

Texas Water Development Board

PROJECT FUNDING REQUEST

BOARD DATE: March 5, 2024

Team Manager: Joe Koen

ACTION REQUESTED

Consider approving by resolution a request from the City of Leonard (Fannin County) for \$8,480,000 in financial assistance consisting of \$4,325,000 in financing, and \$4,155,000 in principal forgiveness from the Drinking Water State Revolving Fund for planning, design, and construction of a water system improvements project.

STAFF RECOMMENDATION

Approve No Action

BACKGROUND

The City of Leonard (City) is located along Route 69 approximately 60 miles northeast of Dallas. The City provides water service to approximately 2,481 residents and 877 connections.

PROJECT NEED AND DESCRIPTION

The City's water system is unable to maintain Texas Commission on Environmental Quality (TCEQ) minimum pressure requirements due to issues with the City's elevated storage tank and water loss within the distribution system. The elevated storage tank's height is insufficient to ensure proper pressure across the distribution system, leading to the need for repeated repairs. Moreover, the distribution system itself is undersized and aged, leading to regular leaks and substantial repairs.

The proposed project will construct a new elevated storage tank and replace approximately 40,000 linear feet of waterline.

PROJECT SCHEDULE

Task	Schedule Date
Closing	June 15, 2024
Engineering Feasibility Report Completion (End of Planning Phase)	September 20, 2024
Design Phase Completion	February 19, 2025
Start of Construction	May 26, 2025
Construction Completion	May 26, 2027

KEY ISSUES

The City qualifies for principal forgiveness as a disadvantaged community and for \$2,040,000 in zero percent financing as a small or rural disadvantaged community.

COMMITMENT PERIOD: SIX (6) MONTHS TO EXPIRE SEPTEMBER 30, 2024

LEGAL/SPECIAL CONDITIONS

- Executed principal forgiveness agreement
- Return of surplus principal forgiveness funds
- The City must keep thirty (30) days of cash on hand.

Attachments:

1. Financial Review
2. Project Budget
3. Resolution (24-)
4. Water Conservation Review
5. Location Map

Financial Review City of Leonard

Risk Score: 2C

Audit Reviewed: FY 2022

Key Indicators

Indicator	Result	Benchmark
Population Growth, Average Annual 2010-2020	City: -0.02%	State: 1.49%
Net Direct Debt to Total Assessed Valuation	1.01%	2-4.99%
Median Household Income as % of State	70%	100%
Days of Cash on Hand (3-year Average)	50 days	30-149 days
Net Fixed Assets/ Annual Depreciation	9 years	12-24 years
Debt Service Coverage Ratio	(0.28x)	1.1x
Debt-to-Operating Revenues	8.85	4.00-5.99x
Unemployment Rate (December 2023)	County: 2.80%	State: 3.50%
Working Capital Ratio	0.80	> 1.0
Cash Balance Ratio	26.86%	0-9.99%
Total Assessed Valuation, per capita	\$86,984	\$30,000-\$64,999

Key Risk Score Strengths

- The City's cash balance ratio indicates a positive trend in the General Fund. The City's cash balance has increased from \$152,269 to \$612,238 over the previous five years.
- The City's net direct debt to total assessed valuation is below the benchmark, indicating that the City has additional capacity for tax supported debt. The City's assessed value has an average annual growth rate of 15 percent over the previous five years.
- The City's total assessed value per capita is above the benchmark and the assessed value has increased from \$78,828,562 to \$172,836,764, over the previous 5 years.

