

Section 1

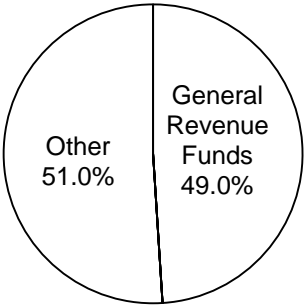
Debt Service Payments - Non-Self Supporting G.O. Water Bonds
Summary of Recommendations - Senate

Page VI-66

Tina Beck, LBB Analyst

Method of Financing	2012-13 Base	2014-15 Recommended	Biennial Change	% Change
General Revenue Funds	\$96,418,954	\$105,537,294	\$9,118,340	9.5%
GR Dedicated Funds	\$0	\$0	\$0	0.0%
Total GR-Related Funds	\$96,418,954	\$105,537,294	\$9,118,340	9.5%
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$127,548,887	\$109,887,706	(\$17,661,181)	(13.8%)
All Funds	\$223,967,841	\$215,425,000	(\$8,542,841)	(3.8%)

RECOMMENDED FUNDING
BY METHOD OF FINANCING

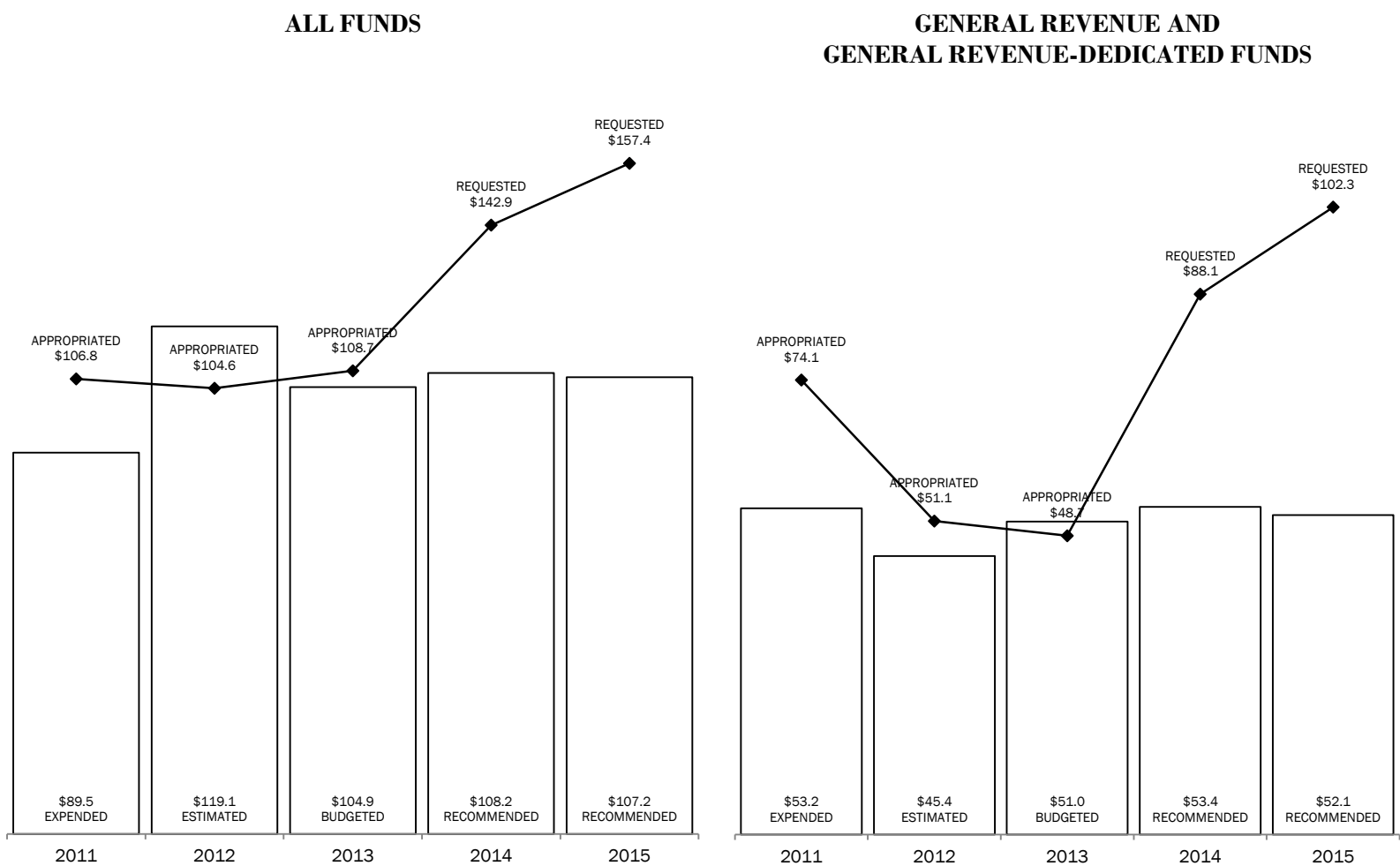


	FY 2013 Budgeted	FY 2015 Recommended	Biennial Change	% Change
FTEs			0.0	0.0%

The bill pattern for this agency (2014-15 Recommended) represents an estimated 10.2% of the agency's estimated total available funds for the 2014-15 biennium. Funds outside the treasury total \$1.9 billion for the 2014-15 biennium, and include the Texas Water Development Fund II, and the Clean/Drinking Water State Revolving Funds.

Section 1
Debt Service Payments - Non-Self Supporting G.O. Water Bonds
2014-2015 BIENNIUM
IN MILLIONS

TOTAL= \$215.4 MILLION



Note: All Funds fiscal year 2012 expenditures exceed appropriated amounts because the Water Development Board (WDB) has estimated appropriation authority for State Participation Bond payments. General Revenue and General Revenue-Dedicated Funds in fiscal year 2013 expenditures exceed appropriated amounts because the WDB has unexpended balance authority within a biennium for debt service payments.

Section 2

Debt Service Payments - Non-Self Supporting G.O. Water Bonds
Summary of Recommendations - Senate, By Method of Finance -- ALL FUNDS

Strategy/Goal	2012-13 Base	2014-15 Recommended	Biennial Change	% Change	Comments (Optional)
EDAP DEBT SERVICE A.1.1	\$47,300,368	\$50,189,878	\$2,889,510	6.1%	Recommendations include an increase of \$2.9 million in General Revenue, offset by a decrease of \$51,406 in the Economically Distressed Areas Bond Payment Account No. 357 (Other Funds) to pay existing debt service obligations.
