

Texas Commission on Environmental Quality

TECHNICAL MEMORANDUM

To: Justin P. Taack, Manager
Districts Section

Date: September 2, 2025

Thru: Dan Finnegan, Team Lead
Districts Bond Team

From: Pirainder Lall
Districts Bond Team

Subject: Headwaters Municipal Utility District; Application for Approval of \$3,000,000 Unlimited Tax Bonds; Fifth Issue 5.45% Net Effective Interest Rate; Pursuant to Texas Water Code Section 49.181.
TCEQ Internal Control No. D-06302025-073 (TC)
CN: 603042979 RN: 105387187

A. GENERAL INFORMATION

The Texas Commission on Environmental Quality (TCEQ) received an application from Headwaters Municipal Utility District (District) of Hays County requesting approval of the issuance of \$3,000,000 in unlimited tax bonds to finance the District's share of the following projects:

1. Additional engineering on previously funded projects; and
2. Purchase a portion of the Headwaters WRF Drip Irrigation System Phase 4A.

The District's previous bond issues funded utilities to serve 1,010 ESFCs on 902.27 acres. Including this bond issue, the District is not requesting to fund any internal facilities. At ultimate development, the District is projected to serve 1,400 ESFCs on 1,503.57 total acres.

B. ECONOMIC ANALYSIS

Tax Rate Analysis

The financial feasibility of this bond issue is based on no-growth to an estimated taxable assessed valuation (AV) of \$626,009,880 as of January 1, 2025. A market study has not been provided and is not required since the feasibility of the proposed bond issue is based on no-growth.

According to a Hays Central Appraisal District certificate, the District's January 1, 2025, estimated taxable AV is \$626,009,880. The annual debt service requirement for the proposed bond amount of \$3,000,000 and existing debt averages \$5,793,570 for the 25-year life of the District's bond debt. The District levied a maintenance tax of \$0.10 in 2024, and according to the engineering report, is projecting to levy a maintenance tax of \$0.0243 in the future.

The District's financial advisor submitted a cash flow schedule considering the requested \$3,000,000 bond issue, no-growth to the estimated taxable AV of \$626,009,880 as of January 1, 2025, six months capitalized interest, a bond interest rate of 5.25%, a 3.0% bond discount, a 98% collection rate, and a projected tax rate of \$0.985 (\$0.57 for utilities and \$0.415 for roads) per \$100 AV.

A TCEQ District Section's financial analyst has reviewed the financial information submitted and concluded that the following level debt service tax rate would be sufficient.

<u>Taxing Jurisdiction</u>	<u>Projected Tax Rate</u>
District	
Debt Service Utilities	\$0.5700 ⁽¹⁾⁽²⁾
Debt Service Road	\$0.4150
Maintenance	<u>\$0.0243</u>
Total District Taxes	\$1.0093 ⁽³⁾

Notes:

- (1) Based on a bond issue of \$3,000,000, existing debt, a net effective interest rate of 5.45%, a 98% collection rate, six months of capitalized interest, no-growth to a January 1, 2025, estimated taxable AV of \$626,009,880, and at least a 25% ending debt service fund balance.
- (2) The term "Commission-approved tax rate" in 30 Texas Administrative Code (30 TAC) Section 293.85 refers to an initial ad valorem debt service tax of at most \$0.57 per \$100 AV.
- (3) Represents the combined projected tax rate as defined by in 30 TAC Section 293.59(f).

Additional Financial Comments

The District is exempt from the 75% and 25% build-out requirements of 30 TAC Section 293.59(l)(4) and Section 293.59(k)(7), respectively, based on its combined no-growth tax rate of \$1.0093 per \$100 assessed valuation being less than \$1.20 pursuant to 30 TAC Section 293.59(l) and Section 293.59(k)(11)(C).

