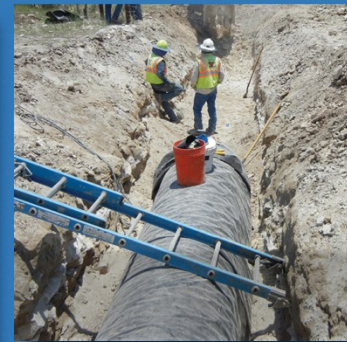


# Funding the State Water Plan with the State Water Implementation Fund for Texas (SWIFT) and State Water Implementation Revenue Fund for Texas (SWIRFT)



Carlos Rubinstein, Chairman  
Bech Bruun, Director  
Kathleen Jackson, Director

# Overview



- Texas' Water needs
- What's in the legislation?
- How will the SWIFT and SWIRFT fund the State Water Plan?
- How will projects be prioritized?
- How is TWDB implementing HB4?
- How is the Trust managing the SWIFT investments?
- What are the projections and considerations of SWIFT and SWIRFT related to supporting the state water plan?

# TWDB Mission



To provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas.



The purpose of the  
**state water plan**  
is to ensure that all of our  
communities have adequate  
supplies of water during times of  
drought.

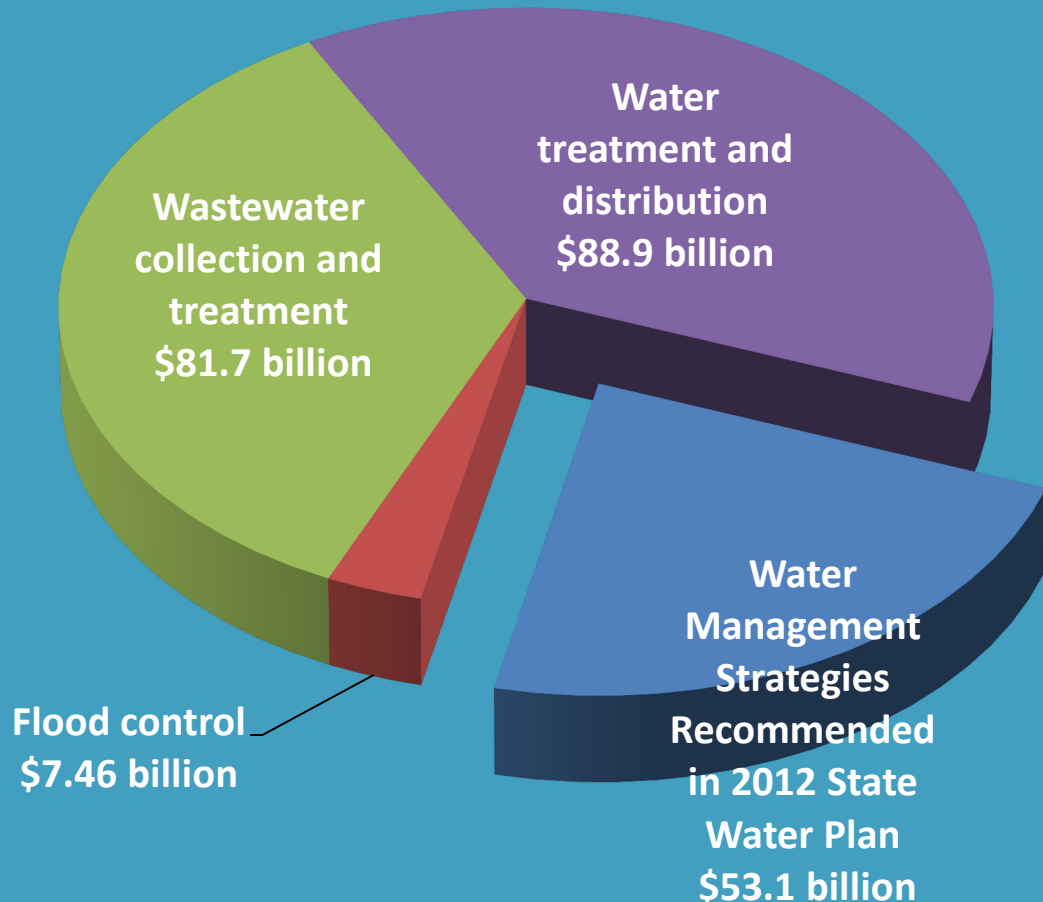
## Texas' Water Needs



Total capital costs  
for water supplies,  
water treatment  
and distribution,  
wastewater  
collection and  
treatment, and  
flood control:

**\$231 billion**

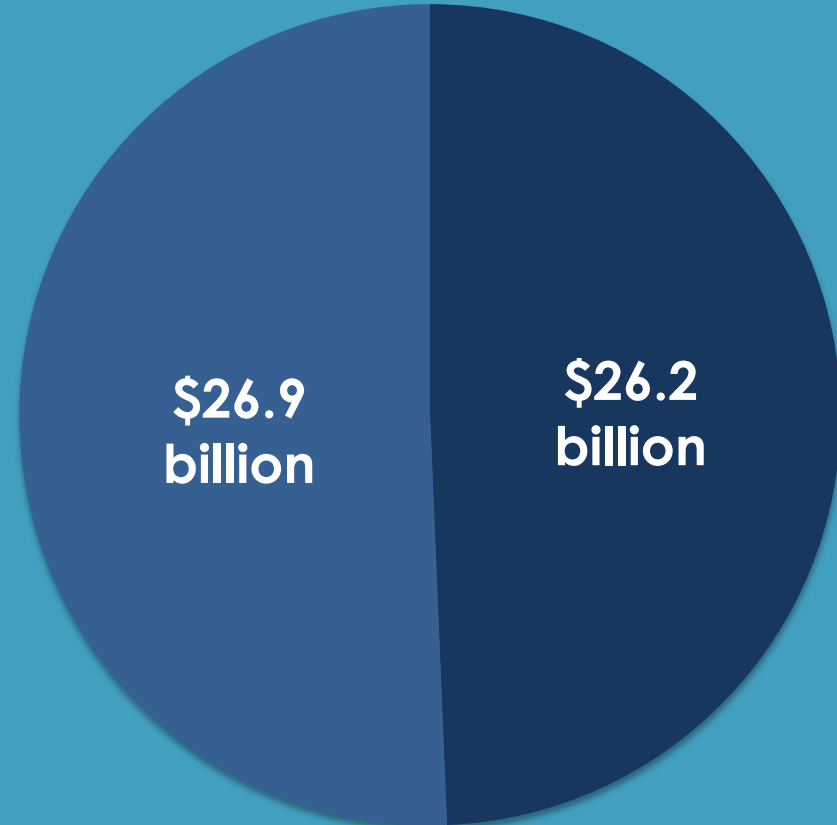
### 2012 State Water Plan



## Texas' Water Needs



*Of the \$53 billion for new water supply, water providers identified \$26.9 billion in state financial assistance needed to implement the 2012 State Water Plan.*



