

# Texas Water Development Board

## PROJECT FUNDING REQUEST

**BOARD DATE:** July 25, 2023

**Team Manager:** Tom Barnett

### **ACTION REQUESTED**

Consider approving by resolution a request from the Palo Pinto County Municipal Water District No. 1 (Palo Pinto and Parker counties) for \$12,000,000 in financing from the State Water Implementation Revenue Fund for Texas for planning, acquisition, and design of a water supply project.

### **STAFF RECOMMENDATION**

Approve       No Action

### **BACKGROUND**

The Palo Pinto County Municipal Water District No. 1 (District) is the owner of the Lake Palo Pinto dam and reservoir, which was constructed in 1964. The District supplies water from the reservoir to the City of Mineral Wells and its wholesale customers, Lake Palo Pinto Area Water Supply Corporation, and the Brazos Electric Power Cooperative. The District provides wholesale water to approximately 34,500 residents.

### **PROJECT NEED AND DESCRIPTION**

Lake Palo Pinto, owned by the District, has lost a large portion of its original capacity due to siltation. The project is needed to provide drought resiliency and restore supply to meet the current and future water demands of the District's customers.

The Turkey Peak Reservoir Project consists of the construction of a new earthen dam, concrete intake and outlet structures, concrete service spillway, and rock-lined excavated outfall channel on Palo Pinto Creek downstream of Lake Palo Pinto. Additionally, an excavated auxiliary spillway with an adjacent flow training berm and a saddle dam will be constructed approximately 2,000 feet south of the dam, immediately south of Turkey Peak. The proposed project would include the removal of a section of the existing Lake Palo Pinto concrete spillway and construction of a new county road and bridge across the existing Lake Palo Pinto Dam. Ward Mountain Road would be upgraded, and 0.75 miles of a new country road would be constructed to account for sections of FM 4 and sections of county roads that would be taken out of service. The project also includes aspects of permittee-responsible mitigation activities resulting from the U.S. Army Corps of Engineers granting the 404 Permit for the project, including the approved mitigation plan that contains stream restoration and invasive species management.

The requested additional funding will be used to complete all land acquisition and final design work prior to applying for construction-phase funding. The District anticipates applying for SWIFT funding for construction activities in 2024.

<b>COMMITMENT PERIOD: FIVE (5) MONTHS TO EXPIRE DECEMBER 31, 2023</b>
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## **PROJECT SCHEDULE**

<b>Task</b>	<b>Schedule Date</b>
Engineering Feasibility Report Completion (End of Planning Phase)	May 3, 2020
Closing	November 20, 2023
Design Phase Completion	February 28, 2024
Start of Construction	January 1, 2025
Construction Completion	December 31, 2027

## **KEY ISSUES**

The Turkey Peak Reservoir project has previously received \$25,100,000 in TWDB funding to finance planning, acquisition, and design.

## **LEGAL / SPECIAL CONDITIONS**

- Conversion and conveyance
- Quarterly progress reports

## **Attachments**

1. Financial Review
2. Project Budget
3. Resolution (23- )
4. Water Conservation Review
5. Location Map

# Financial Review

## Palo Pinto County Municipal Water District No. 1

Risk Score: 2B

Audit Reviewed: FY 2022

### Key Indicators

Indicator	Result	Benchmark
Population Growth, Average Annual 2010-2020	County: 0.11%	State: 1.49%
Median Household Income as % of State	69%	100%
Days of Cash on Hand (3-year Average)	3,035 days	30-149 days
Net Fixed Assets/ Annual Depreciation	54 years	12-24 years
Debt Service Coverage Ratio	0.80x	1.0x
Debt-to-Operating Revenues	13.59	4.00-5.99x
Unemployment Rate (April 2023)	County: 3.40%	State: 3.70%
Working Capital Ratio	8.1818	> 1.0

### Key Risk Score Strengths

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

### Key Risk Score Concerns

- The debt-to-operating revenues ratio is above the benchmark due to the District financing various projects associated with the construction of the new dam and the reservoir for its Lake Palo Pinto storage restoration project.
- The debt service coverage ratio is below the benchmark. Based on conservative estimates, with gallons per month staying the same, the District is projected to require approximately a \$0.32 rate increase to meet debt service coverage. The District is aware of this required increase and, upon budget approval, will be implementing a rate increase in October 2023.

