



**AGENDA MEMORANDUM**  
Action Item for the City Council Meeting April 21, 2020

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**DATE:** April 10, 2020

**TO:** Peter Zaroni, City Manager

**FROM:** Heather Hurlbert, Director of Finance and Business Analysis  
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<b>Application for Financial Assistance from the Texas Water Development Board</b>
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**CAPTION:**

Resolution requesting financial assistance from the Texas Water Development Board for design and construction of a Seawater Desalination Facility within the Inner Harbor ; authorizing City staff to submit an application to the Texas Water Development Board for funding from its State Water Implementation Fund for Texas loan program; and other matters in connection therewith.

**SUMMARY:**

The City of Corpus Christi would like to apply for funding through the State Water Implementation Fund for Texas (SWIFT) loan program in an amount not to exceed \$222,475,000 from the Texas Water Development Board (TWDB) to fund the design and construction of a Seawater Desalination Facility within the Inner Harbor.

**BACKGROUND AND FINDINGS:**

Despite the COVID-19 pandemic, all known water demand projects remain on schedule. The City continues moving forward to meet the Coastal Bend region's growing water needs with a drought-resistant water supply from a seawater desalination facility.

On February 6, 2020 the City submitted an abridged loan application to the TWDB for the design and construction of a Seawater Desalination Facility within the Inner Harbor. The abridged loan application in the amount of \$222,475,000 was the first step in the process of applying for the SWIFT loan program.

The SWIFT loan program was created by the Texas Legislature to provide affordable, ongoing state financial assistance for projects in the state water plan. The program helps communities develop cost-effective water supplies by providing low-interest loans, extended repayment terms, deferral of loan repayments, and incremental repurchase terms. Through fiscal year 2019, SWIFT committed over \$8.3 billion for projects across Texas. To apply for funding, entities must first submit an abridged loan application for their projects to be evaluated. The projects are ranked and the top projects that are within the limits of available funding are invited to submit a full application. Once the full application is evaluated and approved, TWDB offers financing through the loan program. The interest rate charged by the TWDB is based on the TWDB's cost of funds

sold with the State of Texas' General Obligation AAA rating. The lending rate balances reasonable rates for TWDB customers that cover TWDB's cost of funds and risk exposure. Utilization of the TWDB funding option is being recommended especially since we are in an environment where interest rates are expected to rise, and the interest rate that will be charged for these obligations is based on a AAA rating – which is a higher rating than the City's AA-/Aa3 rating for its utility priority lien bonds and A+/A1 for the City's junior lien utility bonds – resulting in a lower interest rate.

By submitting the application, the City represents that it is ready and able to move forward with the project and with issuing the debt to secure the loan. If after the application is approved the City decides to not move forward with the project, the City is able to withdraw the project and any related funding commitments up until the Financing Agreement with the TWDB is executed prior to issuing the debt to secure the loan.

On April 9, 2020, the Texas Water Development Board approved the City's abridged loan application and invited the City to submit their full loan application due by May 11, 2020 which is the second step in the process City staff has been working to complete all the required documentation for the application prior to the invitation to apply due to the extensive amount of information required to complete the applications. This resolution is one of the requirements in applying for financial assistance from the TWDB.

Once the application is considered by the TWDB for the loan program, the final step in the process is for the City to sign a Financing Agreement with the TWDB for the loan, and then City Council will consider an ordinance to issue debt to collateralize the loan. The debt sale will be a private placement with TWDB and the debt will be issued at a lower interest rate than the City could receive if the debt was sold on the open market. The City anticipates issuing the debt in the fall of 2020.

### **ALTERNATIVES:**

The alternative to applying for the SWIFT loan would be to secure funding other than the funding options offered through the SWIFT loan program. If we do not apply for the SWIFT loan program, even with the low interest rates we are experiencing at the present time, the City would not realize the low rates offered by the TWDB through the SWIFT loan program. As a result, the City would pay a higher rate of interest to fund the design and construction of the seawater desalination facility which could negatively affect utility rates.

### **FISCAL IMPACT:**

If the City applies for the loan and the TWDB awards the loan to the City, the fiscal impact could be up to a 30% reduction in interest rates as compared to traditional financing methods. The application requests the funding from TWDB over a two-year period. The first year's funding is for the design of the plant, and the second year's funding is for the construction of the plant. The City plans on issuing 30-year debt with level debt service amounts to secure the two loan amounts. Through the loan program, the City will sell the debt by private placement with TWDB and the debt will be issued at a lower interest rate than the City could receive if the debt was sold on the open market. The debt service will be paid primarily with revenue collected from the Drought Exemption Surcharge fee (66% of debt service) and the remainder through capacity created by existing debt being paid in full and customer utility rate revenue.

### **Funding Detail:**

Fund: Not Applicable  
Organization/Activity:  
Mission Element:

Project # **(CIP Only)**:

Account:

**RECOMMENDATION:**

Staff recommends approval of the resolution to submit an application to TWDB for funding of a Seawater Desalination Facility within the Inner Harbor through the SWIFT loan program.

**LIST OF SUPPORTING DOCUMENTS:**

Resolution