

Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: July 20, 2017

TEAM MANAGER: Mireya Loewe

APPLICANT	City of Justin
TYPE OF ASSISTANCE	\$2,400,000 Certificates of Obligation Proposed Series 2017 \$2,400,000 Certificates of Obligation Proposed Series 2019 \$7,200,000 Certificates of Obligation Proposed Series 2021
LEGAL PLEDGE	Ad Valorem Tax and Surplus Revenue of the City's Combined Waterworks and Sewer System

STAFF RECOMMENDATION

☒ Approve ☐ No Action

ACTION REQUESTED

Approve by resolution, a request from the City of Justin (Denton County) for \$12,000,000 in multi-year, low-interest financing from the State Water Implementation Revenue Fund for Texas for the design and construction of a water line replacement project to address water loss.

PROJECT

Enhanced Water Loss Control and Conservation
Project Number 51045

BACKGROUND

Passed by the 83rd Legislature and approved by Texas voters through a constitutional amendment, the State Water Implementation Fund for Texas (SWIFT) and the State Water Implementation Revenue Fund for Texas (SWIRFT) were created to provide affordable, alternative financing options to develop projects that are recommended water management strategies in the State Water Plan. The program, referred to as SWIFT, provides low-interest financing, deferral of repayments, and incremental repurchase terms for projects with state ownership aspects. SWIFT projects presented for consideration have been scored and ranked utilizing a prioritization criteria outlined in Texas Administrative Code Title 31 § 363.1304 and are included on the prioritized list of projects approved by the Board on March 29, 2017.

The City of Justin (City) is located in Denton County, about 26 miles north of the City of Fort Worth. The City's primary water source, surface water from the Upper Trinity Regional Water District, is delivered directly to an elevated storage tank in the central Old Town area. The elevated tank supplies water to other parts of the City and is a critical portion of the City's water infrastructure. When leaks occur in Old Town, the entire system is

Multi-Year Commitment:	Expiration Date
\$2,400,000 Proposed Series 2017	December 31, 2017
\$2,400,000 Proposed Series 2019	December 31, 2019
\$7,200,000 Proposed Series 2021	December 31, 2021

impacted because the elevated tank must be taken out of service in order to work on the water mains.

The project will replace leaking water mains surrounding the existing elevated storage tank in the City's central Old Town area. The current pipeline in this area consists of asbestos cement, thin wall polyvinyl chloride (PVC), and cast iron. A total of 31,200 linear feet (lf) of 6-inch lines and 6,350 lf of 8-inch lines are to be replaced with new PVC lines of the same diameter. Existing lines will be abandoned in place. Replacement of leaking water mains will allow the City to conserve water and operate a more efficient water system.

FINANCIAL

Key Issues

The City has not completed its 2016 financial audit. Texas Water Development Board (TWDB) received and reviewed the 2015 financial audit and a draft of the 2016 financial audit. The commitment is conditioned on TWDB receiving an adopted and final 2016 financial audit, acceptable in form and substance to the Executive Administrator, prior to the execution of the financing agreement (Condition No. 29). The financial analysis below is based on the 2015 financial audit. The draft 2016 audit shows a slight change in financial position, but it does not result in a change to the assigned internal risk score.

Multi-Year Commitment

The SWIFT program has the ability to offer applicants multi-year commitments. This flexibility allows the TWDB to manage program demand while allowing the applicant to fund projects over time. Each annual commitment installment will have its own expiration date and the applicable interest rate subsidy will be applied for up to five funding cycles only. The City has requested a multi-year commitment over a period of 5 years: 2017, 2019, and 2021. The applicable interest rate subsidy for rural entities will be applied for five funding cycles. After that time, the subsidy will be based on what is established for the program during those funding cycles.