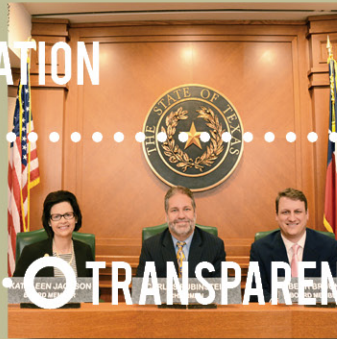
- Other mechanisms funded by project sponsor
- State programs



# *What's in the* **LEGISLATION?**



○ PRIORITIZATION



○ TRANSPARENCY



○ FINANCIAL  
ASSISTANCE



## House Bill 4

- Provided TWDB governance changes
- Created SWIFT and SWIRFT
- Created SWIFT Advisory Committee
- Defined how funds can be used
- Defined prioritization processes
- Outlined technical aspects of legislation





## House Bill 4 Governance Changes

Three full-time Board members:

- One with experience in engineering, one with experience in finance, and one with experience in law or business
- Reflect geographic regions and population groups of the state
- Staggered six-year terms
- May serve for no more than two terms



## SWIFT Advisory Committee Members

- Comptroller or designee
- Three members appointed by the Lt. Governor:
  - One from Senate Finance
  - One from Senate Natural Resources
- Three members appointed by the Speaker of the House:
  - One from House Appropriations
  - One from House Natural Resources

## What's in the legislation?



### **Senate Joint Resolution 1**

- Provided for constitutional amendment submitted to voters on November 5, 2013
- Discusses SWIFT, SWIRFT and funding for the state water plan
- Provided basic framework
- Passage of proposition allowed \$2 billion to be transferred from the Rainy Day Fund to SWIFT

### **House Bill 1025**

Appropriated \$2 billion from the Rainy Day Fund to SWIFT upon SJR 1 approval

### **Proposition 6**

Approved by voters November 5, 2013, Prop. 6 created SWIFT and SWIRFT to assist in the financing of priority projects in the state water plan to ensure the availability of adequate water resources



The objective of **HB4** is to provide financial assistance to ensure adequate future water supplies for Texas.

Legislative and TWDB Board considerations include:

- Achieve Funding of \$27 billion over 50 years
- Ensure perpetuity of original \$2 billion capitalization
  - Attainment of AAA bond ratings

## Need for Active Management



Given the magnitude of funding the state water plan, there is need for active management of the SWIRFT:

- Rationale for full-time Board members
- Evolution of decade of needs assessment
- Demand for different program structures
  - Dynamic interest rate markets

These factors will have an impact on the capacity of the SWIRFT and how it is structured.

## What's in the legislation?



### HB4:

- Creates the State Water Implementation Fund for Texas (SWIFT)
- Provides source of revenue or security for programs and a cash flow mechanism to protect the SWIFT corpus
- Supports low-interest loans, longer repayment terms, incremental repurchase terms for projects with state ownership, interest and deferral of loan payments (no grants)
- Creates State Water Implementation Revenue Fund for Texas (SWIRFT) for issuance of revenue bonds
- Permits for the utilization of Bond Enhancement Agreements

## What's in the legislation?



Undertake to use:  
At least **20 percent**  
to support water conservation  
and reuse projects.

At least **10 percent**  
to support projects serving  
rural communities and agricultural.





### Financial Assistance Options Through SWIRFT

- Up to 50% interest rate subsidy of the TWDB's interest rate
- Up to 30-year amortization for loans
- Deferral of loan repayment for principal and interest
- Incremental repurchase terms
- Repurchase of principal and interest with ultimate repurchase of entire state interest in facility using simple interest calculation