### PLEDGE

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

### RATES AND CHARGES

Wholesale Customers	Gallons/Month	Current Rates Per 1,000 Gallons	Projected Rates (Year 2028)
City of Mineral Wells	76,826,483	\$2.27	\$2.59
Brazos Electric Power Cooperative, Inc.	9,696,864	\$0.82	\$1.14
Lake Palo Pinto Area Water Supply Corporation	3,898,128	\$0.82	\$1.14

### Cost Savings

Based on a 30-year maturity schedule and current interest rates, the District could save approximately \$2,891,440 over the life of the financing.

## Project Data Summary

<b>Responsible Authority</b>	Palo Pinto Co MWD # 1
<b>Program</b>	SWIFT
<b>Commitment Number</b>	L1001672, L1001673
<b>Project Number</b>	51020
<b>List Year</b>	2023
<b>Type of Pledge</b>	Revenue Pledge
<b>Pledge Level (if applicable)</b>	First Lien
<b>Legal Description</b>	\$5,040,000 Palo Pinto Co Municipal Water District No. 1 Revenue Bonds, Proposed Taxable Series 2023B, \$6,960,000 Palo Pinto Co Municipal Water District No. 1 Revenue Bonds, Proposed Series 2023A
<b>Tax-exempt or Taxable</b>	Taxable, Tax-Exempt
<b>Refinance</b>	No
<b>Outlay Requirement</b>	No
<b>Disbursement Method</b>	Escrow
<b>Outlay Type</b>	Outlay <> Escrow Release
<b>Qualifies as Disadvantaged</b>	No
<b>SWIFT Financing Type</b>	Low-Interest
<b>Financial Managerial &amp; Technical Complete</b>	N/A
<b>Phases Funded</b>	Planning, Acquisition, and Design
<b>Pre-Design</b>	No
<b>Project Consistent with State Water Plan</b>	Yes
<b>Water Conservation Plan</b>	Adopted
<b>Overall Risk Score</b>	2B

### PROJECT TEAM

<b>Team Manager</b>	<b>Financial Analyst</b>	<b>Engineering Reviewer</b>	<b>Environmental Reviewer</b>	<b>Attorney</b>
Tom Barnett	Arnoldo Rubio	Connie Townsend	Tim Harlow	Marshall Walters

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

**\$6,960,000 Palo Pinto Co Municipal Water District No. 1 Revenue Bonds, Proposed Series 2023A**

Dated Date:	11/20/2023	Source:	SWIFT-LOW-30YR
Delivery Date:	11/20/2023	IUP Year:	2023
First Interest:	6/1/2024	Case:	Revenue
First Principal:	6/1/2024	Admin.Fee:	\$0
Last Principal:	6/1/2053	Admin. Fee Payment Date:	N/A
Fiscal Year End:	09/30	Required Coverage:	1.0

**\$5,040,000 Palo Pinto Co Municipal Water District No. 1 Revenue Bonds, Proposed Taxable Series 2023B**

Dated Date:	11/20/2023	Source:	SWIFT-LOW-30YR
Delivery Date:	11/20/2023	IUP Year:	2023
First Interest:	6/1/2024	Case:	Revenue
First Principal:	6/1/2024	Admin.Fee:	\$0
Last Principal:	6/1/2053	Admin. Fee Payment Date:	N/A
Fiscal Year End:	09/30	Required Coverage:	1.0