STATE PARTICIPATION DEBT SERVICE A.1.2	\$46,364,276	\$18,969,146	(\$27,395,130)	(59.1%)	Recommendations include a decrease of \$27.4 million in the State Participation Bond Payment Account No. 8432 (Other Funds) to pay existing debt service obligations, primarily because in fiscal year 2012, one-time prepayments from the Lower Colorado River Authority (\$24.5 million) and the Upper Trinity River Authority (\$0.2 million) and related interest earnings (\$2.5 million) were not included in the baseline request for the 2014-15 biennium. The WDB has estimated appropriation authority for the Other Funds in this program.
WIF DEBT SERVICE A.1.4	\$130,303,197	\$146,265,976	\$15,962,779	12.3%	Recommendations include increases of \$6.2 million in General Revenue and of \$9.8 million in the Water Infrastructure Fund No. 302 (Other Funds) to pay existing debt service obligations.
Total, Goal A, GEN OBLIGATION BOND DEBT SERVICE	\$223,967,841	\$215,425,000	(\$8,542,841)	(3.8%)	
Grand Total, All Strategies	\$223,967,841	\$215,425,000	(\$8,542,841)	(3.8%)	

Section 3

Debt Service Payments – Non-Self Supporting G.O. Water Bonds
Selected Fiscal and Policy Issues

1. Fund Existing Debt Service Obligations

Recommendations include a net decrease of \$8.5 million to fund existing debt service obligations, or an increase of \$9.1 million in General Revenue, offset by a decrease of \$17.7 million in Other Funds. An increase in General Revenue appropriations in the 2014-15 biennium is a combination of 1) projected debt service needs for all prior year issuances, including new 2012-13 issuances; and, 2) debt service lapses of \$3.4 million from General Revenue in the 2012-13 biennium, which contributed to the biennial change. Lapses estimated for the 2012-13 biennium in debt service from General Revenue are related to timing of the issuance, lower final rates than the 5.5% budgeted, actual principal structure, and demand.