C. ENGINEERING ANALYSIS

Water Supply

Water supply for the District is provided by the WTCPUA, as successor to the Lower Colorado River Authority (LCRA), through a "Wholesale Water Services Agreement" dated September 15, 2008, (Wholesale Supply Contract) originally entered into by LCRA and the City of Dripping Springs (City). The District is within the City's CCN area however the City has agreed to contract with the District so that the District operates the system and acts as the retail provider on behalf of the City. By agreement with the District dated effective March 31, 2016, the City assigned its interest in the Wholesale Water Services Agreement to the District. The Wholesale Supply Contract was amended on May 12, 2010, and September 19, 2019. Under the Wholesale Supply Contract, as amended, the WTCPUA is obligated to provide all treated water needed and requested by the District for service to lands within the District up to a maximum daily flow rate of 1,612,800 gallons per day (gpd).

The WTCPUA indicates that sufficient water capacity exists to serve the District.

The District's contractual existing water supply facilities appear adequate to serve the existing 885 ESFCs (801 single family plus 84 multi-family) existing as of January 1, 2025, upon which the feasibility of this bond issue is based.

Wastewater Treatment

The District is permitted under Texas Pollutant Discharge Elimination System Permit No. WQ0014587001 that authorizes final phase treatment and disposal of 325,000 gpd of wastewater effluent. Pursuant to a letter dated November 24, 2020, the TCEQ approved a flow reduction to 175 gpd/ESFC. The plant is currently operating at Phase IV of the permit, or 0.20 million gallons per day (MGD). Based on 175 gpd/ESFC, the plant currently has sufficient capacity for 1,142 ESFCs.

The District's existing wastewater treatment capacity appears adequate to serve the existing 885 ESFCs (801 single family plus 84 multi-family) existing as of January 1, 2025, upon which the feasibility of this bond issue is based.

Storm Water Drainage

Storm water from the District drains through an underground system of lines flowing in a southerly direction leading to detention ponds then eventually to the Little Barton Creek.

Purchase of Existing Facilities and/or Assumption of Existing Contracts

<u>Project Description</u>	<u>Contractor</u>	<u>% Complete (Date)</u>	<u>Contract Amount⁽¹⁾</u>	<u>Amt. Subj. to District Contribution</u>
WRF Drip Irrigation Phase 4A	C.C. Carlton Industries, LTD.	100% (3/14/24)	\$1,910,914	\$1,777,000 ⁽²⁾

Notes: (1) Based on original contract amount plus or minus any change orders and final quantity adjustments.
(2) Due to bond amount limitations, only a portion of the construction costs and all of the engineering costs are included in this application. The remaining construction costs (\$133,914) will be included in a future application.

Facilities to be Constructed

None.

Inspection

The District was investigated by the TCEQ's Districts Section staff on August 26, 2025. The District appeared as represented in the engineering report. District name signs were properly posted.

D. SUMMARY OF COSTS

<u>Construction Costs</u>	<u>District's Share⁽¹⁾</u>
A. Developer Contribution Items	
1. Additional Engineering on Previously Funded Projects	\$ <u>465,830</u>
Total Developer Contribution Items	\$ <u>465,830</u>
B. District Items	
1. Headwaters WRF Drip Irrigation System Phase 4A	\$ <u>1,777,000</u>

Total District Items	\$ <u>1,777,000</u>
TOTAL CONSTRUCTION COSTS (74.8% of Bond Issue Requirement)	\$ 2,242,830

Non-Construction Costs

A. Bond Counsel Fees	\$ 65,000 ⁽³⁾
B. Specialized Tax Counsel Fees (0.2%)	7,500 ⁽³⁾
C. Fiscal Advisor Fees (1.5%)	56,250 ⁽⁴⁾
D. Interest	
1. Capitalized Interest	78,750
2. Developer Interest	352,870 ⁽⁵⁾
E. Underwriter's Discount (3.0%)	90,000
G. Bond Issuance Expense	56,300
H. Bond Engineering Report	40,000
I. Attorney General's Fee (0.10% or \$9,500 max.)	3,000
J. TCEQ Fee (0.25% of BIR)	<u>7,500</u>
TOTAL NON-CONSTRUCTION COSTS	\$ <u>757,170</u>

