

Spotlight on Texas

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Texas Water Development Board

Mission Statement

To lead the state's efforts in ensuring a secure water future for Texas and its citizens.



Priorities – Current Approach in Texas

- Use the Clean and Drinking Water SRFs to meet the needs of Texas by offering financial assistance to all categories of eligible systems within the requirements and constraints of the program.
- All types of systems are important / to be funded. However, adjust terms/type assistance (e.g., principal forgiveness/interest rate) based on the applicant's eligible “funding options” used for their financing package.

Priorities – Current Approach in Texas

Designed to be flexible and meet the needs in Texas of all those entities listed below, in no particular order:

- Disadvantaged – Small or Rural
- Very Small Systems
- Disadvantaged communities – any size or location
- Large systems
- Urgent Need projects – pressing needs through no fault of their own or disaster recovery
- Green projects
- Addressing increased costs from inflation on SRF projects currently underway
- Emergency preparedness
- Building capacity for the future through asset management

SFY 2023 – Approach

- Program designed to allocate the required additional subsidization levels while freeing up subsidized loan funds for other projects. Allow the TWDB to continue to meet the needs of all its customers through a wide variety of “funding options” while addressing the new allocation and programmatic requirements.
- Continue to use a portion of “grant equity” to support lower interest rates for all eligible systems & increase the amount we can leverage in the future to meet the growing needs in Texas. Therefore, Texas did not allocate the maximum additional subsidization in SFY 2023.

SFY 2023 – Approach

- For flexibility to meet the varied needs throughout the state – employ a variety of “funding options” to allocate Additional Subsidization and to provide a variety of loans.
- While offering a variety of funding options; if an initial allocation amount is not used, reallocate during the year – allows us to offer options such as “Urgent Need” principal forgiveness and 0% loans but re-allocate if not needed in a particular year.

Funding Options – Mixture in Financing Package

- 1) Disadvantaged Community (Principal Forgiveness)
- 2) Disadvantaged Community – Small / Rural only (Principal Forgiveness & 0% loans)
- 3) Green (Principal Forgiveness)
- 4) Urgent Need (Principal Forgiveness & 0% loans)
- 5) Very Small Systems (Principal Forgiveness)
- 6) Emergency Preparedness (Principal Forgiveness)
- 7) Asset Management Preparation & Implementation (0% loans)
- 8) SRF-funded Projects with Project Cost Increases (Subsidized interest rate)
- 9) Regular Bonds/Loans (Subsidized interest rate)

Project's financing package may be a mixture of many of these “funding options” based on eligibility & funding availability.

Funding Options – Example of Financing Package

A particular entity was eligible for:

- Disadvantaged Community (\$5,670,000 Principal Forgiveness);
- Green (\$1,500,000 Principal Forgiveness);
- Emergency Preparedness (\$75,000 Principal Forgiveness)
- Asset Management Preparation (\$100,000 loan at 0%)
- Regular loan for remainder, including fee, at subsidized interest rate. Underwriting analysis based on entity's characteristics /utility rates/feasibility, etc.

Assessing “Need”

A fundamental and important issue to address in the SRF programs is: “How much principal forgiveness or other subsidy, such as a reduced interest rate, is needed for the project.”

This issues applies to all entities/all projects - small systems, disadvantaged systems and even the largest system. Those in different circumstances in different areas addressing different needs.

Obviously, each state SRF program needs the flexibility to develop the best approach to this fundamental question.

