency funding to finance the hook-up costs, the applicant's process would include the specific information by which that other agency determines eligibility. For instance, the Texas Department of Housing and Community Affairs' (TDHCA) programs focus on low to moderate income thresholds and require that in order to access funding that individual households qualify for hook-up funding by meeting these thresholds. By including the TDCHA information on low to moderate income thresholds, a rating mechanism in the process will allow the applicant to effectively access TDCHA funding. Applicants will be encouraged to incorporate all such information for all programs for which they may be eligible. TWDB's focus on funding hook-ups is to ensure that the applicant has taken advantage of every available funding resource/option where a resident's affordability of the hook-up costs is considered.
- if an applicant is unable to access other financing programs besides TWDB's programs or insufficient funds are available to provide for all the identified hook-up needs, specific documentation of efforts will be requested prior to TWDB releasing funds for hook-up costs to ensure integrity of TWDB programs while still providing maximum flexibility in meeting applicant's financing needs.

These elements are being incorporated within the Financial Application Procedures and Guidelines and where necessary, specific conditions will be placed on any financial assistance that includes funds for hook-up costs.

Activities. Hook-up costs are any expense or fee that is necessary to effectively connect a colonia resident to the utility system. These costs may include: tap fees, on-site remediation, pipeline, construction, decommissioning of on-site systems (capping, draining and backfilling), and meters. **Indoor plumbing improvements are not eligible.**

Evaluation of Available Funding:

Once a potential applicant has been identified, staff will inquire as to the applicant's assessment of its hook-up needs. Specific direction and assistance will be provided to each applicant in identifying all viable resources. Staff is dedicated to proactively coordinating with financing agencies such as TDHCA, NADBank and USDA Rural Development to ensure that all funding resources are actively pursued. Staff is compiling a detailed list of all financial resources and contacts that may be options in financing hook-ups; the list will be provided directly to the applicant and its consultants. Staff's primary goal with this effort is to maximize all funding sources to ensure that hook-ups occur efficiently and effectively.

Up-front Financial Assistance:

New applicants accessing the EDAP program, that are eligible for CWTAP, will be encouraged to include hook-up costs as an eligible line item, if there is a need. In addition to standard EDAP conditions, all new financial assistance commitments will be conditioned, if applicable, that prior to release of funds for hook-ups 1) an approved process that qualifies residents for hook-ups has been officially adopted; 2) provide documentation of funding sources for all hook-ups; 3) a connection schedule detailing timing of when connections will happen, special circumstances that need to occur prior to or as the connections are made, and which financial resource will be funding the connections.

The standard format of TWDB's grant agreements will be amended to include provisions that will address the conditions under which hook-up costs are being financed and funds are released. The amended format will then become the standard when hook-up costs are included in the financial assistance package.

Enforcement of Mandatory Connection Policies:

Where the previous three methodology components focus on resolving the affordability impediment, the other impediments (see **Background**, page 1) to residents hooking up to utility systems relate to the lack of or insufficient enforcement of **mandatory hook-up policies**. It is staff's belief that once affordability is addressed with sufficient resources, the absence or lack of mandatory connection enforcement at the local level will be less of a factor in whether customers are connected.

In addition, the Texas Border Infrastructure Group's (TBIG) coordinated efforts are already producing significant leaps in the overall effectiveness of each participating agency in addressing the hook-up issue. TBIG has initiated increased reporting by each agency on the status of hook-ups on a project by project basis. This effort will raise the proactive outreach that has been lacking in established monitoring and enforcement procedures by the grantor agencies.

By ensuring that funding for hook-ups is made available at the time of commitment for CWTAP funded projects, TWDB may be able to eliminate the largest barrier to residents connecting to a system. The requirement for wastewater projects of adopting a mandatory hook-up policy, which incorporates a maximum ninety (90) day time frame for connecting all property owners that are capable of receiving service to the system, **will still be a condition** for accessing TWDB's EDAP program. This mandatory hook-up requirement is not applicable to water projects; staff's historical experience is that there is no problem with residents connecting to water systems, since there generally is not another water supply alternative available to the property owner.

Application Process, Rules and Procedures:

Application Process: The application process will be amended only slightly to include all of these new elements and conditions for new applicants. Where these new elements may add to the application packet and to staff's review time, the added effort is overshadowed by the significant gains in guaranteeing that residents will be able to hook-up to these utilities and receive service on a more timely basis. Any perceived delays in presenting these financial requests at the Finance Committee Meeting or for TWDB commitment due to these new program elements are insignificant when the ultimate goal will be met.

For existing commitments or outstanding loans where hook-ups were not considered an eligible cost and unfortunately connecting residents to systems has been impeded, staff has developed an abbreviated application that can be utilized to access CWTAP funds for hook-up costs. These applicants will be required, as with a new applicant, to meet all of the parameters and conditions that are being established with this methodology. In addition to the new methodology, staff will have to review the grant to loan calculation as provided under §363.505(a)(3) of TWDB rules to determine if there should or should not be an increase in the loan component of the financing.

Lower Valley Water District is the first such applicant that is requesting CWTAP funds to finance a portion of their hook-ups; these funds will be utilized in combination with other resources.

Rules. Staff has determined that under our current rules, a borrower may include hook-up costs as an eligible project element. There are no additional rule amendments needed to provide this assistance.

Procedures. Where the Financial Application Procedures and Guidelines have been amended, the grant agreements address the closing procedures and will reflect the intent of releasing hook-up monies as separate releases tied to the completion of main system lines and the need of the applicant to begin hooking residents up to the system. This release is contingent on all conditions of the loan and grant that are directly tied to release of hook-up monies are deemed met. Board staff has an established procedure, whereby the status of all projects are closely monitored to determine the need for project funds. Therefore, the release of hook-up monies will easily fit within the closing procedures.

Members of the Board

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Marketing:

The Economically Distressed Areas Program handout that generally outlines the overall process will be amended to show that hook-ups are an eligible cost for CWTAP funded projects. Staff will provide interested "potential" borrowers and consultants this handout.

RECOMMENDATION

Staff recommends the Board approve the methodology and procedures for financing hook-ups using existing rules and clearly identifying hook-up costs in the grant agreement, with the understanding that staff will begin utilizing the methodology immediately.