2. State Water Plan Expended and Appropriated Amounts from 1998-99 to the 2012-13 Biennium.

The Seventy-fifth Legislature, 1997 passed legislation which required the adoption of a State Water Plan (SWP). The SWP itself was not actually funded until the 2008-09 biennium. Bond issues authorized, actually issued, and General Revenue appropriations to pay debt service for all Water Development Board (WDB) bond programs are shown below:

General Revenue Appropriations for GO Water Bond Debt Service, 1998-99 to 2012-13								
Funding Decisions (in Millions)	1998-99	2000-01	2002-03	2004-05	2006-07	2008-09	2010-11	2012-13
Total Debt service - All GO Water Bond Debt	\$ 7.6	\$ 26.5	\$ 37.8	\$ 41.6	\$ 40.3	\$ 93.3	\$ 143.0	\$ 99.8
State Participation	\$ -	\$ 10.7	\$ 13.1	\$ 10.4	\$ 6.5	\$ 16.5	\$ 26.0	\$ -
Economically Distressed Areas Program	\$ 7.6	\$ 15.8	\$ 21.8	\$ 25.8	\$ 28.4	\$ 39.2	\$ 40.8	\$ 44.5
Water Infrastructure Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32.3	\$ 76.2	\$ 55.3
Agricultural Water Conservation Program	\$ -	\$ -	\$ 2.9	\$ 5.4	\$ 5.4	\$ 5.4	\$ -	\$ -
Debt service - State Water Plan only	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46.6	\$ 72.4	\$ 55.3
State Participation						\$ 9.9	\$ 5.8	\$ -
Economically Distressed Areas Program						\$ 4.4	\$ 2.1	\$ -
Water Infrastructure Fund						\$ 32.3	\$ 64.5	\$ 55.3
State Water Plan - GO Bond Authority								
Legislative authorization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 762.8	\$ 707.8	\$ 200.0
State Participation						\$ 276.1	\$ 200.0	\$ -
Economically Distressed Areas Program						\$ 37.5	\$ 34.4	\$ -
Water Infrastructure Fund						\$ 449.3	\$ 473.4	\$ 200.0

Section 3

General Revenue Appropriations for GO Water Bond Debt Service, 1998-99 to 2012-13, continued								
Amounts Actually Issued	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 438.2	\$ 494.1	\$ 100.0
State Participation						\$ -	\$ 45.6	\$ -
Economically Distressed Areas Program						\$ -	\$ 34.2	\$ -
Water Infrastructure Fund						\$ 438.2	\$ 414.3	\$ 100.0

Notes:

- 1)Totals may not add due to rounding
- 2) General Revenue appropriations for debt service do not reflect reductions made by HB 4586, Eighty-first Legislature; HB 4, Eighty-second Legislature.
- 3) 2012-13 debt service figures for State Water Plan do not include debt service for SWP projects financed through the EDAP program.

Sources: Legislative Budget Board, Water Development Board

Although \$200 million in new bond issuances were authorized in the 2012-13 biennium, the WDB was provided debt service appropriations to fund only \$100 million in new issuances, subject to fluctuating market conditions. The WDB has implemented the full \$100 million in funded issuances.

Also, in the 2008-09 and 2010-11 biennia, \$276.1 million and \$200 million in bond authority for the State Participation Program (SPP) was granted, respectively. Amounts actually issued in 2008-09 and 2010-11 were \$0 and \$45.6 million, respectively. Instead, the overwhelming demand has been for the Water Infrastructure Fund (WIF). Accordingly, the Eighty-second Legislature prioritized 2012-13 issuances for the WIF program. In general, funding for WIF is designed to help a political subdivision address existing water infrastructure needs, such as construction of a new water plant to supply an existing customer base. The SPP is designed to address future water supply needs, on a longer term basis. Examples of SPP projects would be construction of a new reservoir, laying 40-inch pipelines in lieu of 10-inch pipelines, or other construction to expand capacity in anticipation of future demand based on population growth.