Pledge and Repayment

The City is pledging ad valorem taxes and surplus revenue of the combined waterworks and sewer system as repayment of the proposed obligation. The City's current combined average monthly water and sewer rate is \$84.50. Starting in 2020, the City will need to increase the combined monthly water and sewer rate to \$133.43 by 2030. The City's current interest and sinking fund tax rate is \$0.08 per \$100 assessed valuation. The City intends to utilize the system revenues to service the proposed debt; therefore, it will not increase the interest and sinking fund tax rate.

Cost Savings

Based on a 20-year maturity and current interest rates, the City could save approximately \$505,515 over the life of the 2017 obligations.

Internal Risk Score

Staff assigns a 2B to the City and the proposed project to be funded by the TWDB. This means that the City's payment capacity is adequate.

The financial sustainability indicators for the City are adequate. These indicators are more heavily weighted than the other internal risk score factors and show the City's short-term and long-term ability to repay the debt. With the projected water and sewer rate increases, the City will produce and maintain net revenues of 1.10 times the annual debt service requirements. This level of revenues will allow the City to manage fluctuations in expenses and still meet debt service requirements. Additionally, the long-term condition of the system is sound with an asset condition ratio of 25 years. An asset condition ratio of 12 to 24 years is considered typical

The City scored well on other indicators showing the overall health of the City. The City has been able to retain its revenues, as evidenced by an increase in the fund balance over the last five years relative to revenues. In addition, taxable property in the City has been stable over the last five years. This has resulted in a strong net taxable assessed valuation per capita of \$84,037.

The City's socioeconomic indicators are higher than the state's median overall. The median household income (MHI) of \$75,898 is 143 percent of the state's median. The current water and sewer household cost, as a percentage of the MHI, is low at 1.34 percent. When considering the planned rate increase to \$133.43 by 2030 and comparing it to the current MHI, the water and sewer household cost increases to 2.11percent, which is above the industry's standard of 2 percent for the two services. The county's unemployment rate of 3.5 percent is lower than the state average of 4.5 percent.

The City maintains a liquidity position with cash and short-term investments equal to 753 days of operating expenses. An amount greater than 250 days is considered to be a strong level of liquidity, which provides stability to the City by providing the resources needed to cover short-term, unplanned needs.

The City's strong liquidity, good cash balance ratio, and strong socioeconomic indicators mitigate the City's need to increase system rates by nearly 58% over a ten-year period; thus, supporting the assigned risk score of 2B.

LEGAL

Key Issues

None.

Conditions

Standard SWIFT, tax-exempt, and tax and surplus revenue conditions, and further conditioned as follows:

- Prior to executing finance agreement, submittal of 2016 audited financial statements; and
- Environmental conditions.

Attachments: 1. Project Data Summary
2. Debt Service Schedule
3. Engineering/Environmental Review

4. Project Budget
5. Resolution (17-)
6. Water Conservation Review
7. Location Map

Project Data Summary

Responsible Authority	City of Justin
Program	State Water Implementation Fund for Texas
Commitment Code	LM17071 - Series 2017 LM19071 - Series 2019 LM21071 - Series 2021
Project Number	51045
Intended Use Plan Year	N/A
Fund Number	361
Type of Pledge	3-Tax and Revenue
Revenue Pledge Level	Third
Legal Description	\$2,400,000 City of Justin, Texas Tax and Surplus Revenue Certificates of Obligation Proposed Series 2017 \$2,400,000 Proposed Series 2019 \$7,200,000 Proposed Series 2021
Tax-exempt or Taxable	Tax-exempt
Refinance	No
Outlay Requirement	No
Disbursement Method	Escrow
Outlay Type	N/A
Population	3,640
Rural	Yes
Water Connections	1,407
Wastewater Connections	1,304
Qualifies as Disadvantaged	No
Disadvantaged Level	9
Clean Water State Revolving Fund Type	N/A
SWIFT Financing Type	Low-interest
SWIFT Characteristic	Rural and Conservation
Financial Managerial & Technical Complete	N/A
Funding Phase Code	Design and Construction
Pre-Design	Yes
Project Consistent with Water Plan	Yes
Water Conservation Plan	Exempt
Water Rights Certification Required	No
Internal Risk Score	2B
External Ratings	
Standard and Poor's	A
Moody's	Non- rated
Fitch	Non-rated
Special Issues	None