**Or**

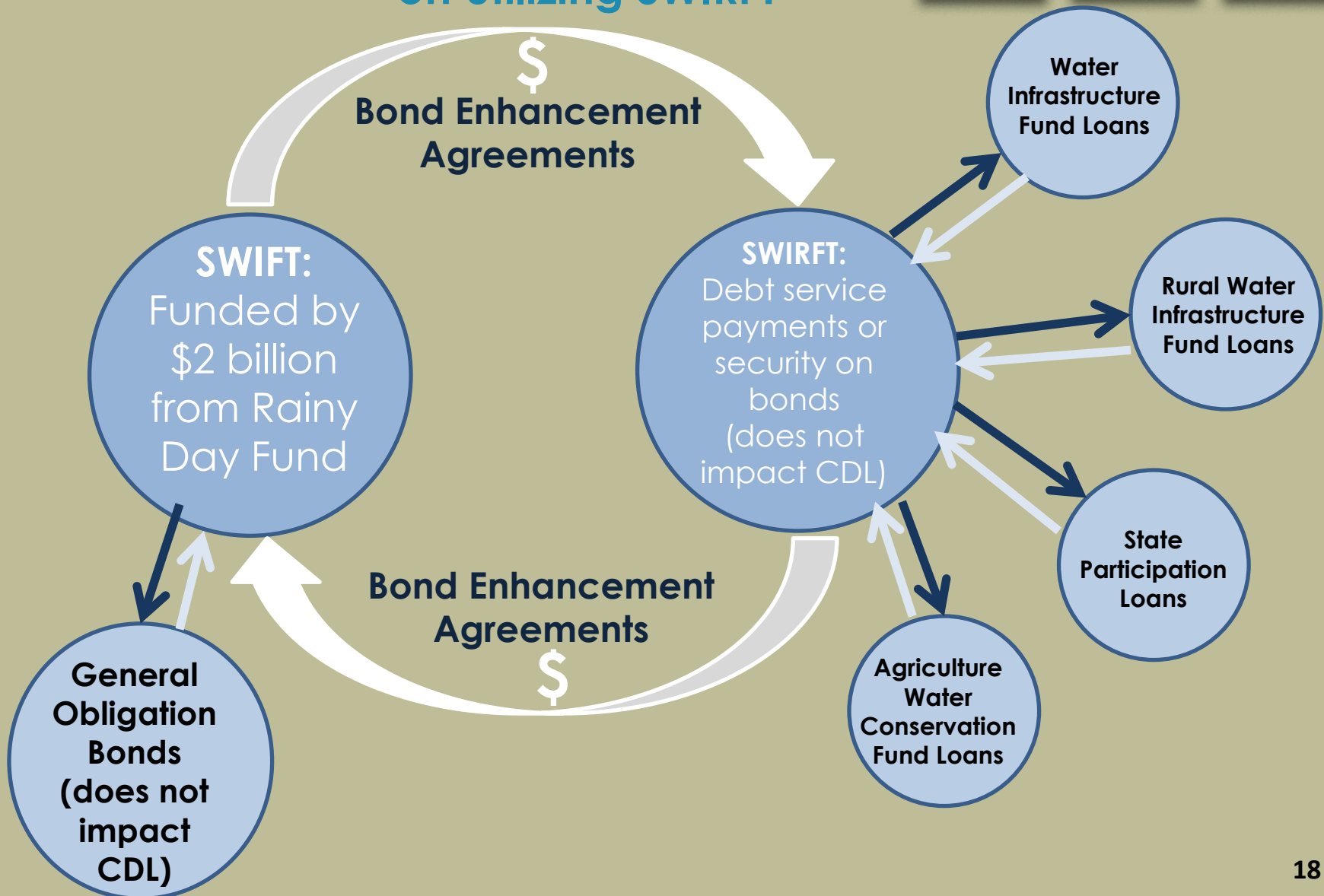
- Combination of these methods



### **SWIRFT:**

- Can issue revenue bonds to fund projects
- Finance or refinance projects in state water plan
- Make loans below prevailing rates
- Uses loan structures similar to TWDB's longstanding programs

# HB4 capacity analysis was based on utilizing SWIRFT





## **SWIRFT funds may be used as a source of revenue or security for:**

- Paying principal and interest on
  - Revenue bonds issued by TWDB
  - Other bonds issued by TWDB
  - A bond enhancement agreement
- Acquiring loans or other assets from another fund or account of TWDB
- Paying costs of issuance



## Bond Enhancement Agreements

- Professional services contracts
- Vehicle by which funds in SWIFT move to the SWIRFT and other permitted programs
- There can be no more than two bond enhancement agreements in any state fiscal year
- May provide a source of revenue or security for the payment of general obligation bonds or revenue bonds issued by TWDB
  - To finance or refinance projects included in the state water plan
- May be used to provide security through the funding of a reserve fund for SWIRFT bonds issued by TWDB

# How will the **SWIFT** and **SWIRFT** fund the **State Water Plan**?



## What will the State Water Plan fund?



**HB4** was  
created exclusively  
to support projects in  
the **state water plan**.

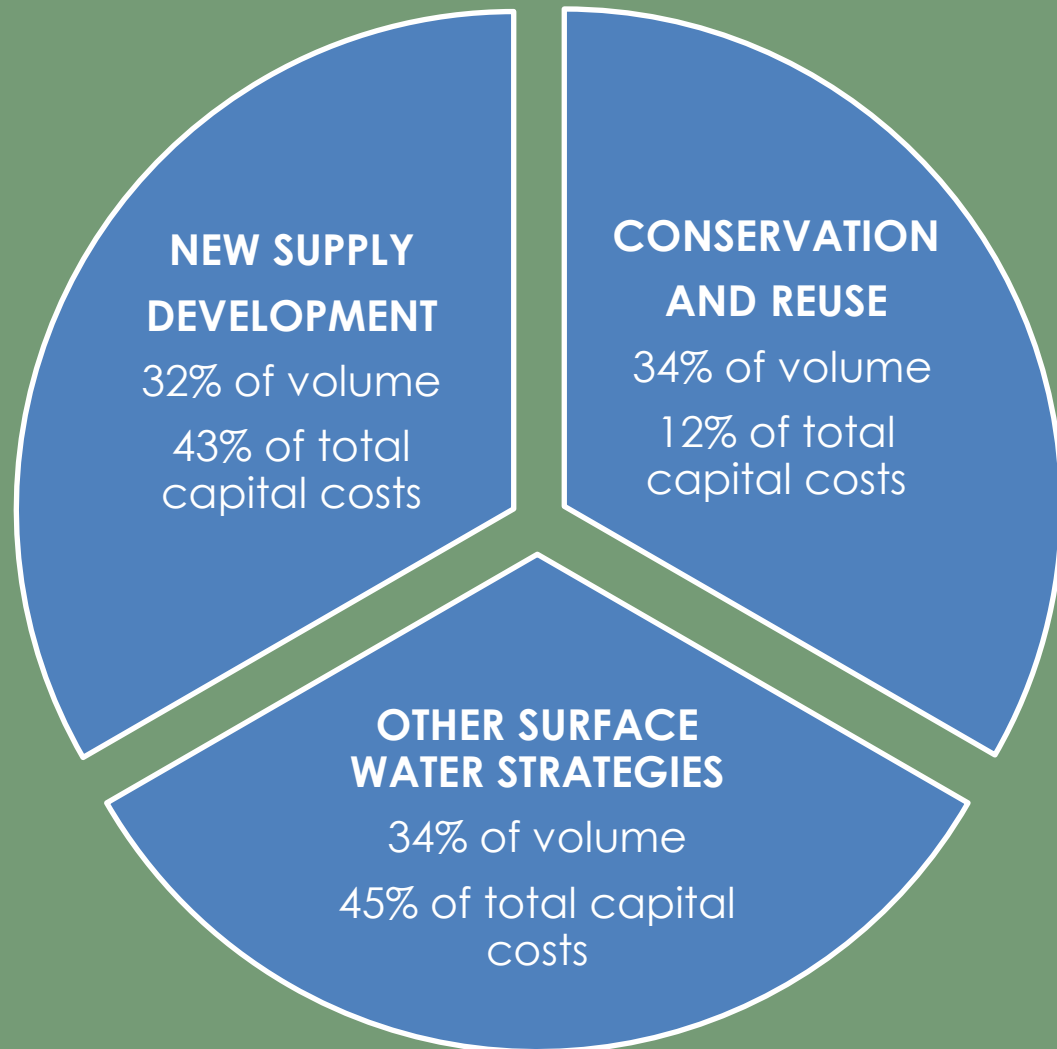
Only political subdivisions and  
nonprofit water supply corporations  
will be eligible for funds.