Key Risk Score Concerns

- The debt-to-operating revenues ratio is above the benchmark due to the City's recent 2023 debt issuance for the Clean Water State Revolving Fund project. However, as the projected rate increases are implemented, the operating revenues would increase and this ratio would go down.
- The City has pledged ad valorem taxes and surplus utility system revenues as security for the proposed debt and intends to use 50 percent ad valorem taxes and 50 percent utility system revenue on an annual basis for debt service repayment. In a no-growth scenario, based on 2022 audited numbers, the City's maximum projected rate increase would be \$42.88 in 2025 and the maximum interest and sinking fund tax rate would be \$0.2237 in 2043.
- The City's utility system has been operating at a deficit since 2021 due to deferred maintenance that was performed during fiscal year 2022 and 2023. To meet debt service payments, the City plans to reduce payroll expenses in the utility system through the transfer of personnel to the general fund and institute a \$13 rate increase to the water system and a \$11.30 rate increase to the sewer system. Additionally, condition 13 states the City must keep sufficient rates and charges throughout the life of the loan.

- The City's 3-year average for days of cash on hand is within the benchmark. However, the 2022 audit shows the City did not keep any cash in the utility system. A special condition is being added that requires the City to keep 30 days of cash on hand in the utility system.

PLEDGE

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

RATES AND CHARGES

Average Residential Use	Gallons/Month	Current Rates	Projected Rates (2025)	Current Household Cost Factor	Projected Household Cost Factor
Water	4,693	\$51.28	\$83.06	2.30	3.49
Sewer	4,693	\$31.12	\$42.22		

TAXES

	2023 Tax Year Rate	Max Projected Tax Rate (2043)	Maximum Allowable Rate	3-Year Avg Current Tax Collections	Assessed Valuation
Maintenance & Operation	\$0.4091	\$0.4091	\$1.50	97%	\$172,836,764
Interest & Sinking	\$0.0564	\$0.2237			
Total Tax Rate	\$0.4655	\$0.6328			

Cost Savings

Based on a 30-year maturity schedule and current interest rates, the City could save approximately \$2,296,005 over the life of the financing. The City is also saving \$4,155,000 in principal forgiveness.

Project Data Summary

Responsible Authority	Leonard
Program	DWSRF
Commitment Number	L1001707, L1001708, LF1001709
Project Number	62964
List Year	2022
Type of Pledge	Combo Tax and Revenue
Pledge Level (if applicable)	Third Lien
Legal Description	\$2,285,000 City of Leonard, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2024B, \$2,040,000 City of Leonard, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2024A, \$4,155,000 Loan Forgiveness Agreement
Tax-exempt or Taxable	Tax-Exempt
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay = Escrow Release
Qualifies as Disadvantaged	Yes
State Revolving Fund Type	Equivalency
Financial Managerial & Technical Complete	Yes
Phases Funded	Planning, Design, and Construction
Pre-Design	Yes
Project Consistent with State Water Plan	Yes
Water Conservation Plan	Adopted
Overall Risk Score	2C

PROJECT TEAM

Team Manager	Financial Analyst	Engineering Reviewer	Environmental Reviewer	Attorney
Joe Koen	Thomas Quick	David Dera	Kylie Beard	Breann Hunter

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
City of Leonard

\$2,040,000 City of Leonard, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2024A

Dated Date: 6/15/2024	Source: DWSRF-EQUIVALENCY
Delivery Date: 6/15/2024	Rate: 0.00%
First Interest: 11/15/2024	IUP Year: 2022
First Principal: 5/15/2025	Case: Tax and Revenue
Last Principal: 5/15/2054	Admin.Fee: \$40,000
Fiscal Year End: 9/30	Admin. Fee Payment Date: 6/15/2024
Required Coverage: 1.1	Total Assessed Valuation: \$172,836,764

\$2,285,000 City of Leonard, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2024B

Dated Date: 6/15/2024	Source: DWSRF-EQUIVALENCY
Delivery Date: 6/15/2024	Rate: 2.99%
First Interest: 11/15/2024	IUP Year: 2022
First Principal: 5/15/2025	Case: Tax and Revenue
Last Principal: 5/15/2054	Admin.Fee: \$44,804
Fiscal Year End: 9/30	Admin. Fee Payment Date: 6/15/2024
Required Coverage: 1.1	