Project Team

Team Manager	Mireya Loewe
Financial Analyst	Javier Pena
Project Reviewer	Nicki Hise
Environmental Reviewer	Lauren Dill
Attorney	Joe Reynolds

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
City of Justin

Attachment 2

\$2,400,000 City of Justin Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2017

Dated Date: 11/30/2017
Delivery Date: 11/30/2017
First Interest: 2/15/2018
First Principal: 8/15/2020
Last Principal: 8/15/2037

Fiscal Year End: 09/30
Required Coverage: 1.1

Source: SWIFT-RURAL-20YR
Rate: 1.50%
Insurance: No
Case: Tax and Revenue
Admin.Fee: \$ -

Admin. Fee Payment Date: 11/30/2017
Total Assessed Valuation: \$ 281,609,516

\$9,600,000 City of Justin Combined Future Series 2019-2025

Dated Date: 11/30/2019
Delivery Date: 11/30/2019
First Interest: 2/15/2020
First Principal: 8/15/2022
Last Principal: 8/15/2041

Fiscal Year End: 9/30
Required Coverage: 1.1

Source: SWIFT-RURAL-20YR
Rate: 1.63%
Insurance: -
Case: -
Admin.Fee: \$ -
Admin. Fee Payment Date: -
Date: N/A

FISCAL YEAR	REQUIRED TAX	REQUIRED TAX REVENUES WITH COLL. @ 90%	PROJECTED NET SYSTEM REVENUES	PROJECTED TOTAL REVENUES	CURRENT DEBT SERVICE	\$2,400,000 ISSUE					Combined Future Series 2019-2025				
						\$9,600,000 ISSUE									
						PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT	DEBT SERVICE	ACTUAL COVERAGE	
2018	0.081	\$204,786	\$394,230	\$599,016	\$483,715	\$ -	0.48%	\$22,198	\$22,198	\$ -	\$ -	\$ -	\$505,913	1.18	
2019	0.081	204,786	394,230	599,016	485,506	-	0.53%	31,339	31,339	-	-	-	516,845	1.16	
2020	0.081	204,786	515,813	720,599	482,818	120,000	0.58%	31,339	151,339	-	20,933	20,933	655,090	1.10	
2021	0.081	204,786	524,392	729,178	483,222	120,000	0.65%	30,643	150,643	-	29,024	29,024	662,889	1.10	
2022	0.081	204,786	666,953	871,739	483,253	120,000	0.71%	29,863	149,863	110,000	49,374	159,374	792,490	1.10	
2023	0.081	204,786	686,496	891,282	484,418	125,000	0.78%	29,011	154,011	115,000	56,827	171,827	810,256	1.10	
2024	0.081	204,786	1,153,174	1,357,960	483,347	125,000	0.86%	28,036	153,036	435,000	76,462	511,462	1,147,845	1.18	
2025	0.081	204,786	1,158,536	1,363,322	483,405	125,000	0.95%	26,961	151,961	450,000	83,134	533,134	1,168,500	1.17	
2026	0.081	204,786	1,167,472	1,372,258	487,312	125,000	1.05%	25,773	150,773	460,000	101,911	561,911	1,199,996	1.14	
2027	0.081	204,786	1,174,946	1,379,732	490,511	130,000	1.10%	24,461	154,461	470,000	107,594	577,594	1,222,566	1.13	
2028	0.081	204,786	1,178,521	1,383,307	490,794	130,000	1.25%	23,031	153,031	480,000	104,346	584,346	1,228,171	1.13	
2029	0.081	204,786	1,184,695	1,389,481	494,358	135,000	1.38%	21,406	156,406	495,000	100,730	595,730	1,246,494	1.11	
2030	0.081	204,786	1,189,245	1,394,031	492,482	135,000	1.48%	19,543	154,543	505,000	96,800	601,800	1,248,825	1.12	
2031	0.081	204,786	1,189,245	1,394,031	-	135,000	1.56%	17,545	152,545	515,000	92,322	607,322	759,867	1.83	
2032	0.081	204,786	1,189,245	1,394,031	-	140,000	1.63%	15,439	155,439	525,000	87,465	612,465	767,904	1.82	
2033	0.081	204,786	1,189,245	1,394,031	-	140,000	1.70%	13,157	153,157	540,000	81,993	621,993	775,150	1.80	
2034	0.081	204,786	1,189,245	1,394,031	-	145,000	1.75%	10,777	155,777	555,000	76,044	631,044	786,821	1.77	
2035	0.081	204,786	1,189,245	1,394,031	-	145,000	1.79%	8,239	153,239	565,000	69,523	634,523	787,762	1.77	
2036	0.081	204,786	1,189,245	1,394,031	-	150,000	1.83%	5,644	155,644	585,000	62,456	647,456	803,100	1.74	
2037	0.081	204,786	1,189,245	1,394,031	-	155,000	1.87%	2,899	157,899	595,000	54,868	649,868	807,767	1.73	
2038	0.081	204,786	1,189,245	1,394,031	-	-	-	-	-	610,000	46,650	656,650	656,650	2.12	
2039	0.081	204,786	1,189,245	1,394,031	-	-	-	-	-	620,000	38,091	658,091	658,091	2.12	
2040	0.081	204,786	1,189,245	1,394,031	-	-	-	-	-	480,000	28,896	508,896	508,896	2.74	
2041	0.081	204,786	1,189,245	1,394,031	-	-	-	-	-	490,000	22,113	512,113	512,113	2.72	
						\$ 34,142,251	\$ 6,325,141	\$ 2,400,000	\$ 417,296	\$ 2,817,296	\$ 9,600,000	\$ 1,520,255	\$ 11,120,255	\$ 20,262,692	