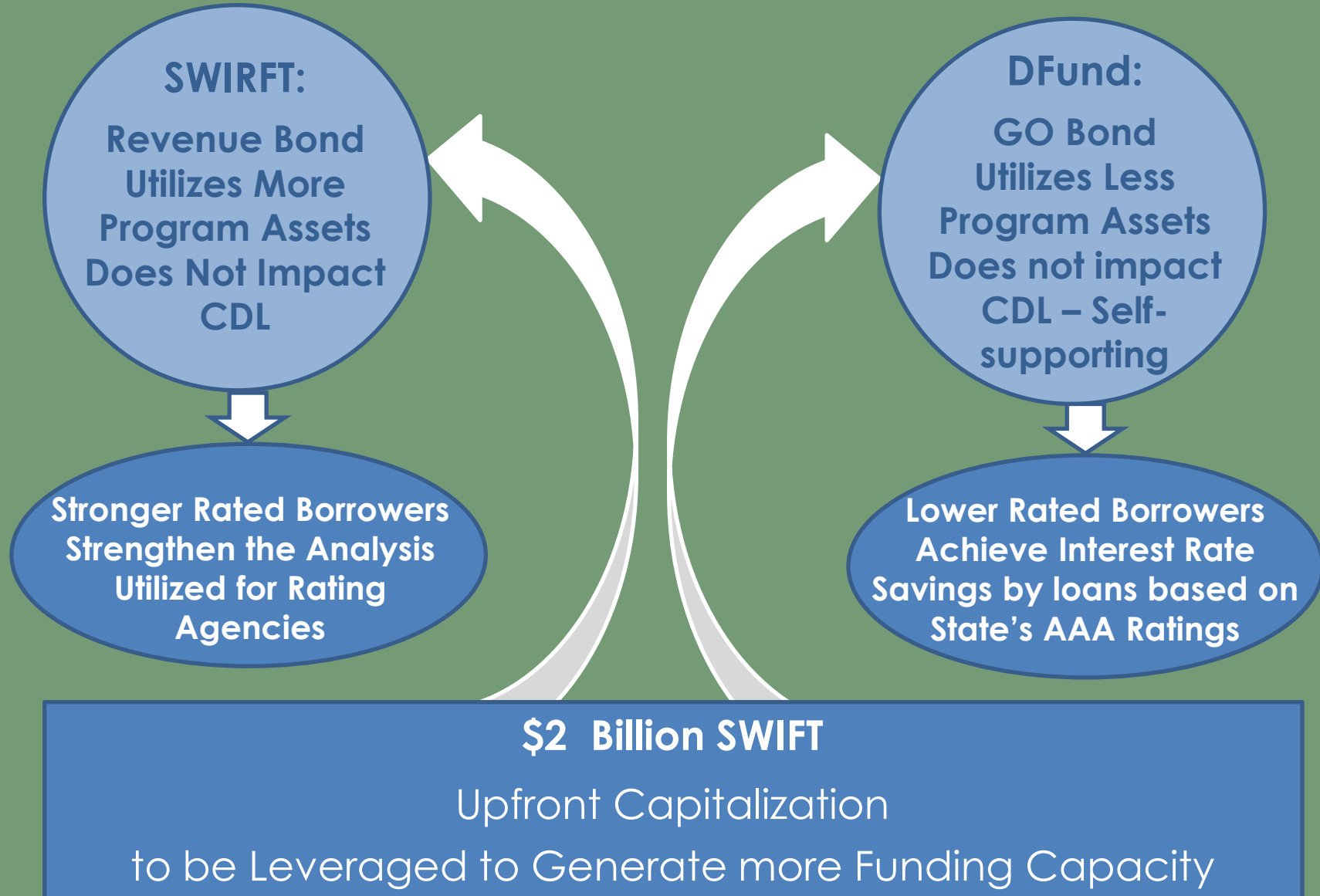
## What will the State Water Plan fund?



Allocation  
of water  
supply  
strategies  
in the **2012  
State Water  
Plan.**



