

City Business by Michael Leamons

In recent weeks, the City has received some good news. We were able to free-up about \$80,000 a year by restructuring our Utility System debt, and we received notice from the Texas Water Development Board that the City's request for funding for improvements to our water system had been approved. In response to the City's application for \$3.1 million in funding, the City will be awarded 50% in loan forgiveness and will receive a subsidized low interest loan, expected to come in at 2.25%, on the remaining 50%. It is expected the cost to service both the restructured debt and the new TWDB debt will be about \$2,000 less than the current annual debt service payment of approximately \$232,000. So, the City will be able to invest a large sum in infrastructure improvements without increasing annual operational costs.

Now, for those who want to know the rest of the story...In 2010, it became apparent there were problems with the water distribution system. A larger water main is needed to deliver water from the elevated storage into the central and western portions of town. Additionally, more of the 100+ year old water mains need to be replaced. The best resource for addressing these needs appeared to be the USDA Rural Development Program with its grants and low interest loans. From the beginning there was a concern about how much additional debt the City would be able to service. The USDA program offered low interest rates, up to 70% in grant funding and the City was told once the grant percentage and interest rates were determined, the City would be able to reduce the project to accommodate the City's budget. The Council decided to pursue a USDA project in the fall of 2010. At the time, the Council was advised it was a lengthy 115 step process.

In the fall of 2011, the City decided to make some modifications to the USDA application. An inspector had raised concerns about the integrity of the City's 200,000 gallon ground storage tank, so a \$500,000 tank replacement component was added to the application; additionally, staff had discovered up to 1/2 of the funding secured through the program could be used to refinance the City's existing debt. The refinancing was particularly appealing because it would enable the City to offset some of the new debt service by reducing the amount needed to service the existing debt. So, the application was revised to include \$2.5 million in construction and \$2.5 million in refinancing.

In the fall of 2012, after reviewing the City's application, the USDA advised the City funding wouldn't be available because it had been determined the City would be able to secure all the funds needed for construction and re-financing from the private sector.

The City then began a two prong approach pursuing construction funding through a Texas Water Development Board (TWDB) Drinking Water State Revolving Fund, while pursuing refinancing through the private sector. The TWDB program offered various levels of loan forgiveness and by going after a \$3.1 million project it was expected the City would be able to qualify for 50% in loan forgiveness; additionally, an automated meter reading component was included in an attempt to secure a "green" designation

which would make the project eligible for an additional 15% in grant funding (the City did qualify for the “green” funding, but all of that funding has already been committed).

During the refinancing process, the Standard & Poor rating agency reviewed the City’s finances and operations and was sufficiently pleased with what they observed to award the City an A+ rating. That was good news because that rating is a major factor in determining interest rates. On April 8th, the City was able to lock in an average rate for the 30 year refinancing package of 3.38%. By obtaining a more favorable interest rate and by extending payments out over a longer period of time, the City was able, annually, to free-up the \$80,000 mentioned in the beginning of this column.

May God bless the City of Hico.