Note that under Rider 4 authority, the LBB may approve a WDB request to transfer bond authority between WIF and the SPP to address program demands. Although this authority is in the agency’s bill pattern, it has never been used.

3. A Comparison of Funding Models for the State Water Plan

In December 2011, the WDB adopted the 2012 State Water Plan (SWP). The SWP is developed through a regional planning process, and costs are self-reported by 16 regional water planning groups. Each group contains members that represent agriculture, industry, public, environment, municipalities, business, water districts, river authorities, water utilities, counties, and power generation. The total capital cost of the plan through 2060 is estimated to be \$231 billion, including: 1) Water treatment and distribution (\$88.9 billion); 2) wastewater treatment and collection (\$81.7 billion); 3) implementation of water management strategies (\$53.1 billion); and 4) flood control efforts (\$7.5 billion).

The regional planning groups anticipate needing up to \$26.9 billion in state assistance to implement the \$53 billion in estimated

Section 3

needs for water management strategies. Water management strategies include conservation, reuse, and desalinization. At this time, there is no estimate of how much additional state assistance may be needed for other plan components: water treatment and distribution, wastewater treatment and collection, and flood control efforts.

The WDB has developed two proposed models for financing the SWP: Traditional Debt Service versus a Revolving Fund Model. In the example shown below, the state would provide a cash infusion of \$550.0 million in the 2014-15 biennium, and \$150.0 million each fiscal year thereafter for 14 years (\$2.1 billion) to serve as the corpus of a revolving fund. A comparison of the models shows that the revolving fund provides \$17.3 billion more in funds for SWP projects over a 50 year period than a traditional debt service model (\$44.2 billion - \$26.9 billion = \$17.3 billion). In this same example, a revolving fund would also cost the state \$6 billion less than a traditional debt service approach for the same period (\$8.6 billion - \$2.6 billion = \$6.0 billion):

Methods of Financing the State Water Plan			
	<i>Traditional</i> ¹ <i>Revolving</i> ²		
	(In Billions)		
Project financing through 2060	\$	26.90	\$ 44.20
Debt to be incurred by state (P&I)	\$	66.50	\$ -
Repayments from borrowers (P&I) - with interest subsidies and deferrals	\$	59.20	\$ -
Overall cost to the state through 2060	\$	8.60	\$ 2.60
Cost in 2014-15 Biennium	\$	1.80	\$ 0.55

- Note:
- 1) Continued reliance on General Revenue to provide debt service on general obligation (GO) bonds, which affects the Constitutional Debt Limit (CDL).
 - 2) Use of loans, self-supporting GO or revenue bonds, or not self-supporting GO bonds financed with a dedicated revenue source would not affect the CDL.

The WDB arrived at its project financing estimate based on results of an Infrastructure Financing Survey Result (IFR) of 694 entities. (See attachment). The analysis includes categories of capital costs requested, as well as the appropriate agency program for each: Water Infrastructure Fund (WIF) –construction, rural, and deferred, and State Participation –and the related General Revenue requirement for debt service.

Section 3

Traditional Model Assumptions

The WDB provided a debt service schedule for financing the \$26.9 billion (see attachment). Note that debt service in the first biennium of \$1.8 billion is relatively high, compared to subsequent years. This is primarily related to \$15.7 billion being needed in the period of fiscal year 2010-2019, primarily to address a backlog of previously identified, but unfunded projects.

Revolving Fund Dynamics

In the Revolving Fund model, the entire corpus of the fund, or \$550.0 million in this example, would be lent to borrowers for SWP projects. Principal of loan repayments could be immediately re-let, with interest earnings being available for either relending or for interest rate subsidies on future loans, or payment of debt service on self-supporting general obligation or revenue bonds. The WDB already manages several revolving funds, most notably the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund, both of which are outside the appropriations process.

Modeling Assumptions of \$26.857B

Of the 694 entities surveyed in the IFR, 269 responded indicating total capital costs of \$53.1B (see Attachment 1). A portion of those capital costs were projected to be financed by private entities leaving the municipalities with a total financing need of \$46.2B. Of the \$46.2B, the responding entities noted that they would be unable to support financing for 58.1% of the projects costs or \$26.857B.