TOTAL BOND ISSUE REQUIREMENT	\$ 3,000,000
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- Notes:
- (1) The District has requested a waiver of the 30% developer contribution requirement. See Special Consideration No. 1 below.
 - (2) Pursuant to the contract provided, bond counsel fees are 2.5% of the first \$1,000,000 of bonds issued, plus 2% of bonds issued between \$1,000,000 and \$3,000,000, plus 1% of bonds issued over \$3,000,000.
 - (3) Pursuant to the contract provided, special tax counsel fees are 0.2% of bonds issued, with a minimum of \$7,500.
 - (4) Pursuant to the contract provided, the fiscal advisor fees are 1.5% of the bonds issued, plus a multiplier of 1.25.
 - (5) Estimated at 5.25% with a proposed funding date of December 15, 2025, or a maximum of five years. The District has requested to reimburse more than two years interest in accordance with 30 TAC Section 293.50(b). See Special Consideration No. 3.

E. SPECIAL CONSIDERATIONS

1. Waiver of the 30% Developer Contribution Requirement

By board resolution, the District has requested a waiver of the 30% developer contribution requirement pursuant to 30 TAC Section 293.47(a)(2), based on obtaining an acceptable credit rating on the bonds. By letter dated April 10, 2025, the District's financial advisor has indicated that the District anticipates that the proposed bonds should receive an acceptable credit rating. Accordingly, staff recommends a waiver of the 30% developer contribution requirement pursuant to 30 TAC Section 293.47(a)(2).

2. Less Than One Year Capitalized Interest

In compliance with 30 TAC Section 293.50(b)(2), the District has requested authorization to sell the bonds with less than one year of capitalized interest. TCEQ staff is in receipt of the District's letter dated April 10, 2025, stating concurrence with the District's request.

3. Developer Interest in Excess of Two Years

In accordance with 30 TAC Section 293.50(b), the District has requested that developer interest be accrued for a period in excess of two years for construction costs associated with projects contained in this bond issue. For the bond amount of \$3,000,000, the requested interest of \$431,620 (\$78,750 capitalized interest and \$352,870 developer interest) is less than \$630,000 ($\$3,000,000 \times 5.25\%/\text{year} \times 4 \text{ years}$), the estimated four-year interest on the utility bond amount. Therefore, the District's request should be approved pursuant to 30 TAC Section 293.50(b).

F. CONCLUSIONS

1. Based on \$64,700,000 in unlimited tax bonds authorized by voters on November 6, 2007, for water, wastewater, and drainage facilities, and \$49,090,000 previously approved by the TCEQ and issued by the District for water, wastewater, and drainage facilities, the District has sufficient voter-authorized bonds (\$15,610,000) for the proposed utility bond issue.
2. Based on the review of the engineering report, plans, specifications, and supporting documents, the bond issue is considered feasible and meets the economic feasibility criteria established by 30 TAC Section 293.59.
3. The recommendations are made under authority delegated by the Executive Director of the TCEQ.

G. RECOMMENDATIONS

1. Approve the bond issue in the amount of \$3,000,000, in accordance with the recommended summary of costs, at a maximum net effective interest rate of 5.45%. Further, direct that the bonds are to be sold only upon the District receiving an acceptable credit rating on the bonds as defined in 30 TAC Section 293.47(b).
2. Grant a waiver of the 30% developer contribution requirement pursuant to 30 TAC Section 293.47(a)(2) if the District obtains an acceptable credit rating on the bonds as defined in 30 TAC Section 293.47(b).
3. The District's request to fund more than two years of developer interest should be approved in accordance with 30 TAC Section 293.50(b).
4. Standard recommendations purchase of facilities, developer interest, consultant fees, surplus proceeds, time of approval, and bond proceeds fee apply.