

Water for Texas

State Participation Program

What is the State Participation Program?

The State Participation Program enables the Texas Water Development Board (TWDB) to assume a temporary ownership interest in a regional project when the local sponsors are unable to assume debt for the optimally sized facility. The program is authorized under Texas Water Code § 16, Subchapters E and F, and governed by TWDB rules in Texas Administrative Code Title 31 § 363, Subchapter J. The TWDB may acquire ownership interest in the water rights or a co-ownership interest of the property and treatment works. The loan repayments that would have been required had the assistance been from a loan are deferred. Ultimately, the cost of the funding repaid to the TWDB is based upon purchase payments, which allow the TWDB to recover its principal and interest costs and issuance expenses, but on a deferred timetable.

The program is intended to allow for optimization of regional projects through limited State participation where the benefits can be documented, and where such development is unaffordable without State participation. The goal is to allow for the “right sizing” of projects in consideration of future growth. On new water supply and state water plan projects the TWDB can fund as much as 80 percent of costs, provided that the applicant finances at least 20 percent of the total project cost from sources other than the State Participation account and that at least 20 percent of the total capacity of the proposed project serves existing needs. On other State Participation projects, the TWDB can fund as much as 50 percent of costs, provided that the applicant finances at least 50 percent of the total project cost from sources other than the State Participation account and that at least 50 percent of the total capacity of the proposed project serves existing needs.

Who can apply for the funds?

Any political subdivision of the state and water supply corporations that may sponsor construction

of a regional water or wastewater project can apply to the TWDB for the State’s participation in the project. Although it is not required, the applicant usually acquires a loan from the TWDB for the community’s immediate needs.

How do I apply for State Participation funding?

The applicant is encouraged to meet with TWDB staff for assistance in preparing the application and to discuss the terms of the loan. The applicant must submit an engineering feasibility report and environmental information, as well as general, fiscal, and legal information to the TWDB’s Project Finance office.

How does the TWDB get funds for the program?

The Texas Legislature, recognizing the value in optimizing and “right sizing” systems, has appropriated funds to assist local governments in regional optimization projects. To offset some of the initial cost of processing these projects, the TWDB charges an administrative cost recovery fee of 0.77 percent. As the earlier projects repurchase the TWDB’s interest, additional funds become available for future projects.

What savings does the State Participation funding provide?

The benefits to the participant are threefold: (1) payments are deferred until the customer base grows into the added capacity facilitated, which will augment the applicant’s ability to make the payments to the TWDB; (2) the TWDB does not accrue interest on the deferred interest portion, thereby reducing the overall carrying cost of the facility for the applicant; and (3) optimizing regional

projects reduces the necessity and added expense to local governments of building new structures or replacing undersized structures in the future. These funds are limited in availability both as to the total amount approved by the legislature each biennium and as to participation in individual projects. The TWDB's participation in this program is limited to a maximum of 80 percent of costs for projects creating a new water supply or projects identified in the state water plan. TWDB participation is limited to 50 percent of costs for other types of projects. In both cases, State Participation funding is limited to the portion of the project designated as excess capacity. The remaining costs of the project may be funded through other TWDB programs. A project must meet several requirements, including a requirement that it cannot be reasonably financed without State Participation assistance and that the optimal regional development of the project cannot be reasonably financed without State Participation funds.

What are the terms of financial assistance?

SECURITY INSTRUMENT: A master agreement will be developed to establish responsibilities, duties, and liabilities of each party and to govern the funding arrangements, including provisions for a defined source of revenue that will be used to purchase the State's portion of the facility.

PLEDGE: System revenues and/or tax pledges are typically required. Contract revenue pledges for river authorities and others are possible. The TWDB may subordinate this obligation relative to debt issuance.

LENGTH OF TWDB PARTICIPATION AND REPURCHASE PAYMENTS: The duration of the agreement is the useful life of the project facilities being constructed with a maximum financing life of 34 years. Contracts between the TWDB and the applicant include a repurchase payment schedule that approximates the following:

- » 1st & 2nd years at \$0 interest payable/\$0 principal (interest accrues but payment is deferred)
- » 3rd & 4th years at 20 percent of accrued interest/\$0 principal (80 percent of accrued interest deferred)
- » 5th year at 30 percent of accrued interest/\$0 principal (70 percent of accrued interest deferred)
- » 6th year at 40 percent of accrued interest/\$0 principal (60 percent of accrued interest deferred)
- » 7th year at 55 percent of accrued interest/\$0 principal (45 percent of accrued interest deferred)
- » 8th year at 70 percent of accrued interest/\$0 principal (30 percent of accrued interest deferred)
- » 9th year at 85 percent of accrued interest/\$0 principal (15 percent of accrued interest deferred)
- » 10th–12th years at 100 percent of accrued interest/\$0 principal (no accrued interest deferred)

- » 13th–19th years at all annual accruing interest plus recovery of equal portions of the previously deferred interest each year
- » 20th–34th years at all annual accruing interest plus principal

A portion of the TWDB's ownership is transferred only when the principal portion of the payment begins. *The intent of the schedule is to produce approximately level debt service beginning in the 13th year, but the deferred interest component is recovered prior to the application of payments to principal.*

INTEREST RATES: Although the assistance is not a loan, the purchase requirement is certain as to terms of payment and includes a component of the repurchase cost that includes the interest costs of TWDB's funds in financing the project. These rates are based upon the TWDB's cost of funds for loans at such time as the TWDB's acquisition payment is made to establish its participation in the project. Rates are established by maturity date for each installment closed. The rates are set approximately 45 days prior to installment closing and are based upon the TWDB's true interest cost composite lending rate scale for State Participation bonds. The rate is set in accordance with the TWDB rules governed by Texas Administrative Code Title 31 § 363.33(a).

FEES: An administrative cost recovery fee of \$0.77 per \$100 of State Participation funds provided is assessed for State Participation commitments. The fee will be paid at closing, either in full, or at a minimum of one-third of the fees. If the applicant chooses to pay one-third at closing, the remaining two-thirds may be arranged in two subsequent installments in the first, second, or third years of the commitment. Terms for payment of fees are agreed upon in the individual contracts.

CONDITIONS TO CLOSE: Upon TWDB commitment, a letter is provided detailing all financial and special conditions.

APPLICABLE RULES: Texas Administrative Code Title 31 § 363, Subchapters A and J.

Where may I get more information?

For more information, contact the TWDB at (512) 463-8491 or visit the Assistance section of the TWDB Web site at <http://www.twdb.texas.gov/financial/programs>.

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