# How will the \$2 billion and the \$6 billion work together?



# *How will* **PROJECTS** *be* **PRIORITIZED?**



# Regional Water Planning Groups



## Regional Water Planning & Development Teams

**Team 1:** Panhandle/West  
(A/O/E/F)

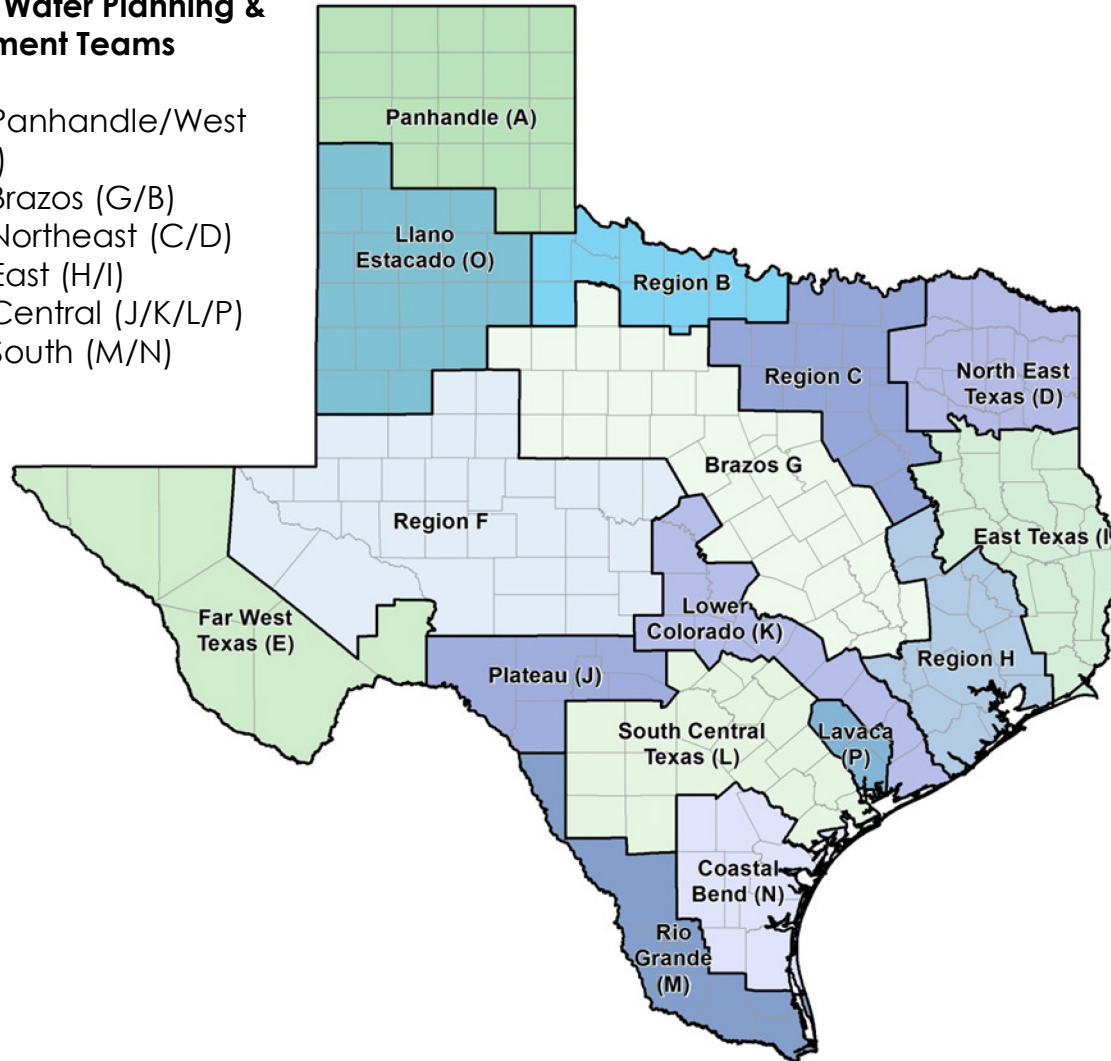
**Team 2:** Brazos (G/B)