FISCAL YEAR	PROJECTED NET SYSTEM REVENUES	CURRENT DEBT SERVICE	\$6,960,000 ISSUE				\$5,040,000 ISSUE				TOTAL DEBT SERVICE	ACTUAL COVERAGE
			PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT		
2024	\$1,953,743	\$1,256,875	\$255,000	3.01%	\$128,302	\$383,302	\$190,000	4.29%	\$124,892	\$314,892	\$1,955,069	1.00
2025	1,953,743	1,260,882	145,000	2.89%	234,151	379,151	85,000	4.29%	227,248	312,248	1,952,280	1.00
2026	1,953,743	1,258,697	150,000	2.78%	229,960	379,960	90,000	4.15%	223,601	313,601	1,952,258	1.00
2027	1,953,743	1,259,398	155,000	2.70%	225,790	380,790	90,000	4.04%	219,866	309,866	1,950,054	1.00
2028	1,956,688	1,263,853	160,000	2.64%	221,605	381,605	95,000	4.04%	216,230	311,230	1,956,688	1.00
2029	1,956,688	1,021,951	165,000	2.62%	217,381	382,381	100,000	4.13%	212,392	312,392	1,716,724	1.14
2030	1,956,688	902,736	170,000	2.56%	213,058	383,058	105,000	4.13%	208,262	313,262	1,599,056	1.22
2031	1,956,688	902,773	170,000	2.54%	208,706	378,706	110,000	4.27%	203,926	313,926	1,595,405	1.23
2032	1,956,688	906,085	175,000	2.55%	204,388	379,388	115,000	4.27%	199,229	314,229	1,599,701	1.22
2033	1,956,688	903,617	180,000	2.59%	199,926	379,926	115,000	4.27%	194,318	309,318	1,592,860	1.23
2034	1,956,688	905,468	185,000	2.79%	195,264	380,264	120,000	4.58%	189,408	309,408	1,595,139	1.23
2035	1,956,688	906,626	190,000	2.99%	190,102	380,102	130,000	4.58%	183,912	313,912	1,600,639	1.22
2036	1,956,688	907,074	195,000	3.18%	184,421	379,421	135,000	4.58%	177,958	312,958	1,599,452	1.22
2037	1,956,688	905,291	200,000	3.36%	178,220	378,220	140,000	4.58%	171,775	311,775	1,595,286	1.23
2038	1,956,688	907,830	210,000	3.48%	171,500	381,500	145,000	4.58%	165,363	310,363	1,599,692	1.22
2039	1,956,688	904,534	215,000	3.56%	164,192	379,192	155,000	4.75%	158,722	313,722	1,597,447	1.22
2040	1,956,688	910,518	225,000	3.62%	156,538	381,538	160,000	4.75%	151,359	311,359	1,603,415	1.22
2041	1,956,688	910,482	230,000	3.67%	148,393	378,393	170,000	4.75%	143,759	313,759	1,602,634	1.22
2042	1,956,688	909,258	240,000	3.70%	139,952	379,952	175,000	4.75%	135,684	310,684	1,599,894	1.22
2043	1,956,688	912,186	250,000	3.74%	131,072	381,072	185,000	4.75%	127,372	312,372	1,605,629	1.22
2044	1,956,688	909,035	260,000	3.90%	121,722	381,722	195,000	4.88%	118,584	313,584	1,604,341	1.22
2045	1,956,688	910,034	270,000	3.90%	111,582	381,582	205,000	4.88%	109,068	314,068	1,605,684	1.22
2046	1,956,688	-	280,000	3.90%	101,052	381,052	215,000	4.88%	99,064	314,064	695,116	2.81
2047	1,956,688	-	290,000	3.90%	90,132	380,132	225,000	4.88%	88,572	313,572	693,704	2.82
2048	1,956,688	-	300,000	3.90%	78,822	378,822	235,000	4.88%	77,592	312,592	691,414	2.83
2049	1,956,688	-	315,000	3.96%	67,122	382,122	245,000	4.88%	66,124	311,124	693,246	2.82
2050	1,956,688	-	325,000	3.96%	54,648	379,648	260,000	4.88%	54,168	314,168	693,816	2.82
2051	1,956,688	-	340,000	3.96%	41,778	381,778	270,000	4.88%	41,480	311,480	693,258	2.82
2052	1,956,688	-	350,000	3.96%	28,314	378,314	285,000	4.88%	28,304	313,304	691,618	2.83
2053	1,956,688	-	365,000	3.96%	14,454	379,454	295,000	4.88%	14,396	309,396	688,850	2.84
		\$ 21,835,195	\$6,960,000		\$4,452,546	\$11,412,546	\$5,040,000		\$4,332,623	\$9,372,623	\$42,620,363	