FISCAL YEAR	PROPOSED TAX RATE	REQUIRED TAX REVENUES WITH COLL. @ 97%	PROJECTED NET SYSTEM REVENUES	PROJECTED TOTAL REVENUES	CURRENT DEBT SERVICE	\$2,040,000 ISSUE				\$2,285,000 ISSUE				DEBT SERVICE	ACTUAL COVERAGE
						PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT		
2025	\$0.1740	\$292,339	\$174,724	\$467,063	\$245,933	\$70,000	-	\$0	\$70,000	50,000	2.15%	\$58,670	\$108,670	\$424,603	1.10
2026	\$0.2229	374,662	\$174,724	549,386	245,511	65,000	-	-	65,000	50,000	2.05%	62,929	112,929	423,440	1.30
2027	\$0.2189	367,923	\$174,724	542,647	244,985	65,000	-	-	65,000	50,000	2.03%	61,904	111,904	421,889	1.29
2028	\$0.2183	366,781	\$174,724	541,505	240,311	65,000	-	-	65,000	55,000	2.03%	60,889	115,889	421,200	1.29
2029	\$0.2165	363,831	\$174,724	538,555	239,484	65,000	-	-	65,000	55,000	2.08%	59,773	114,773	419,257	1.28
2030	\$0.2156	362,308	\$174,724	537,032	244,506	65,000	-	-	65,000	55,000	2.16%	58,629	113,629	423,134	1.27
2031	\$0.2185	367,202	\$174,724	541,926	238,362	65,000	-	-	65,000	60,000	2.18%	57,441	117,441	420,803	1.29
2032	\$0.2157	362,541	\$174,724	537,265	248,069	65,000	-	-	65,000	60,000	2.23%	56,133	116,133	429,202	1.25
2033	\$0.2217	372,499	\$174,724	547,223	247,493	65,000	-	-	65,000	60,000	2.26%	54,795	114,795	427,288	1.28
2034	\$0.2208	371,130	\$174,724	545,854	242,698	65,000	-	-	65,000	65,000	2.38%	53,439	118,439	426,136	1.28
2035	\$0.2189	367,858	\$174,724	542,582	246,664	65,000	-	-	65,000	65,000	2.50%	51,892	116,892	428,556	1.27
2036	\$0.2210	371,371	\$174,724	546,095	241,391	65,000	-	-	65,000	65,000	2.61%	50,267	115,267	421,657	1.30
2037	\$0.2170	364,676	\$174,724	539,400	240,845	65,000	-	-	65,000	70,000	2.71%	48,570	118,570	424,415	1.27
2038	\$0.2177	365,893	\$174,724	540,617	245,035	70,000	-	-	70,000	70,000	2.78%	46,673	116,673	431,708	1.25
2039	\$0.2215	372,208	\$174,724	546,932	244,940	70,000	-	-	70,000	75,000	2.84%	44,727	119,727	434,667	1.26
2040	\$0.2224	373,784	\$174,724	548,508	239,539	70,000	-	-	70,000	75,000	2.89%	42,597	117,597	427,136	1.28
2041	\$0.2182	366,671	\$174,724	541,395	243,826	70,000	-	-	70,000	75,000	2.92%	40,430	115,430	429,256	1.26
2042	\$0.2203	370,195	\$174,724	544,919	247,683	70,000	-	-	70,000	80,000	2.96%	38,240	118,240	435,922	1.25
2043	\$0.2237	375,983	\$174,724	550,707	247,201	70,000	-	-	70,000	80,000	3.00%	35,872	115,872	433,072	1.27
2044	\$0.2226	374,150	\$174,724	548,874	246,354	70,000	-	-	70,000	85,000	3.04%	33,472	118,472	434,826	1.26
2045	\$0.2229	374,649	\$174,724	549,373	240,143	70,000	-	-	70,000	85,000	3.06%	30,888	115,888	426,030	1.29
2046	\$0.2180	366,395	\$174,724	541,119	244,540	70,000	-	-	70,000	90,000	3.08%	28,287	118,287	432,827	1.25
2047	\$0.2217	372,552	\$174,724	547,276	243,519	70,000	-	-	70,000	90,000	3.11%	25,515	115,515	429,034	1.28
2048	\$0.2201	369,904	\$174,724	544,628	247,910	70,000	-	-	70,000	95,000	3.13%	22,716	117,716	435,626	1.25
2049	\$0.2237	375,945	\$174,724	550,669	110,001	70,000	-	-	70,000	95,000	3.15%	19,742	114,742	294,743	1.87
2050	\$0.1325	222,609	\$174,724	397,333	104,032	70,000	-	-	70,000	100,000	3.15%	16,750	116,750	290,781	1.37
2051	\$0.1292	217,147	\$174,724	391,871	103,062	70,000	-	-	70,000	105,000	3.15%	13,600	118,600	291,662	1.34
2052	\$0.1292	217,098	\$174,724	391,822	102,089	70,000	-	-	70,000	105,000	3.16%	10,292	115,292	287,381	1.36
2053	\$0.1275	214,209	\$174,724	388,933	111,116	70,000	-	-	70,000	110,000	3.17%	6,974	116,974	298,090	1.30
2054	\$0.1339	225,063	\$174,724	399,787	-	70,000	-	-	70,000	110,000	3.17%	3,487	113,487	183,487	2.18
					\$15,501,298	\$6,387,243	\$2,040,000		\$0	\$2,040,000	\$2,285,000	\$1,195,584	\$3,480,584	\$11,907,828	