\$2,400,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	11.6 YEARS
NET INTEREST RATE	1.498%
COST SAVINGS	\$ 505,515
AVERAGE ANNUAL REQUIREMENT	\$140,865

\$9,600,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	13.34 YEARS
NET INTEREST RATE	1.630%
COST SAVINGS	
AVERAGE ANNUAL REQUIREMENT	\$505,466

TOTAL AVERAGE ANNUAL REQUIREMENTS
\$844,279

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.

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Justin
51045 Enhanced Water Loss Control and Conservation Program
Engineering and Environmental Review

Engineering

Key Issues:

None.

Project Need/Description

Need: The City of Justin's (City) central Old Town area is served by aging and deteriorating waterlines. The City purchases water from the Upper Trinity Regional Water District. Water is delivered directly to an elevated storage tank in the central Old Town area. The storage tank is hindered from working properly due to leaking water mains in this part of the City. When leaks occur in the central Old Town area, the tank must be taken out of service in order to repair surrounding water mains.

Project Description: The project consists of replacing leaking water mains surrounding the existing elevated storage tank in the City's central Old Town area. A total of 31,200 linear feet (lf) of 6-inch line and 6,350 lf of 8-inch line are to be replaced, with existing lines abandoned in place. Replacement of leaking water mains and addition of service valves will allow the City to conserve water and operate a more efficient water system.

Project Schedule

Project Task	Schedule Date
Engineering Feasibility Report Completion (End of Planning Phase)	7/31/2017
Closing	11/30/2017
Start of Construction	9/24/2018
Design Phase Complete	6/8/2026
Construction Completion	8/30/2027

Environmental Section

Key Issues:

None.

Environmental Summary:

As required by 31 Texas Administrative Code § 363.14, environmental review of the proposed project has been completed. A Determination of No Effect was issued on June 15, 2017.