\$6,960,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	17.2 YEARS
NET INTEREST RATE	3.719%
COST SAVINGS	\$1,242,499
AVERAGE ANNUAL REQUIREMENT	\$380,418

\$5,040,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	17.95 YEARS
NET INTEREST RATE	4.790%
COST SAVINGS	\$1,648,941
AVERAGE ANNUAL REQUIREMENT	\$312,421

TOTAL AVERAGE ANNUAL REQUIREMENTS
\$692,839

Disclaimer: This is a working document and is provided as a courtesy. All information contained herein, including the proposed interest rate, is subject to change upon further review of the TWDB in accordance with 31 Texas Administrative Code Chapters 363, 371, 375, or 384, as applicable. The TWDB does not function as a financial advisor to anyone in connection with this financing. The information contained in this document is used by TWDB staff to analyze the application for financing is illustrative only and does not constitute any guaranty of future rates. The TWDB makes no claim regarding the applicability of the information at closing, at which time actual rates will be set.



**Project Budget Summary**  
**Palo Pinto County MWD No. 1**  
**51020 - Turkey Peak Reservoir**

Budget Items	TWDB Funds Previous 21636 Commitments	TWDB Funds Previous 51020 Commitments	TWDB Funds New 51020 Commitments	Total
<b>Basic Engineering Services</b>				
Planning	\$3,108,846	\$0	\$0	\$3,108,846
Design	\$0	\$2,174,000	\$500,000	\$2,674,000
<b>Subtotal for Basic Engineering Services</b>	<b>\$3,108,846</b>	<b>\$2,174,000</b>	<b>\$500,000</b>	<b>\$5,782,846</b>
<b>Special Services</b>				
Environmental	\$1,661,749	\$1,285,000	\$200,000	\$3,146,749
Environmental (Archaeological)	\$0	\$1,100,000	\$1,600,000	\$2,700,000
Geotechnical	\$2,610,981	\$235,000	\$0	\$2,845,981
Surveying	\$130,170	\$185,000	\$100,000	\$415,170
Other (Mapping Services)	\$83,136	\$0	\$0	\$83,136
<b>Subtotal for Special Services</b>	<b>\$4,486,035</b>	<b>\$2,805,000</b>	<b>\$1,900,000</b>	<b>\$9,191,035</b>
<b>Fiscal Services</b>				
Bond Counsel	\$45,000	\$79,200	\$92,000	\$216,200
Financial Advisor	\$31,000	\$80,250	\$92,000	\$203,250
Issuance Costs	\$0	\$16,685	\$12,000	\$28,685
Fiscal/Legal	\$0	\$4,340	\$4,000	\$8,340
Bond Reserve Fund	\$0	\$0	\$697,296	\$697,296
<b>Subtotal for Fiscal Services</b>	<b>\$76,000</b>	<b>\$180,475</b>	<b>\$897,296</b>	<b>\$1,153,771</b>
<b>Other</b>				
Land/Easements Acquisition	\$0	\$7,940,000	\$3,500,000	\$11,440,000
Other (Agency Coordination & Funding)	\$0	\$375,000	\$300,000	\$675,000
Other (Land Appraisals, Titles, & Negotiations)	\$0	\$1,425,000	\$500,000	\$1,925,000
Other (Mitigation Plan Implementation)	\$0	\$424,000	\$1,500,000	\$1,924,000
Other (Utility Relocation and Negotiation)	\$157,744	\$1,325,000	\$2,000,000	\$3,482,744
Project Legal Expenses	\$171,374	\$250,000	\$500,000	\$921,374
<b>Subtotal for Other</b>	<b>\$329,119</b>	<b>\$11,739,000</b>	<b>\$8,300,000</b>	<b>\$20,368,119</b>
<b>Contingency</b>				
Contingency	\$0	\$201,525	\$402,704	\$604,229
<b>Subtotal for Contingency</b>	<b>\$0</b>	<b>\$201,525</b>	<b>\$402,704</b>	<b>\$604,229</b>
<b>Total</b>	<b>\$8,000,000</b>	<b>\$17,100,000</b>	<b>\$12,000,000</b>	<b>\$37,100,000</b>