\$2,040,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	15.65 YEARS
NET INTEREST RATE	0.000%
COST SAVINGS	\$1,549,703
AVERAGE ANNUAL REQUIREMENT	\$65,806

\$2,285,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	17.52 YEARS
NET INTEREST RATE	2.987%
COST SAVINGS	\$746,302
AVERAGE ANNUAL REQUIREMENT	\$112,277

TOTAL AVERAGE ANNUAL REQUIREMENTS
\$396,928

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.

Budget Items	TWDB Funds	Total
Construction		
Construction	\$6,500,000.00	\$6,500,000.00
Subtotal for Construction	\$6,500,000.00	\$6,500,000.00
Basic Engineering Services		
Construction Engineering	\$160,000.00	\$160,000.00
Design	\$600,000.00	\$600,000.00
Planning	\$110,000.00	\$110,000.00
Subtotal for Basic Engineering Services	\$870,000.00	\$870,000.00
Special Services		
Environmental	\$35,000.00	\$35,000.00
Geotechnical	\$15,000.00	\$15,000.00
Project Management (by Engineer)	\$60,000.00	\$60,000.00
Surveying	\$200,000.00	\$200,000.00
Water Conservation Plan	\$5,000.00	\$5,000.00
Application	\$15,000.00	\$15,000.00
Subtotal for Special Services	\$330,000.00	\$330,000.00
Fiscal Services		
Bond Counsel	\$62,000.00	\$62,000.00
Financial Advisor	\$80,000.00	\$80,000.00
Issuance Costs	\$8,500.00	\$8,500.00
Fiscal/Legal	\$2,000.00	\$2,000.00
Loan Origination Fee	\$84,804.00	\$84,804.00
Subtotal for Fiscal Services	\$237,304.00	\$237,304.00
Contingency		
Contingency	\$542,696.00	\$542,696.00
Subtotal for Contingency	\$542,696.00	\$542,696.00
Total	\$8,480,000.00	\$8,480,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
 APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF
 \$8,480,000 TO THE CITY OF LEONARD
 FROM THE DRINKING WATER STATE REVOLVING FUND
 THROUGH THE PROPOSED PURCHASE OF
 \$2,040,000 CITY OF LEONARD, TEXAS COMBINATION TAX AND SURPLUS REVENUE
 CERTIFICATES OF OBLIGATION, PROPOSED SERIES 2024A,
 \$2,285,000 CITY OF LEONARD, TEXAS COMBINATION TAX AND SURPLUS REVENUE
 CERTIFICATES OF OBLIGATION, PROPOSED SERIES 2024B,
 AND \$4,155,000 IN PRINCIPAL FORGIVENESS

(24 -)

Recitals:

The City of Leonard (City), located in Fannin County, has filed an application for financial assistance in the amount of \$8,480,000 from the Drinking Water State Revolving Fund (DWSRF) to finance the planning, design, and construction of certain water system improvements identified as Project No. 62964.

