

## AGENDA ITEM MEMO

**BOARD MEETING DATE:** March 5, 2024

**TO:** Board Members

**THROUGH:** Jeff Walker, Executive Administrator  
Ashley Harden, General Counsel  
Rebecca Trevino, Chief Financial Officer

**FROM:** Georgia Sanchez, Development Fund Manager

**SUBJECT:** State Revolving Fund Match Prepayment

### **ACTION REQUESTED**

Consider approving by resolution a delegation of authority to the Executive Administrator and the Development Fund Manager to prepay state match funds in the Development Fund II.

### **BACKGROUND**

The United States Environmental Protection Agency (EPA) provides federal capitalization grants to the states for the purpose of capitalizing the Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Fund (DWSRF). Each state is required to contribute matching funds for each capitalization grant, generally 20 percent.

The Texas Water Development Board (TWDB) historically provided the required matching funds from general obligation bond proceeds issued as Water Financial Assistance Bonds through the Texas Water Development Fund II (DFund II), establishing an interfund loan for the repayment of the state match from the CWSRF and DWSRF to the DFund. After the adoption in 2018 of a new Master Resolution for the CWSRF and DWSRF, including but not limited to establishing a new cross-collateralized financing program for the State Revolving Funds (SRFs), the TWDB began providing the matching funds from revenue bond proceeds issued by the SRFs.

### **KEY ISSUES**

The total balance of interfund loans owed to the DFund II by the CWSRF is approximately \$64 million, and by the DWSRF, \$45 million. The repayment schedule for each state match interfund loan is established by the TWDB at the time the match is transferred into the SRF

program. The TWDB is limited by federal regulations to using only the interest component of repayments and interest earnings to make repayments of match bond proceeds deposited to the SRFs. With approval of this request, the Executive Administrator intends to fully prepay the interfund loans in both programs, which will save the SRFs approximately \$18 million in interest avoided. The SRFs will have ample coverage of future Political Subdivision Bond interest revenue compared to the remaining match obligations, which are those issued as revenue bonds. The funding that is received in the DFund II as a result of the prepayment may be used for eligible DFund II purposes, including to redeem debt or to provide financial assistance to eligible recipients.

The Executive Administrator requests that the TWDB delegate authority to the Executive Administrator and the Development Fund Manager to manage repayments in the SRFs to utilize excess interest to prepay the interfund loans of matching funds to the DFund II.

**RECOMMENDATION**

The Executive Administrator recommends adoption of a resolution delegating authority to the Executive Administrator and the Development Fund Manager to manage repayments to the CWSRF and DWSRF to utilize excess interest derived from repayments in the SRFs to prepay matching funds to the DFund II.

Attachment:

1. Resolution

A RESOLUTION OF  
THE TEXAS WATER DEVELOPMENT BOARD  
AUTHORIZING THE EXECUTIVE ADMINISTRATOR  
TO PREPAY STATE MATCH FUNDS  
(24 - )

Recitals:

The United States Environmental Protection Agency (EPA) provides federal capitalization grants to the states for the purpose of capitalizing the Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Fund (DWSRF), and each state is required to contribute at least a 20 percent match (Match Funds) for each capitalization grant; and

The Texas Water Development Board (TWDB) historically provided the required Match Funds from general obligation bond proceeds issued as Water Financial Assistance Bonds, deposited into the Financial Assistance Account of the Texas Water Development Fund II (DFund II) and transferred to the CWSRF and DWSRF requiring repayment, under the authority of Texas Water Code, Chapter 17, Subchapter L and Texas Constitution, Article III, Section 49-d-8; and

The TWDB currently provides the Match Funds from proceeds issued in accordance with a "Master Resolution" adopted by the TWDB on March 1, 2018, designed to establish a new financing program for the CWSRF and DWSRF; and

The TWDB desires to manage the CWSRF and DWSRF to reduce ongoing repayment obligations for both funds with lawfully-available funds, including but not limited to a prepayment of Match Funds; and

In accordance with applicable federal regulations and Sections 4.10 and 4.12 of the "Master Resolution," the TWDB is limited to using only the interest component of repayments and interest earnings in the CWSRF and DWSRF to prepay or redeem Match Funds issued from the DFund II; and

The TWDB finds that it is advisable and in the public interest to delegate to the Executive Administrator and his designated representatives the authority to utilize repayments and interest earnings in the CWSRF and DWSRF to accelerate the repayment of Match Funds as necessary.

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

1. The TWDB authorizes the Executive Administrator and the Development Fund Manager to manage repayments to the CWSRF and DWSRF to utilize excess interest derived from said repayments to prepay Match Funds owed to the DFund II.
2. The authorization granted in this Resolution expires August 31, 2025, except that the Executive Administrator and Development Fund Manager may complete any transactions initiated prior to that date but not yet completed.
3. The Executive Administrator will report at least annually to the TWDB Board members the amounts of Match Funds paid under authority granted by this Resolution.

APPROVED and ordered of record this 5th day of March 2024.

TEXAS WATER DEVELOPMENT BOARD

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Brooke T. Paup, Chairwoman

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

ATTEST:

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Jeff Walker, Executive Administrator