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD  
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF  
\$12,000,000 TO PALO PINTO COUNTY MUNICIPAL WATER DISTRICT NO.1  
FROM THE STATE WATER IMPLEMENTATION REVENUE FUND FOR TEXAS  
THROUGH THE PROPOSED PURCHASE OF  
\$6,960,000 PALO PINTO COUNTY MUNICIPAL WATER DISTRICT NO. 1  
REVENUE BONDS, PROPOSED SERIES 2023A AND  
\$5,040,000 PALO PINTO COUNTY MUNICIPAL WATER DISTRICT NO. 1  
REVENUE BONDS, PROPOSED TAXABLE SERIES 2023B

(23- )

Recitals:

The Palo Pinto County Municipal Water District No. 1 (District) 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 planning, acquisition, and design of a water supply project identified as Project No. 51020 (Project).

The District seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of \$6,960,000 Palo Pinto County Municipal Water District No. 1 Revenue Bonds, Proposed Series 2023A and \$5,040,000 Palo Pinto County Municipal Water District No. 1 Revenue Bonds, Proposed Taxable Series 2023B, (together with all authorizing documents (Obligations)), all as is more specifically set forth in the application and in recommendations of the Executive Administrator's staff.

The District has offered a pledge of system revenue as sufficient security for the repayment of the Obligations.

Subject to the District's use of an approved debt service structure, interest rate subsidies for the tax-exempt obligations are available to the District for State Fiscal Year 2023 at up to the following levels: 25% for financial assistance for a term of 20 years, 18% for financial assistance for a term of 21 to 25 years, and 14% for financial assistance for a term of 26 to 30 years.

Subject to the District's use of an approved debt service structure, interest rate subsidies for the taxable obligations are available to the District for State Fiscal Year 2023 at up to the following levels: 20% for financial assistance for a term of 20 years, 14% for financial assistance for a term of 21 to 25 years, and 10% for financial assistance for a term of 26 to 30 years.

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

Findings:

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

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

The TWDB will provide financial assistance to Palo Pinto County Municipal Water District No. 1 in the amount of \$12,000,000 from the State Water Implementation Revenue Fund for Texas to be evidenced by the TWDB's proposed purchase of \$6,960,000 Palo Pinto County Municipal Water District No. 1 Revenue Bonds, Proposed Series 2023A and \$5,040,000 Palo Pinto County Municipal Water District No. 1 Revenue Bonds, Proposed Taxable Series 2023B. This commitment will expire on December 31, 2023.

The commitment is subject to the following

Standard Conditions:

1. This commitment is contingent on a future sale of bonds by the TWDB or on the availability of funds on hand.
2. This commitment is contingent upon the issuance of a written approving opinion of the Attorney General of the State of Texas stating that the District has complied with all of the requirements of the laws under which the Obligations were issued, that the Obligations were issued in conformity with the Constitution and laws of the State of Texas, and that the Obligations are valid and binding obligations of the District.
3. This commitment is contingent upon the District's continued compliance with all applicable laws, rules, policies, and guidance as these may be amended from time to time to adapt to a change in law, in circumstances, or any other legal requirement.



4. This commitment is contingent upon the District executing a separate financing agreement, approved as to form and substance by the Executive Administrator, and submitting the executed agreement to the TWDB consistent with the terms and conditions described in it.
5. Interest rate subsidies for non-level debt service structure are subject to adjustment by the Executive Administrator.
6. The District shall use a paying agent/registrant in accordance with 31 TAC § 363.42(c)(2) and shall require the paying agent/registrant to provide a copy of all receipts documenting debt service payments to the TWDB and to the TWDB's designated Trustee.