The City seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of \$2,040,000 City of Leonard, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2024A, \$2,285,000 City of Leonard, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2024B, (together with all authorizing documents (Obligations)), and the execution of a Principal Forgiveness Agreement in an amount of \$4,155,000, all as is more specifically set forth in the application and in recommendations of the TWDB's staff.

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

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 § 371.13; and

Findings:

1. The revenues pledged by the City will be sufficient to meet all the Obligations assumed by the City, in accordance with Texas Water Code § 15.607.
2. The application and assistance applied for meet the requirements of the Safe Drinking Water Act, 42 U.S.C. §§ 300f *et seq.* as well as state law, in accordance with Texas Water Code § 15.607.
3. The City has adopted and implemented a water conservation program for the more efficient use of water that will meet reasonably anticipated local needs and

conditions and that incorporates practices, techniques or technology prescribed by the Texas Water Code and TWDB's rules.

4. The TWDB has approved a regional water plan for the region of the state that includes the area benefiting from the project and the needs to be addressed by the project will be addressed in a manner that is consistent with the approved regional and state water plans, as required by Texas Water Code § 16.053(j).
5. The City meets the definition of "Disadvantaged Community" in 31 TAC § 371.1(23) and is therefore eligible for principal forgiveness in the amount of \$4,155,000.
6. The City qualifies as a "small" or "rural" system as determined by the applicable IUP, and the project is therefore eligible for funding with an interest rate of zero percent (0%) in an amount, including the origination fee, not to exceed \$2,040,000.

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

A commitment is made by the TWDB to the City of Leonard for financial assistance in the amount of \$8,480,000 from the Drinking Water State Revolving Fund through the TWDB's proposed purchase of \$2,040,000 City of Leonard, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2024A, \$2,285,000 City of Leonard, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2024B, and the execution of a Principal Forgiveness Agreement in the amount of \$4,155,000. This commitment will expire on September 30, 2024.

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 all of the requirements of the laws under which said Obligations were issued have been complied with; 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 compliance with all applicable requirements contained in 31 TAC Chapter 371.
4. The Obligations must provide that the City agrees to comply with all of the conditions set forth in the TWDB Resolution, which conditions are incorporated herein.

5. 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 which 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.
6. 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.
7. The Obligations must contain a provision requiring the City to levy a tax and/or maintain and collect sufficient rates and charges, as applicable, to produce system funds 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.
8. The Obligations must include a provision requiring the City to use any loan proceeds from the Obligations that are determined to be remaining unused funds, which are those funds unspent after the original approved project is completed, for enhancements to the original project that are explicitly approved by the Executive Administrator or if no enhancements are authorized by the Executive Administrator, requiring the City to submit a final accounting and disposition of any unused funds.
9. The Obligations must include a provision requiring the City to use any loan proceeds from the Obligations that are determined to be surplus funds remaining after completion of the project and completion of a final accounting in a manner as approved 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. The 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. The proceeds of this commitment must not be used by the City when sampling, testing, removing, or disposing of contaminated soils or media at the project site. The Obligations must include a provision that states the City is solely responsible for liability resulting from acts or omissions of the City, its employees, contractors, or agents arising from the sampling, analysis, transport, storage, treatment, recycling, and disposition of any contaminated sewage sludge, contaminated sediments or contaminated media that may be generated by the City, its contractors, consultants, agents, officials, and employees as a result of activities relating to the Project to the extent permitted by law.
13. Before closing, the City shall submit documentation evidencing the adoption and implementation of sufficient system rates and charges and/or the levy of an interest and sinking tax rate (if applicable) sufficient for the repayment of all system debt service requirements.
14. Before closing, and if not previously provided with the application, the City shall submit executed contracts for engineering and, if applicable, financial advisor and bond counsel contracts, 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.
15. Before closing, when any portion of the financial assistance is to be held in escrow or in trust, the City shall execute an escrow or trust agreement, approved as to form and substance by the Executive Administrator, and shall submit that executed agreement to the TWDB.
16. The Executive Administrator may require that the City execute a separate financing agreement in form and substance acceptable to the Executive Administrator.
17. The TWDB retains the option to purchase the Obligations in separate lots or on an installment basis, with delivery of the purchase price for each installment to be paid against delivery of the relevant installment of Obligations as approved by the Executive Administrator.
18. The Obligations must provide that the City will comply with all applicable TWDB laws and rules related to the use of the financial assistance.
19. The Obligations must provide that the City 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.
20. The Obligations must contain a provision requiring the City to maintain insurance coverage sufficient to protect the TWDB's interest in the project.

