

**PROPOSED CONSTITUTIONAL AMENDMENT
FOR WATER FINANCIAL ASSISTANCE BONDS
Texas Water Development Board
Proposition 2**

The constitutional amendment allowing for the issuance of additional general obligation bonds by the Texas Water Development Board in an amount not to exceed \$6 billion outstanding at any time.

As the population of Texas continues to grow, so does its need for cost-effective water and wastewater infrastructure. Through its funding programs, the Texas Water Development Board (TWDB) provides financial assistance to communities for water and wastewater infrastructure projects.

On November 8, 2011, Texans can vote on a constitutional amendment, Proposition 2, which will help ensure the public health, water quality, and economic viability of Texas for years to come.

WHAT IS PROPOSITION 2?

Proposition 2 authorizes the TWDB to issue additional general obligation bonds in an amount not to exceed \$6 billion outstanding at any time for water-related projects. The TWDB will use the bond proceeds to make loans to political subdivisions in Texas for a variety of water, wastewater, and flood control projects.

Since 1957, the legislature and voters have approved constitutional amendments authorizing the TWDB to issue up to \$4.23 billion in bonds for financing water-related projects, of which \$3.29 billion has been issued. Of the amount issued, over \$1 billion has been issued just in the last three years. Without additional bonding authority, the TWDB will not be able to provide adequate financing to meet the water and wastewater infrastructure needs of Texas. The TWDB estimates that its existing bond authority will be exhausted within the next one to two years. This proposition will provide the TWDB with the necessary constitutional authority to meet the water and wastewater infrastructure needs of Texas.

WHAT IS THE TWDB?

The TWDB was created in 1957 in response to the severe drought of the 1950s. The TWDB is the state agency authorized to issue and sell general obligation bonds to support financial assistance programs for the planning, design, and construction of water supply, wastewater treatment, stormwater and nonpoint source pollution control, flood control, and agricultural water conservation projects.

WILL PROPOSITION 2 COST TAXPAYERS?

The only cost to the state will be the cost of the election. Proposition 2 is designed to be self supporting, meaning that repayment of the bonds will not require State of Texas general revenue. The TWDB will use this bond authority to operate a self-supporting loan program, which means that repayments on loans will pay for the bonds. Entities that choose to use this funding opportunity to address their future water and wastewater needs will repay the principal and interest on the loans they receive from the TWDB. Those principal and interest payments will be used to repay the bonds. Because the cost of water-related infrastructure can be significant, an entity can use the TWDB funding to pay for construction and then pay the principal and interest on the loan with revenue received through use of the facility over time. Those persons benefiting from the projects will repay the loans, and thus the bonds.

HOW WILL THESE BONDS BE USED?

The TWDB issues general obligation bonds and uses the proceeds to make water-related loans to political subdivisions in Texas. The majority of TWDB loans are made for water and wastewater projects, and funds may also be used for flood control projects. The loans provide financial assistance needed to make facility repairs, improvements, and expansions, which may include water towers, transmission lines and water wells. The loans also provide funds for building new water supply and water and wastewater treatment facilities, as well as flood control projects.

In addition, the TWDB uses bond proceeds each year to meet the state's match requirements for federal programs for the TWDB's Drinking Water and Clean Water State Revolving Funds. The state revolving funds provide loans at interest rates lower than those offered by traditional markets for financing water and wastewater projects. In 2010, these programs totaled \$179,380,000. If the TWDB is unable to provide the required matches, it will be ineligible for the federal programs, and future federal funds will be disbursed to other states.

WHO CAN RECEIVE FINANCIAL ASSISTANCE FROM THE TWDB'S PROGRAMS?

The TWDB primarily provides loans to political subdivisions, such as cities, counties, districts, river authorities, and also to nonprofit water supply corporations. Due to the state's strong credit rating, the TWDB can often issue debt at more cost-effective rates and then lend to community borrowers who benefit from the lower interest rates available on the state's bonds. Borrowers who may be unable to access funds from traditional markets particularly benefit from the TWDB's financial assistance programs.

RESTRICTIONS ON USE OF BOND PROCEEDS

The use of the bond proceeds authorized by this constitutional amendment is limited to financial assistance to political subdivisions for water, wastewater, and flood control projects. The additional bond authority cannot be used for other purposes such as TWDB administrative expenses or grants.