Required Obligation Conditions:

7. The Obligations must provide that the Obligations can be called for early redemption on any date beginning on or after the first interest payment date that is 10 years from the dated date of the Obligations, at a redemption price of par, together with accrued interest to the date fixed for redemption.
8. The Obligations must provide that the District will comply with all applicable TWDB laws and rules related to the use of the financial assistance.
9. The Obligations must provide that the District must comply with all conditions as specified in the final environmental finding of the Executive Administrator when issued, including the standard emergency discovery conditions for threatened and endangered species and cultural resources.
10. The Obligations must contain a provision requiring the District to maintain insurance coverage sufficient to protect the TWDB's interest in the project.
11. The Obligations must include a provision wherein the District, or an obligated person for whom financial or operating data is presented to the TWDB in the application for financial assistance either individually or in combination with other issuers of the District's Obligations or obligated persons, will, at a minimum, regardless of the amount of the Obligations, covenant to comply with requirements for continuing disclosure on an ongoing basis substantially in the manner required by the Securities and Exchange Commission (SEC) in 17 CFR § 240.15c2-12 (Rule 15c2-12) and determined as if the TWDB were a Participating Underwriter within the meaning of SEC rule 15c2-12, the continuing disclosure undertaking being for the benefit of the TWDB and the beneficial owners of the District's Obligations, if the TWDB sells or otherwise transfers the Obligations, and the beneficial owners of the TWDB's bonds if the District is an obligated person with respect to the bonds under SEC Rule 15c2-12.

12. The Obligations must contain a provision requiring the District to levy a tax or maintain and collect sufficient rates and charges to produce system revenues in an amount necessary to meet the debt service requirements of all outstanding obligations and to maintain the funds established and required by the Obligations.
13. The Obligations must include a provision requiring the District to use any proceeds from the Obligations that are determined to be surplus proceeds remaining after completion of the Project and completion of a final accounting in a manner approved by the Executive Administrator.
14. The Obligations must contain a provision that the TWDB may exercise all remedies available to it in law or equity, and any provision of the Obligations that restricts or limits the TWDB's full exercise of these remedies shall be of no force and effect.
15. Financial assistance proceeds are public funds and, as such, the Obligations must include a provision requiring that these proceeds shall be held at a designated state depository institution or other properly chartered and authorized institution in accordance with the Public Funds Investment Act, Government Code, Chapter 2256, and the Public Funds Collateral Act, Government Code, Chapter 2257.
16. Financial assistance proceeds shall not be used by the District when sampling, testing, removing, or disposing of contaminated soils or media at the Project site. The Obligations shall include a provision that states The District is solely responsible for liability resulting from acts or omissions of the District, its employees, contractors, or agents arising from the sampling, analysis, transport, storage, treatment, recycling, and disposition of any contaminated sewage sludge, contaminated sediments or contaminated media that may be generated by the District, its contractors, consultants, agents, officials, and employees as a result of activities relating to the Project to the extent permitted by law.
17. The Obligations must include a provision stating that the District shall report to the TWDB the amounts of Project funds, if any, that were used to compensate historically underutilized businesses that worked on the Project, in accordance with 31 TAC § 363.1312.
18. The Obligations must contain a provision that the TWDB will purchase the Obligations, acting through the TWDB's designated Trustee, and the Obligations shall be registered in the name of Cede & Co. and closed in book-entry-only form in accordance with 31 TAC § 363.42(c)(1).
19. The Obligations must provide that the District will submit annually an audit prepared by a certified public accountant in accordance with generally accepted auditing standards.

Tax-Exempt Conditions for Tax-Exempt Obligations:

20. The tax-exempt Obligations must include a provision prohibiting the District from using the proceeds of this financial assistance in a manner that would cause the tax-exempt Obligations to become “private activity bonds” within the meaning of section 141 of the Internal Revenue Code as amended (Code) and the Treasury Regulations promulgated under it (Regulations).
21. The tax-exempt 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 tax-exempt Obligations to be “arbitrage bonds” within the meaning of section 148(a) of the Code and Regulations, including to acquire or to replace funds that were used, directly or indirectly, to acquire Nonpurpose Investments, as defined in the Code and Regulations, that produce a yield materially higher than the yield on the TWDB’s bonds issued to provide the financial assistance (Source Series Bonds), other than Nonpurpose Investments acquired with:
  - a. proceeds of the TWDB’s Source Series Bonds invested for a reasonable temporary period of up to three (3) years after the issue date of the Source Series Bonds until the proceeds are needed for the facilities to be financed;
  - b. amounts invested in a bona fide debt service fund within the meaning of section 1.148-1(b) of the Regulations; and
  - c. amounts deposited in any reasonably required reserve or replacement fund to the extent the amounts do not exceed the lesser of maximum annual debt service on the tax-exempt Obligations, 125% of average annual debt service on the tax-exempt Obligations, or 10 percent of the stated principal amount (or, in the case of a discount, the issue price) of the Obligations.
22. The tax-exempt Obligations must include a provision that the District must take all necessary steps to comply with the requirement that amounts earned on the investment of gross proceeds of the Obligations be rebated to the federal government in order to satisfy the requirements of section 148 of the Code. The tax-exempt Obligations must provide that the District will:
  - a. account for all Gross Proceeds, as defined in the Code and Regulations, (including all receipts, expenditures, and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures, and investments thereof) and retain all records of the accounting for at least six years after the final Computation Date. The District may, however, to the extent permitted by law, commingle Gross Proceeds of its financial assistance with other money of the District, provided that the District separately accounts for each receipt and expenditure of the Gross Proceeds and the obligations acquired with the Gross Proceeds;