The \$26.857B was further defined by types of capital costs requested which correspond to specific TWDB programs, as outlined in TABLE 1. WIF Rural and Disadvantaged were combined for modeling purposes and assumed as a zero percent loan / full interest subsidy. WIF Construction was modeled at a 1% subsidy. WIF Deferred was modeled with a ten year principal and interest deferral and a 1% subsidy during repayment. State Participation was modeled with standard program terms.

TABLE 1

Capital Costs Requested	%	Dollar Value	Program
Acquisition and construction	74.60%	\$20,030,989,824	WIF Construction
Disadvantaged	1.50%	\$400,464,473	WIF Rural
Excess capacity	11.50%	\$3,080,529,356	State Participation
Planning, design, permitting	12.30%	\$3,304,718,069	WIF Deferred
Rural	0.20%	\$40,369,058	WIF Rural
TOTAL		\$26,857,070,780	

Based on the above, program funding needs are identified in TABLE 2. For modeling purposes, TWDB applied these percentages to the funding required in each decade identified in TABLE 3.

TABLE 2

Program	% of Funding
WIF Construction	75%
WIF Rural	2%
State Participation	11%
WIF Deferred	12%
TOTAL	100%

TABLE 3

	Funding Needed
2010-2019	\$15,661
2020-2029	\$4,190
2030-2039	\$4,085
2040-2049	\$1,934
2050	\$623
2060	\$364
	\$26,857

An inflation factor of 3.80% was added to the financing needs based on decade of debt issuance and the par value issued was sized up to allow for cost of issuance and funding the full required dollar value of projects needed. TWDB debt issuance assumptions of 5.50% and cost of issuance of 2.5% were used (See ATTACHMENT 2 - MODELING ASSUMPTIONS).

Summary of Results

TABLE 4 outlines general revenue requirements for debt service by program and in summary for all programs based on the assumptions. For the 2014-2015 Biennium, a total of \$1.83B general revenue would be required to meet debt service needs.

TABLE 4

ESTIMATED GENERAL REVENUE REQUIREMENTS
\$26.857 Billion by Decade

	WIF Construction	WIF Rural	WIF Deferred	State Participation	Estimated Total Draw	Estimated Biennial Draw
2014	1,061,862,238	28,314,167	169,899,748	99,270,165	1,359,346,317	
2015	166,216,738	12,500,425	179,741,450	108,294,725	466,753,338	1,826,099,654
2016	117,131,766	12,504,775	179,742,000	108,294,725	417,673,266	
2017	117,130,016	12,501,125	179,740,925	85,833,415	395,208,481	812,881,747
2018	117,130,816	12,503,100	179,742,500	85,833,415	395,209,831	
2019	117,133,766	12,503,500	179,745,175	74,602,759	383,985,201	779,195,031
2020	459,370,035	21,627,727	234,500,308	95,367,025	810,865,095	
2021	170,709,310	16,531,000	237,674,625	81,429,671	506,344,606	1,317,209,702
2022	154,886,537	16,532,625	237,673,825	64,583,688	473,676,675	
2023	154,886,337	16,533,425	237,673,625	40,498,392	449,591,779	923,268,454
2024	154,890,337	16,535,375	237,670,600	-	409,096,312	
2025	154,886,512	16,530,175	-	-	171,416,687	580,512,999
2026	154,889,762	16,534,800	-	-	171,424,562	
2027	154,885,262	16,535,125	-	-	171,420,387	342,844,949
2028	154,889,587	16,532,575	-	-	171,422,162	
2029	154,884,037	16,533,300	-	-	171,417,337	342,839,499
2030	583,023,933	27,950,294	-	-	610,974,226	
2031	221,904,229	21,573,250	-	-	243,477,479	854,451,706
2032	202,117,231	21,577,050	-	-	223,694,281	
2033	202,127,531	21,582,225	-	-	223,709,756	447,404,036
2034	-	-	-	-	-	
2035	-	743,300	-	-	743,300	743,300
2036	-	9,076,575	-	-	9,076,575	
2037	-	9,073,800	-	-	9,073,800	18,150,375
2038	-	9,075,325	-	-	9,075,325	
2039	-	9,063,675	-	-	9,063,675	18,139,000
2040	-	6,012,583	-	-	6,012,583	
2041	-	7,960,000	-	-	7,960,000	13,972,583
2042	-	7,960,825	-	-	7,960,825	
2043	-	7,961,400	-	-	7,961,400	15,922,225
2044	-	7,960,075	-	-	7,960,075	
2045	-	7,955,200	-	-	7,955,200	15,915,275
2046	-	7,960,125	-	-	7,960,125	
2047	7,063,020	7,957,375	-	-	15,020,395	22,980,520
2048	74,522,897	7,955,300	-	-	82,478,197	
2049	74,525,497	7,961,700	-	-	82,487,197	164,965,394
2050	-	-	-	-	-	
2051	-	-	-	-	-	-
2052	-	-	-	-	-	
2053	-	2,612,602	-	-	2,612,602	2,612,602
2054	-	4,774,800	-	-	4,774,800	
2055	-	4,772,550	-	-	4,772,550	9,547,350
2056	-	4,774,400	-	-	4,774,400	
2057	-	4,773,975	-	-	4,773,975	9,548,375
2058	21,434,353	4,770,175	-	-	26,204,528	
2059	37,668,101	4,776,900	-	-	42,445,001	68,649,529
2060	-	-	-	-	-	
2061	-	-	-	-	-	-
2062	-	1,475,200	-	-	1,475,200	
2063	-	1,859,025	-	-	1,859,025	3,334,225
2064	-	1,856,000	-	-	1,856,000	
2065	-	1,858,900	-	-	1,858,900	3,714,900
2066	-	1,861,900	-	-	1,861,900	
2067	-	1,859,450	-	-	1,859,450	3,721,350
2068	-	1,856,275	-	-	1,856,275	
2069	-	1,861,825	-	-	1,861,825	3,718,100
2070	-	-	-	-	-	
	4,990,172,846	514,357,273	2,253,804,781	844,007,979	8,602,342,880	8,602,342,880