Project Budget Summary
Justin
51045 - Enhanced Water Loss Control
and Conservation Program

Budget Items	TWDB Funds	Local and Other Funds	Total
Construction			
Construction	\$9,550,000.00	\$0.00	\$9,550,000.00
Subtotal for Construction	\$9,550,000.00	\$0.00	\$9,550,000.00
Basic Engineering Services			
Construction Engineering	\$90,000.00	\$0.00	\$90,000.00
Design	\$762,000.00	\$0.00	\$762,000.00
Subtotal for Basic Engineering Services	\$852,000.00	\$0.00	\$852,000.00
Special Services			
Geotechnical	\$28,000.00	\$0.00	\$28,000.00
Project Management (by engineer)	\$180,000.00	\$0.00	\$180,000.00
Subsurface Utility Engineering	\$110,000.00	\$0.00	\$110,000.00
Surveying	\$180,000.00	\$0.00	\$180,000.00
Subtotal for Special Services	\$498,000.00	\$0.00	\$498,000.00
Fiscal Services			
Bond Counsel	\$50,000.00	\$0.00	\$50,000.00
Financial Advisor	\$100,000.00	\$0.00	\$100,000.00
Issuance Cost	\$200,000.00	\$0.00	\$200,000.00
Subtotal for Fiscal Services	\$350,000.00	\$0.00	\$350,000.00
Other			
Administration	\$0.00	\$100,000.00	\$100,000.00
Subtotal for Other	\$0.00	\$100,000.00	\$100,000.00
Contingency			
Contingency	\$750,000.00	\$0.00	\$750,000.00
Subtotal for Contingency	\$750,000.00	\$0.00	\$750,000.00
Total	\$12,000,000.00	\$100,000.00	\$12,100,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE TO THE CITY OF JUSTIN
IN THE FORM OF A MULTI-YEAR COMMITMENT
FROM THE STATE WATER IMPLEMENTATION REVENUE FUND FOR TEXAS
THROUGH THE PROPOSED PURCHASE OF \$12,000,000 CITY OF JUSTIN, TEXAS TAX
AND SURPLUS REVENUE CERTIFICATES OF OBLIGATION,
PROPOSED SERIES 2017 THROUGH PROPOSED SERIES 2021

(17-)

WHEREAS, the City of Justin (City) has filed an application for financial assistance in the amount of \$12,000,000 from the State Water Implementation Revenue Fund for Texas (SWIRFT) to finance the design and construction of certain water supply project(s) identified as Project No. 51045 (Project); and

WHEREAS, the City 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 \$12,000,000 City of Justin, Texas Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2017 through proposed series 2021, (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; and

WHEREAS, the City has offered a pledge of ad valorem taxes and surplus net revenues of the City's combined waterworks and sewer system as sufficient security for the repayment of the Obligations; and

WHEREAS, the commitment is approved for funding under the TWDB's pre-design funding option, and initial and future releases of funds are subject to 31 TAC § 363.1307; and

WHEREAS, as a rural political subdivision, the City qualifies for additional interest rate subsidization of up to 50 percent at the following levels: 50 percent for a term of 20 years, 33.50 percent for a term of 21 to 25 years, and 26.15 percent for a term of 26 to 30 years. The interest rate subsidy applicable to each proposed series will be set through each financing agreement executed between the TWDB and the City, pursuant to this Resolution; and

WHEREAS, these interest rate subsidies given 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; and

WHEREAS, the TWDB has carefully considered all matters required by law and in particular, whether the Project as set forth in the application meets the criteria

provided by Texas Water Code § 15.434(b) relating to a project for a rural political subdivision as defined by Texas Water Code § 15.992; and

WHEREAS, the TWDB hereby finds:

1. that 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. that 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. that the City is exempt from requirements to adopt a water conservation program because the City's appropriation of surface water for municipal, industrial, and other uses is less than 1,000 acre-feet a year as required by Texas Water Code § 11.1271;
4. that the City satisfactorily completed all requests by the Executive Administrator or a regional planning group for information relevant to the Project, including a water infrastructure financing survey under Texas Water Code § 16.053(q), in accordance with 31 TAC § 363.1309(b)(2);
5. that the current water audit has been completed by the City and filed with the TWDB in accordance with Texas Water Code § 16.0121 and 31 TAC § 358.6;
6. that the City is a rural political subdivision as defined by Texas Water Code § 15.992;
7. that the City has acknowledged its legal obligation to comply with any applicable requirements of federal law relating to contracting with disadvantaged business enterprises and any applicable state law relating to contracting with historically underutilized businesses, in accordance with Texas Water Code § 15.435(h) and 31 TAC § 363.1309(b)(3); and
8. that the Executive Administrator issued a Categorical Exclusion on June 15, 2017, such findings being subject to the standard emergency discovery conditions for threatened and endangered species and cultural resources in the Project contract documents. The TWDB concurs with the environmental finding issued by the Executive Administrator.

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

A commitment is made by the TWDB to the City of Justin for financial assistance in the amount of \$12,000,000 from the State Water Implementation Revenue Fund for Texas, to be evidenced by the TWDB's proposed purchase of

City of Justin, Texas Tax and Surplus Revenue Certificates of Obligation as follows:

- a) \$2,400,000 Proposed Series 2017, to expire on December 31, 2017;
- b) \$2,400,000 Proposed Series 2019, to expire on December 31, 2019; and
- c) \$7,200,000 Proposed Series 2021, to expire on December 31, 2021.

Such 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;
- 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 has complied with all of the requirements of the laws under which said Obligations were issued; that said Obligations were issued in conformity with the Constitution and laws of the State of Texas; and that said Obligations are valid and binding obligations of the City;
- 3. this commitment is contingent upon the City'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 City executing a separate financing agreement, approved as to form and substance by the Executive Administrator, and submitting that executed agreement to the TWDB consistent with the terms and conditions described in the financing agreement;
- 5. the City 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;

The Following Conditions Must Be Included in the Obligations:

- 6. the Obligations must provide that the Obligations can be called for early redemption only in inverse order of maturity, 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;

7. the Obligations must include a provision wherein 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, 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 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 such bonds under SEC Rule 15c2-12;
8. the Obligations must contain a provision requiring the City to levy a tax and/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;
9. the Obligations must include a provision requiring the City to use any loan proceeds from the Obligations that are determined to be surplus proceeds remaining after completion of the Project for the following purposes as approved by the Executive Administrator: (1) deposit into the Interest and Sinking Fund or other debt service account for the payment of interest or principal on the Obligations owned by the TWDB; or (2) eligible costs for the Project as authorized by the Executive Administrator;
10. 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;
11. loan 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;
12. loan proceeds shall not be used by the City when sampling, testing, removing or disposing of contaminated soils and/or media at the Project site. The Obligations shall include an environmental indemnification provision wherein the City agrees to indemnify, hold harmless and protect the TWDB from any and all claims, causes of action or damages to the person or property of third parties arising from the sampling, analysis, transport, storage, treatment,

recycling and disposition of any contaminated sewage sludge, contaminated sediments and/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;

13. the Obligations must include a provision stating that the City 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;
14. 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 form in accordance with 31 TAC § 363.42(c)(1);

Tax-exempt Conditions:

15. the Obligations must include a provision prohibiting the City from using the proceeds of this loan in a manner that would cause the Obligations to become "private activity bonds" within the meaning of § 141 of the Internal Revenue Code as amended (Code) and the Treasury Regulations promulgated thereunder (Regulations);
16. the Obligations must provide that no portion of the proceeds of the loan 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 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 that are issued to provide financing for the loan (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 percent 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;

17. the Obligations must include a provision requiring the City 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 thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) 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 loan 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 therewith;
 - b. calculate the Rebate Amount, as defined in the Code and Regulations, with respect to its loan, 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 thereunder. The City shall 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 loan, and in order to induce the making of the loan by measures designed to ensure the excludability of the interest on the TWDB's Source Series Bonds from the gross income of the owners thereof for federal income tax purposes, pay to the United States the amount described in paragraph (b) above within 30 days after each Computation Date;
 - d. exercise reasonable diligence to assure that no errors are made in the calculations required by paragraph (b) and, if such error is made, to discover and promptly to correct such error within a reasonable amount of time thereafter, including payment to the United States of any interest and any penalty required by the Regulations;
18. 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;
19. 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;