- b. calculate the Rebate Amount, as defined in the Code and Regulations, with respect to its financial assistance, not less frequently than each Computation Date, in accordance with rules set forth in section 148(f) of the Code, section 1.148-3 of the Regulations, and the associated rulings. The District shall maintain a copy of the calculations for at least six years after the final Computation Date;
  - c. pay to the United States the amount described in paragraph (b) above within 30 days after each Computation Date as additional consideration for providing financial assistance and in order to induce providing financial assistance by measures designed to ensure the excludability of the interest on the TWDB's Source Series Bonds from the gross income of the owners of TWDB's Bonds for federal income tax purposes;
  - d. exercise reasonable diligence to ensure that no errors are made in the calculations required by paragraph (b) and, if an error is made, to discover and promptly correct the error within a reasonable amount of time, including payment to the United States of any interest and any penalty required by the Regulations.
23. The tax-exempt Obligations must include a provision prohibiting the District from taking any action that would cause the interest on the tax-exempt Obligations to be includable in gross income for federal income tax purposes.
24. The tax-exempt Obligations must provide that the District will not cause or permit the tax-exempt Obligations to be treated as "federally guaranteed" obligations within the meaning of section 149(b) of the Code.
25. The tax-exempt Obligations must contain a covenant that the District will refrain from using the proceeds of the tax-exempt Obligations to pay debt service on another issue of the borrower's obligations in contravention of section 149(d) of the Code (related to "advance refundings").
26. The tax-exempt Obligations must provide that neither the District nor a party related to it will acquire any of the TWDB's Source Series Bonds in an amount related to the amount of the tax-exempt Obligations to be acquired from the District by the TWDB.

Pledge Conditions:

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

Conditions To Close or For Release of Funds:

29. Before closing, the District shall submit documentation evidencing the adoption and implementation of sufficient system rates and charges or, if applicable, the levy of an interest and sinking tax rate sufficient for the repayment of all system debt service requirements.
30. Before closing, if not previously provided with the application, the District shall submit executed contracts for engineering and, if applicable, financial advisor and bond counsel for the Project that are satisfactory to the Executive Administrator. Fees to be reimbursed under the contracts must be reasonable in relation to the services performed, reflected in the contract, and acceptable to the Executive Administrator.
31. Before closing, when any portion of financial assistance is to be held in escrow or in trust, the District shall execute an escrow agreement or trust agreement, approved as to form and substance by the Executive Administrator, and shall submit that executed agreement to the TWDB.
32. Before closing, the District shall provide certification that the average weighted maturity of the Obligations purchased by the TWDB does not exceed 120% of the average reasonably expected economic life of the Project.
33. Before closing, the District's bond counsel must prepare a written opinion that states that the interest on the tax-exempt Obligations is excludable from gross income or is exempt from federal income taxation. Bond counsel may rely on covenants and representations of the District when rendering this opinion.
34. Before closing, the District's bond counsel must prepare a written opinion that states that the tax-exempt Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the District when rendering this opinion.
35. The transcript must include a No Arbitrage Certificate or similar Federal Tax Certificate setting forth the District's reasonable expectations regarding the use, expenditure, and investment of the proceeds of the tax-exempt Obligations.
36. The tax-exempt Obligation's transcript must include evidence that the information reporting requirements of section 149(e) of the Internal Revenue Code will be satisfied. This requirement may be satisfied by filing an IRS Form 8038 with the Internal Revenue Service. In addition, the applicable completed IRS Form 8038 or other evidence that the information reporting requirements of section 149(e) have been satisfied must be provided to the Executive Administrator within fourteen (14) days of closing. The Executive Administrator may withhold the release of funds for failure to comply.