Source: Water Development Board, 8/21/2012

Section 4

Debt Service Payments - Non-self Supporting G.O. Water Bonds
Performance Review and Policy Report Highlights

Reports & Recommendations	Report Page	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Included in Introduced Bill	Action Required During Session
Fund the State Water Plan to Ensure Adequate Future Water Supplies	305					
1. Amend statute to create a dedicated revenue source for the State Water Plan and include a contingency rider in the 2014-15 General Appropriations Bill to appropriate revenue estimated to be collected from the option selected to the Texas Water Development Board to fund State Water Plan projects.		TBD		Other		Amend Statute Adopt Contingency Rider

Section 5

**Debt Service Payments – Non-Self Supporting G.O. Bonds
Rider Highlights**

1. **Payment of Debt Service: Economically Distressed Areas Bonds.** Rider modified to delete references to the additional \$100 million in Economically Distressed Area bonds authorized during the 2012-13 biennium. The debt service related to this issuance is included in the strategy recommendations.
3. **Payment of Debt Service: Water Infrastructure Bonds.** Rider modified to delete references to the additional \$200 million in Water Infrastructure Fund bonds authorized during the 2012-13 biennium. The debt service related to this issuance is included in the strategy recommendations.

Section 6

Debt Service Payments - Non-Self Supporting G.O. Water Bonds
Items not Included in Recommendations - Senate

In Agency Priority Order	2014-15 Biennial Total			
	GR & GR-Dedicated		All Funds	
1. State Water Plan Debt Service: Debt service funding for \$700 million in bonds for the Water Infrastructure Fund and \$200 million in bonds for the State Participation Program for continued implementation of State Water Plan financing.*	\$	78,852,175	\$	78,852,175
2. Economically Distressed Areas Debt Service. Debt service funding for \$50 million in General Obligation bonds for EDAP projects.	\$	6,041,509	\$	6,041,509
Total, Items Not Included in the Recommendations	\$	84,893,684	\$	84,893,684

*If the Eighty-third Legislature enacts legislation that creates a Capitalization Funding Model to finance the State Water Plan (SWP), the agency would not need this \$78.9 million exceptional item from General Revenue for debt service on \$900 million in new SWP issuances.