**Team 3:** Northeast (C/D)

**Team 4:** East (H/I)

**Team 5:** Central (J/K/L/P)

**Team 6:** South (M/N)



## How will projects be prioritized?

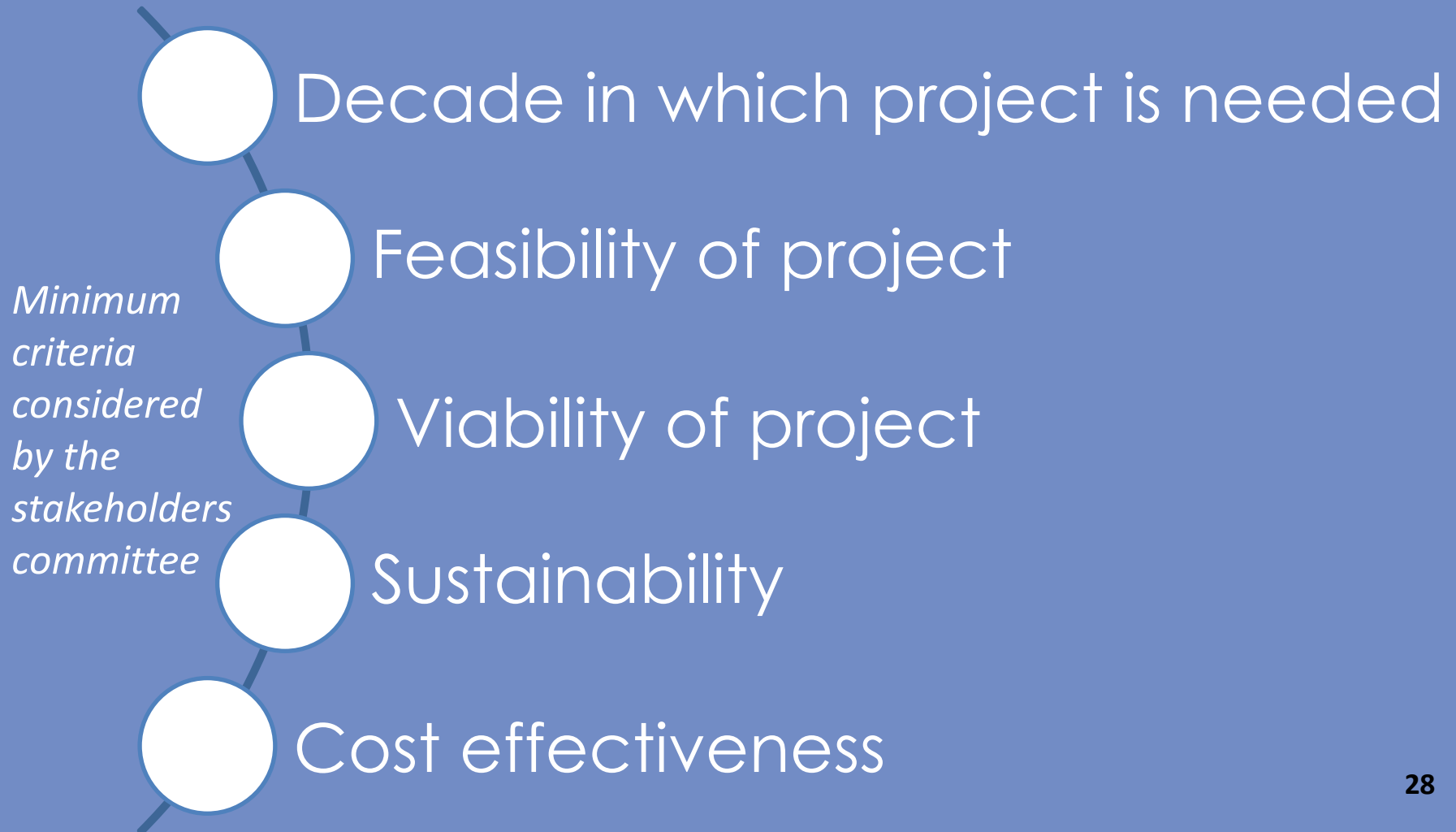


A stakeholders group developed **uniform standards** that all 16 regional water planning groups will use to prioritize projects.

## How will projects be prioritized?



### Prioritization by regional water planning groups

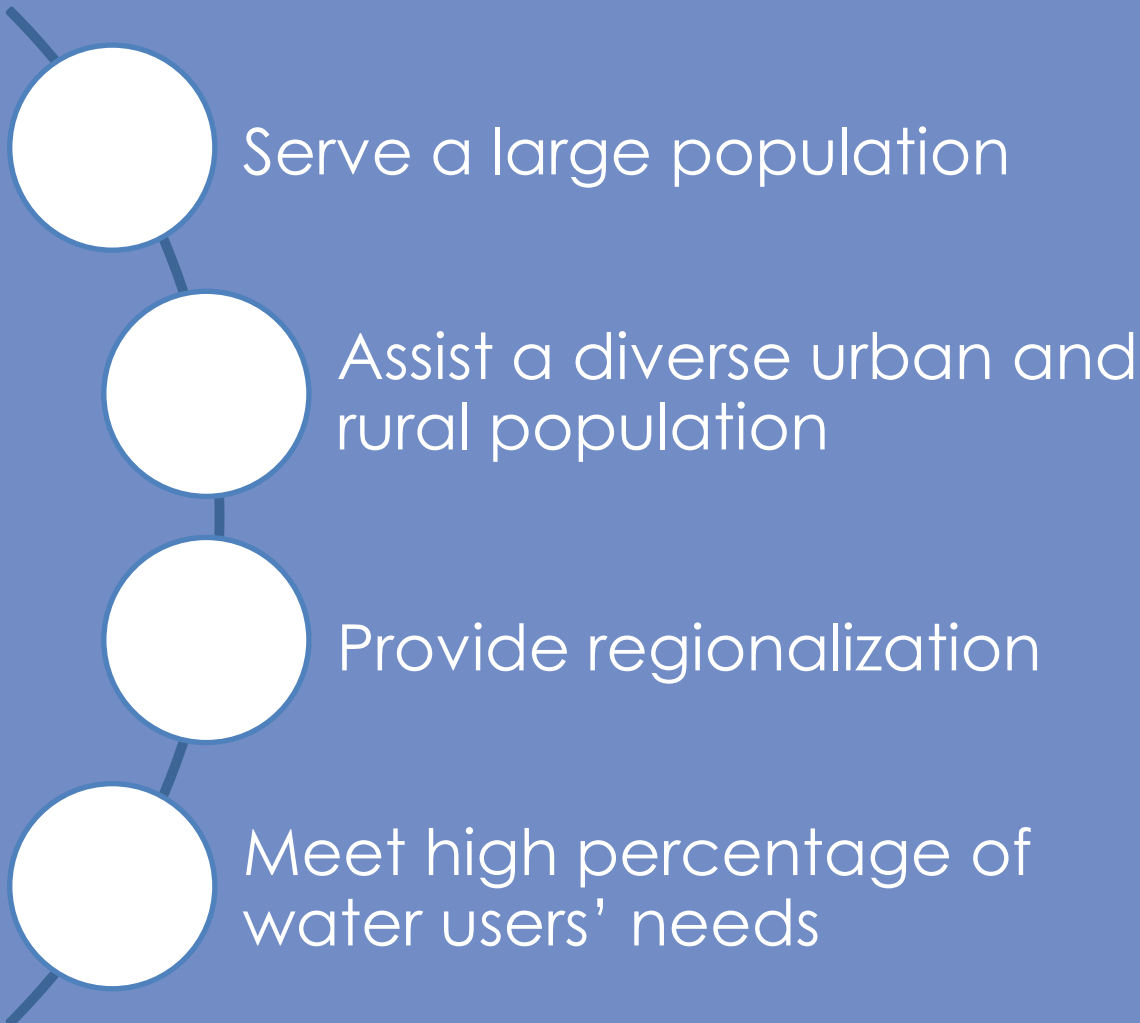


## How will projects be prioritized?



### Prioritization by TWDB

*Highest  
consideration*





## How will projects be prioritized?



### Prioritization by TWDB



## How will projects be prioritized?



### Rulemaking Process

- Prior to drafting rules, Board and Executive Administrator solicited suggestions and input from a variety of stakeholders
- Created agency rule team and public process to develop rules
- In Dec. 2013, Board approved uniform standards developed by regional water planning group committee for regional prioritization of water plan projects
- Extended public comment period closed Sept. 1; anticipate rule adoption in Dec. 2014

## How will projects be prioritized?



### Rulemaking Process

- SWIFT/SWIRFT program rules will be a new subchapter to Board's existing financial programs rules
  - This avoids duplicating rules related to application processing and financial and technical review of applications
- As with other Board programs, there will not be rules related to Board's issuance of bonds since statute provides framework
- Proposed rules will also keep structure and terms of the Board's loans to political subdivisions to a minimum to maximize flexibility
  - Allows the Board to actively manage SWIFT funds and protect the corpus, while still allowing the Board to set attractive financial terms for loans