Special Conditions:

- 37. The District must notify the Executive Administrator prior to taking any actions to alter its legal status in any manner, such as by conversion to a conservation and reclamation district or a sale-transfer-merger with another retail public utility.
- 38. The Obligations must include a provision requiring that, prior to any action by the District to convey its Obligations held by the TWDB to another entity, the conveyance and the assumption of the Obligations must be approved by the TWDB.
- 39. The Obligations must contain a provision requiring the District to submit quarterly status reports on the progress of the Project that detail information requested by the Executive Administrator. The Executive Administrator may withhold authorization to release funds from escrow or adjust the amount of funds to be released from escrow based on the receipt of the quarterly status reports and the projected quarterly needs for the Project.

APPROVED and ordered of record this, the 25th day of July 2023.

TEXAS WATER DEVELOPMENT BOARD

\_\_\_\_\_  
Brooke T. Paup, Chairwoman

DATE SIGNED: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Amanda Lavin, Assistant 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<sup>1</sup>:

1 – Infrastructure Leakage Index only applicable if > 16 connections per mile and > 3,000 service connections

**WATER LOSS THRESHOLDS**

Water Loss Project:

Wholesale Adjusted:

Threshold Type:

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

Does the applicant meet Water Loss Threshold Requirements?

Yes

No

NA

**ADDITIONAL INFORMATION****STAFF NOTES AND RECOMMENDATIONS**

## DEFINITIONS

**Adopted** refers to a water conservation plan that meets the minimum requirements of the water conservation plan rules and has been formally approved and adopted by the applicant's governing body.

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

**Approvable** refers to a water conservation plan that substantially meets the minimum requirements of the water conservation plan rules but has not yet been adopted by the applicant's governing body.

**Best Management Practices** are voluntary efficiency measures that save a quantifiable amount of water, either directly or indirectly, and that can be implemented within a specific time frame.

**GPCD** means gallons per capita per day.

**GCD** means gallons per connection per day.

**Infrastructure Leakage Index (ILI)** is the current annual real loss divided by the unavoidable annual real loss (theoretical minimum real loss) and only applies to utilities with more than 3,000 connections and a connection density of more than 16 connections per mile. The **ILI** is recommended to be less than 3 if water resources are greatly limited and difficult to develop, between 3 and 5 if water resources are adequate to meet long-term needs but water conservation is included in long-term water planning, and between 5 and 8 if water resources are plentiful, reliable, and easily extracted. The **ILI** is recommended as a bench marking tool, but until there is increased data validity of the variables used in the calculation, the **ILI** should be viewed with care.

**NA** means not applicable.

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

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

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

**Total water loss** is the sum of the apparent and real water losses.

**Water loss** is the difference between the input volume and the authorized consumption within a water system. Water Loss consists of real losses and apparent losses.

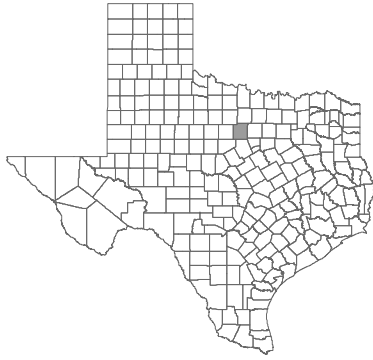
**Water Loss GPCD** is the amount of water loss divided by the retail population divided by 365.

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

**Water Loss Thresholds** are levels of real and apparent water loss determined by the size and connection density of a retail public utility, at or above which a utility receiving financial assistance from the Texas Water Development Board must use a portion of that financial assistance to mitigate the utility's system water loss.

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





# Palo Pinto County Municipal Water District #1 Palo Pinto County