21. The City must immediately notify TWDB, in writing, of any suit against it by the Attorney General of Texas under Texas Penal Code § 1.10(f) (related to federal laws regulating firearms, firearm accessories, and firearm ammunition).

Tax-Exempt Conditions:

22. 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.
23. The City's bond counsel opinion must also state that the Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the City when rendering this opinion.
24. 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 section 141 of the Internal Revenue Code of 1986, as amended (Code) and the Treasury Regulations promulgated thereunder (Regulations).
25. 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 section 148(a) of the Code and Regulations, including to acquire or to replace funds which were used, directly or indirectly, to acquire Nonpurpose Investments (as defined in the Code and Regulations) which 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 section 1.148-1(b) of the Regulations; and
 - c. amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed the least of maximum annual debt service on the Obligations, 125% of average annual debt service on the Obligations, or 10 percent of the stated principal amount (or, in the case of a discount, the issue price) of the Obligations.
26. 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 section 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 section 148(f) of the Code, section 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; and
 - 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.
27. 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.
 28. 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 section 149(b) of the Code.
 29. 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.
 30. The Obligations must contain a provision that the City will refrain from using the proceeds provided by this TWDB commitment or the proceeds of any prior bonds to

pay debt service on another issue more than 90 days after the date of issue of the Obligations in contravention of the requirements of section 149(d) of the Code (relating to advance refundings).

31. The transcript must include evidence that the information reporting requirements of section 149(e) of the Code will be satisfied. This requirement may be satisfied by filing an IRS Form 8038 with the Internal Revenue Service. In addition, the 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.
32. 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.
33. The City's federal tax certificate shall provide that the weighted average maturity of the Obligations purchased by the TWDB does not exceed 120% of the weighted average reasonably expected economic life of the Project.

State Revolving Fund Conditions:

34. The City shall submit outlay reports with sufficient documentation on costs on a quarterly or monthly basis in accordance with TWDB outlay report guidelines.
35. The Obligations must include a provision stating that all laborers and mechanics employed by contractors and subcontractors for projects shall be paid wages at rates not less than those prevailing on projects of a similar character in the locality in accordance with the Davis-Bacon Act, and the U.S. Department of Labor's implementing regulations. The City, all contractors, and all sub-contractors shall ensure that all project contracts mandate compliance with Davis-Bacon. All contracts and subcontracts for the construction of the project carried out in whole or in part with financial assistance made available as provided herein shall insert in full in any contract in excess of \$2,000 the contracts clauses as provided by the TWDB.
36. The Obligations must include a provision stating that the City shall provide the TWDB with all information required to be reported in accordance with the Federal Funding Accountability and Transparency Act of 2006, Pub. L. 109-282, as amended by Pub. L. 110-252. The City shall register with the System for Award Management (SAM), and maintain current registration at all times during which the Obligations are outstanding.