# *How is **TWDB** Implementing **HB4**?*



○ PRIORITIZING



○ REPORTING



○ SEEKING  
PUBLIC INPUT

## How is TWDB implementing HB4?



Nov. 5, 2013

- Voters passed Proposition 6

Dec. 1, 2013

- Stakeholders group submitted prioritization standards to TWDB

Summer 2014

- Publish draft HB4 rule

June 1, 2014

- Regional water planning groups submit **draft** prioritized list of regional projects

Sept. 1, 2014

- Planning groups submit **final** prioritized list of regional projects

March 1, 2015

- Deadline to adopt HB4 rules

## How is TWDB implementing HB4?



Spring 2015

- TWDB solicitation process
- Projects submitted

Summer 2015

- TWDB prioritization process
- TWDB analysis of impact of requested project structure on funding plan
- Projects to be funded identified

Fall 2015

- Initial leveraging of SWIRFT

## How is TWDB implementing HB4?



- TWDB is prepared for the prioritization process to result in additional demand for other TWDB financial assistance programs
- Reorganization of TWDB staff in regional teams will bring consistency in providing guidance borrowers
  - Comprehensive service strategy
  - Customer efficiencies realized in utilization of TWDB programs



## How is TWDB implementing HB4?



### Transparency and Communication Initiatives

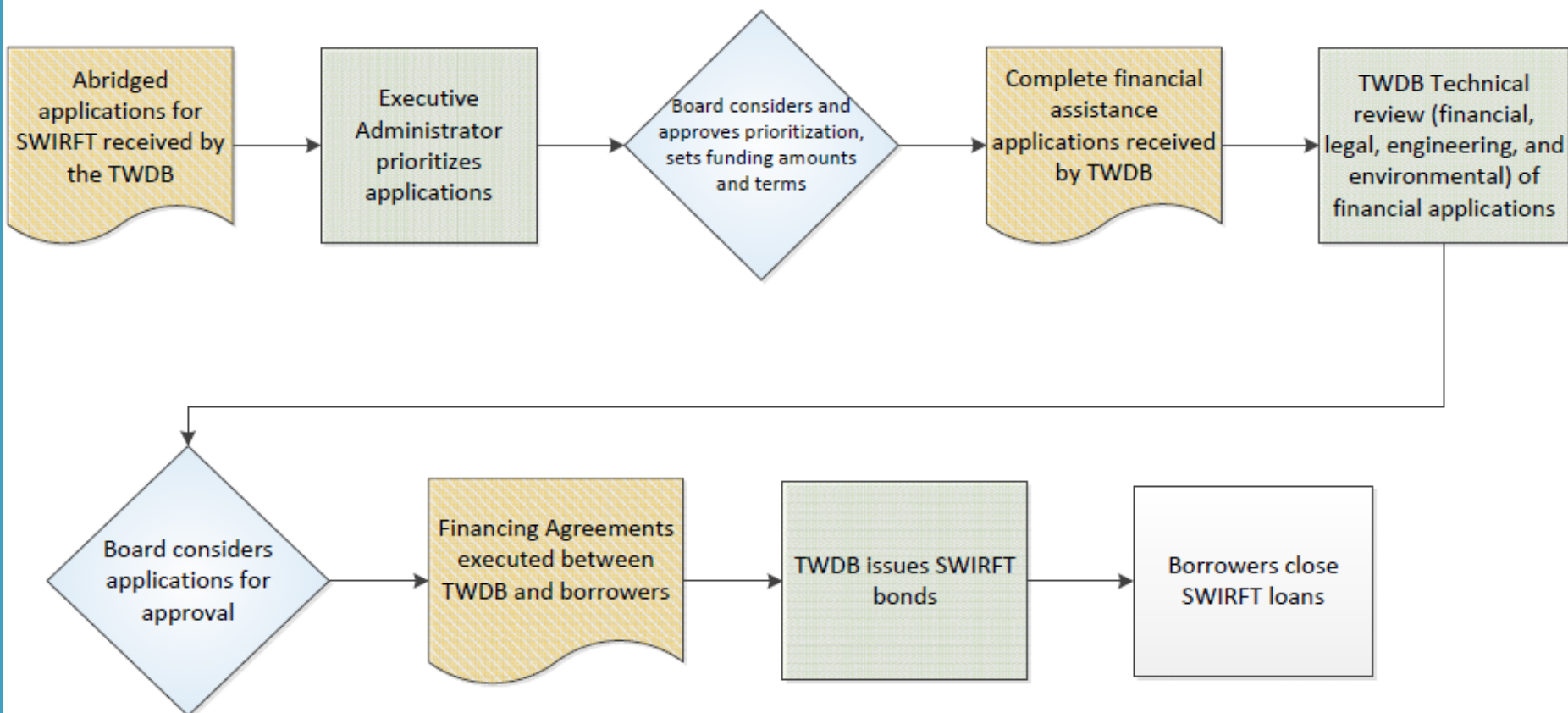
- Reorganization to emphasize program development, project implementation and completion, improved communication, and process transparency
- Created Agriculture and Rural Texas Ombudsman position
- Implemented more Board work sessions for open and public process, including numerous meetings across the state
- Launched first stage of interactive state water planning website that illustrates future water demands
- Streamlined environmental review process for state funded projects
- Added groundwater component to Water Data for Texas website
- Developing an online financial assistance application

# How is TWDB implementing HB4?



DRAFT

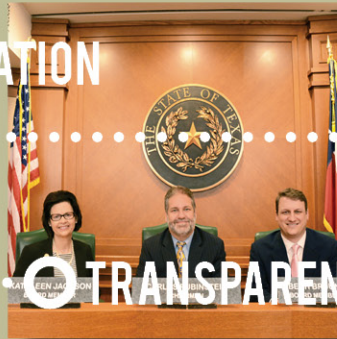
## SWIRFT Process



# How is the **TRUST** Managing the **SWIFT** Investments?



○ PRIORITIZATION



○ TRANSPARENCY



○ FINANCIAL  
ASSISTANCE



The **Texas Treasury Safekeeping Trust Company (“Trust”)** has legislatively been directed to be responsible for the investment of the **SWIFT.**