Texas - Assessing “Need”

Methods:

1. Fixed Principal Forgiveness % levels / Must meet threshold level
 - Disadvantaged Community
 - Green
2. Maximum Principal Forgiveness amount, maximum 0% loan amount / Must meet threshold level
 - Very Small Systems
 - Disadvantaged Community – Small / Rural only
 - Urgent Need
 - Emergency Preparedness

Texas - Assessing “Need”

Methods (continued):

3. Maximum 0% loan amount

- Asset Management Preparation & Implementation - maximum 0% loan amount

4. Consider Loan Underwriting & Program Lending Capacity:

- SRF-funded Projects with Project Cost Increases (Subsidized interest rate)
- Regular Bonds/Loans (Subsidized interest rate)

Assessing “Need” – Other considerations

- 5. Regardless, have a limit/cap on maximum amount of Principal Forgiveness a project may receive in a given IUP year
- 6. In determining amount of capitalization grant to allocate as Additional Subsidization, continue to use a portion of the “grant equity” to support lower interest rates for all eligible systems & to increase the amount we can leverage (loan capacity) to meet the growing needs in Texas

State Match – SFY 2023

- CWSRF – Sell bonds
- DWSRF – Sell bonds for vast majority of requirement (~94% of required match on grant from annual appropriations.) Received appropriations for remainder of 6%.

Leveraging

- CWSRF and DWSRF are leveraged programs
- Use cash flow modeling to determine total loan capacity for the IUP year

Setting interest rates – SFY 2023

- For regular subsidized interest rates - the interest rate is a percentage reduction from the Thomson Reuters Municipal Market Data (MMD) rate adjusted for yield to maturity that is applicable to the entity's rating, with non-rated entities using the Baa rate, as follows:
- CWSRF Program
 - (a) Equivalency projects: **40% reduction**
 - (b) Non-Equivalency projects: **35% reduction**
- DWSRF Program
 - (a) Equivalency projects: **35% reduction**
 - (b) Non-Equivalency projects: **30% reduction**

Fees

- One-time origination fee is assessed at closing on the portion of a commitment that requires repayment. The origination fee does not apply to any principal forgiveness amounts. The financial assistance recipient has the option of financing the origination fee or paying this fee up front at closing. Almost all finance the fee.
- CWSRF fee – 1.75%
- DWSRF fee – 2.0%
- TWDB sets fee percentage based on projected program need. Used for any eligible activity, including administrative costs, such as project oversight, long-term financial monitoring, and Special Program Initiatives

Additional Subsidization Policy

- Principal forgiveness only
- Maximum \$10 Million to a project for a IUP year

Funding Option	Principal Forgiveness Amount
Disadvantaged Community	70% (subject to maximum amount per project)
Disadvantaged Community – Small / Rural only	Maximum amount per project/entity \$1,000,000
Subsidized Green	Up to 15% of SRF-funded Green Costs
Very Small Systems	Up to \$400,000 per project
Emergency Preparedness	Up to \$75,000 per entity
Urgent Need	Maximum amount per project/entity \$800,000

Loan Terms

- Loans may be offered for a term of up to 30 years for the planning, acquisition, design, and/or construction phases.
- The term of financial assistance offered may not exceed the projected useful life (CWSRF) / expected design life (DWSRF) of an eligible project.
- Flexible on structuring bond payments.

Technical Assistance

- TWDB and TCEQ (for DWSRF) provide extensive technical assistance.
- Texas employs outreach staff, regional teams, program staff, & others
- Monthly workshops, webinars, one-on-one meetings, conferences, website, & literature.
- Special emphasis on small/rural systems
- Consider systems with health issues, systems under enforcement, referrals, inquiries, etc.
- Fund efforts with Administration (CWSRF) and Set-asides (DWSRF)

Special Initiatives

- 1) Asset Management Program for Small Systems (AMPSS) Initiative (both CWSRF & DWSRF)
- 2) CFO to Go Initiative (both CWSRF & DWSRF)
- 3) Securing Safe Water– Outreach, Technical Assistance and Funding Initiative (DWSRF)
- 4) Technical Assistance in Water Loss Control Initiative (DWSRF)

All four are explained in our Intended Use Plans

Special Incentives

- Special incentives for those preparing and/or implementing asset management plans.
- They receive extra subsidy & extra points for ranking

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