37. The Obligations and Principal Forgiveness shall provide that all loan proceeds will be timely and expeditiously used, as required by 40 CFR § 35.3135(d), and also shall provide that the City will adhere to the approved project schedule.
38. The Obligations and Principal Forgiveness Agreement must contain a covenant that the City will abide by all applicable construction contract requirements related to the use of iron and steel products produced in the United States, as required by 31 TAC § 371.4 and related State Revolving Fund Policy Guidelines.
39. The Obligations and Principal Forgiveness Agreement must contain a covenant that the City shall abide by the prohibition on certain telecommunications and video surveillance services or equipment as required by 2 CFR § 200.216.

Drinking Water State Revolving Fund Conditions:

40. The City shall pay at closing an origination fee approved by the Executive Administrator of the TWDB pursuant to 31 TAC Chapter 371.
41. Before closing, the Texas Commission on Environmental Quality, must make a determination, the form and substance of which is satisfactory to the Executive Administrator, that the City has demonstrated the necessary financial, managerial, and technical capabilities to proceed with the project or projects to be funded with the proceeds of these Obligations.
42. Before the release of funds for professional consultants including, but not limited to, the engineer, financial advisor, and bond counsel, as appropriate, the City must provide documentation that it has met all applicable state procurement requirements as well as all federal procurement requirements under the Disadvantaged Business Enterprises program.

Pledge Conditions for the Loan:

43. 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 which 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 which 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.

Special Conditions:

- 44. Before closing, the City must execute a Principal Forgiveness Agreement in a form and substance acceptable to the Executive Administrator.
- 45. The Principal Forgiveness Agreement must include a provision stating that the City shall return any principal forgiveness funds that are determined to be surplus funds in a manner determined by the Executive Administrator.
- 46. At least thirty (30) days prior to closing, the City shall submit documentation acceptable to the Executive Administrator (EA) of the TWDB that the City has reserved thirty (30) days of cash, based on the daily average of total expenses, excluding depreciation and amortization, reflected in the City's 2022 Audit. While the TWDB is the holder of the Obligations, this cash reserve requirement shall be maintained based on the City's most recent Audit. The restricted cash shall be kept in a bank account separate and apart from the City's other cash. Upon the

disbursement of any restricted cash, the City shall notify the EA. The restricted cash account shall be replenished within ninety (90) days.

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

TEXAS WATER DEVELOPMENT BOARD

Brooke T. Paup, Chairwoman

DATE SIGNED: _____

ATTEST:

Jeff Walker, Executive Administrator

Water
 Wastewater
 Other _____

WATER CONSERVATION REVIEWEntity: City of Leonard

Other entity: _____

WATER CONSERVATION PLAN DATE: 2022 Approvable Adopted

	Total GPCD	Residential GPCD	Water Loss GPCD
Baseline	129	70	22
5-year Goal	130	62	21
10-year Goal	130	60	20

WATER LOSS AUDIT YEAR: 2021

Service connections: 884 Length of main lines (miles): 260 Water Loss GCD: 132
 Retail population: 2,500 Connections per mile: 3 Water Loss GPCD: 50
 ILI¹: NA

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

WATER LOSS THRESHOLDSWater Loss Project: Wholesale Adjusted:

Threshold Type:

Population ≤ 10K, connections/mile < 32 :

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
7	451	NA	10	1,600	NA

Does the applicant meet Water Loss Threshold Requirements?

Yes No NA **ADDITIONAL INFORMATION**

The city's water conservation plan states the city is committed to water conservation to avoid waste, save costs, and conserve water. To achieve its goals, the city plans to calculate and review daily per capita use, continue to perform leak detection inspections, correct known losses immediately, and provide water conservation literature to customers. Additionally, staff will also survey distribution lines for abandoned services and illegal connections.

STAFF NOTES AND RECOMMENDATIONS

Although the city is below its water loss thresholds, TWDB conservation staff recommends that the city improve its review and tracking of its water use and water loss audit data and consider implementing aggressive best management practices that can assist in mitigating its water loss.

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.



City of Leonard Fannin County