20. the Obligations must provide that neither the City nor a related party thereto 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;

Pledge Conditions:

21. the Obligations must contain a provision that provides 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:
 - i. the Obligations must include a requirement 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 shall 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;
 - ii. the Obligations must include a requirement that for each year the Obligations are outstanding, and prior to the time taxes are to be levied for such year, the City shall establish, adopt, and maintain an annual budget that provides for either the monthly deposit of sufficient surplus pledged revenues and/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 thereof, into the Interest and Sinking Fund for the repayment of the Obligations; and
 - iii. the Obligations must include a requirement that the City shall 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 that are secured in whole or in part by the pledged revenues, for which the City is budgeting the repayment of such Obligations, or the City shall provide documentation that evidences the levy and 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;

Conditions to Close or for Release of Funds:

22. prior to closing, the City 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;
23. prior to closing, if not previously provided with the application, the City 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;
24. prior to closing, when any portion of financial assistance is to be held in escrow or in trust, the City 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;
25. prior to closing, the City'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 City when rendering this opinion;
26. prior to closing, the City'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 City when rendering this opinion;
27. 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;
28. the transcript must include evidence that the information reporting requirements of § 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 § 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;

PROVIDED, however, the commitment is subject to the following special conditions:

Special Conditions:

29. prior to execution of the financing agreement for the Obligations, the City must submit its 2016 audited financials, in form and substance acceptable to the Executive Administrator; and
30. the City must comply with all conditions as specified in the final environmental finding of the Executive Administrator, including the standard emergency discovery conditions for threatened and endangered species and cultural resources.

APPROVED and ordered of record this, the 20th day of July, 2017.

TEXAS WATER DEVELOPMENT BOARD

Bech K. Bruun, Chairman

DATE SIGNED: _____

ATTEST:

Jeff Walker
Executive Administrator

WATER CONSERVATION REVIEW

Entity: _____

Review date: _____

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

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

WATER LOSS AUDIT YEAR:

Total water loss (GPCD): _____

Total water loss (percent): _____

Wholesale Water

Total no. of connections: _____

Length of mains (miles): _____

Connections per mile: _____

If > 16 connections per mile and > 3,000 connections, Infrastructure Leakage Index (ILI): _____

WATER LOSS THRESHOLDS:

If population ≤ 10K, connections/mile < 32 :

If population ≤ 10K, connections/mile ≥ 32 :

If population > 10K :

Apparent Loss Gallons per connection per day	Real Loss Gallons per mile per day	Real Loss Gallons per connection per day	Apparent Threshold Gallons per connection per day	Real Threshold Gallons per mile per day	Real 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 loss refers to unauthorized consumption, meter inaccuracy, billing adjustments, and waivers.

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.

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 5,000 connections, average pressure greater than 35 psi, and a connection density of more than 32 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.

Produced water is the total amount of water purchased or produced by the utility.

Real loss comes from main breaks and leaks, storage tank overflows, customer service line breaks, and leaks.

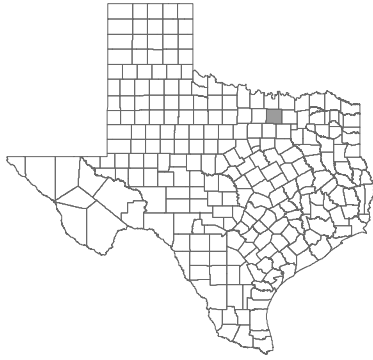
Residential GPCD is the amount of water per capita used solely for residential use and ideally includes both single and multi-family customer use.

Total baseline GPCD is the amount of all water purchased or produced by the utility divided by the service area population and then 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 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.



City of Justin Denton County