## What are the Trust's Responsibilities?



## Management of the SWIFT

- Trust will manage funds
- Sufficient liquidity will be maintained to meet needs of fund while striving to preserve purchasing power
- Trust will provide annual reporting to TWDB and SWIFT Advisory Committee

## What are the Trust's Responsibilities?



### Management of the SWIFT

- Trust to hire CPA for annual independent audit report to TWDB and Advisory Committee
- Trust to develop written investment policy
- TWDB to annually provide Trust a forecast of cash flows of fund and updates as appropriate
- Trust to disburse funds as directed by TWDB; expected to be twice annually



## Investment of the SWIFT



### SWIFT

- Upon passage of Prop. 6 in November, the State transferred \$2 billion to the State Treasury
- TWDB and Trust entered into an Investment Agreement on January 23, 2014
- The Trust requires the forecast of projected cash flows from the TWDB in order to implement the full SWIFT investment strategy
- In understanding how critical the rate of return is to the achievement of the projects to be funded, the TWDB has worked with the Trust in a collaborative manner to move forward with investment guidance



What are the **PROJECTIONS** and **CONSIDERATIONS** of **SWIFT** and **SWIRFT** related to supporting the **STATE WATER PLAN**?



○ RURAL



○ CONSERVATION



○ WATER  
PLAN  
PROJECTS

## Strategic Planning Model



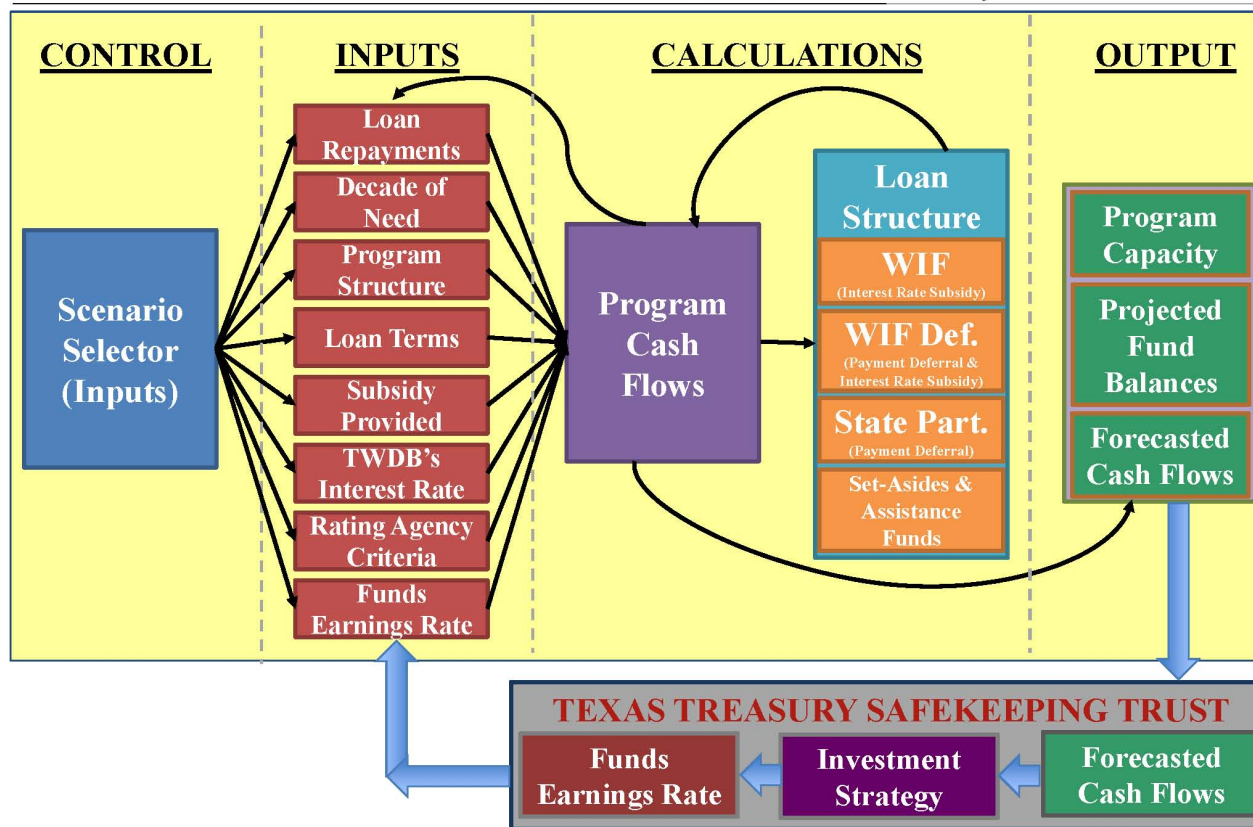
### Strategic Planning Model

- TWDB has developed a SWIFT/SWIRFT Strategic Planning Model
- Objective of the model is to determine the impact of various decisions related to the implementation of the multiple SWIRFT assumptions on the projected project funding
- Interactive model will be a part of the active management of the program and utilized in the TWDB's prioritization process

# Strategic Planning Model



## TWDB SWIFT/SWIRFT Model Architecture



## Projections



### Projected Potential Project Demand

- Eligible projects have been identified in the current state water plan
- Currently the TWDB is working with entities that have projects in the state water plan to identify funding needs and capital demands for implementing those projects

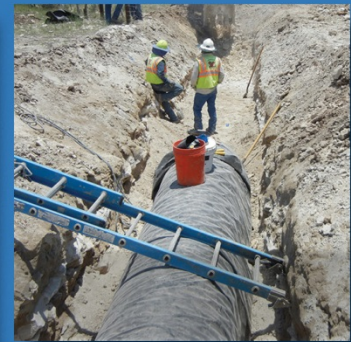


# The legislation creating the **SWIFT** and **SWIRFT** is unprecedented

- Proactive leadership of the State of Texas in partnership with the TWDB through a regional planning process identifying 50 years of water resource demands
- Understanding from the perspective as a growing State, the economic implications of not having sufficient water supply to meet projected demand
  - Magnitude of the \$2 Billion Up-Front Capitalization



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