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Texas Comptroller of Public Accounts

Special Report

May 2016

Funding The State Water Plan Through The SWIFT Program

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Funding The State Water Plan Through The SWIFT Program

Background of the SWIFT Program

From the late 1940s through the 1950s, Texas experienced its worst drought on record. The drought revealed the state's vulnerability to water shortages, particularly given its rapid growth. In 1957, the Legislature created the Texas Water Development Board (TWDB) to plan for state water use, collect and distribute water data, and provide loan and grant money for water and wastewater projects. In the same year, Texas voters approved a constitutional amendment authorizing TWDB to issue general obligation bonds to fund water conservation and development projects around the state.¹

In 1961, the agency produced the first comprehensive State Water Plan, which provided strategies for meeting the state's demands for water over the next 50 years. Since 2002, the State Water Plan has been based upon 16 regional water plans prepared on a five-year cycle; the 2017 plan is the state's 10th and the fourth assembled through the compilation of regional plans.

Among TWDB's programs are:

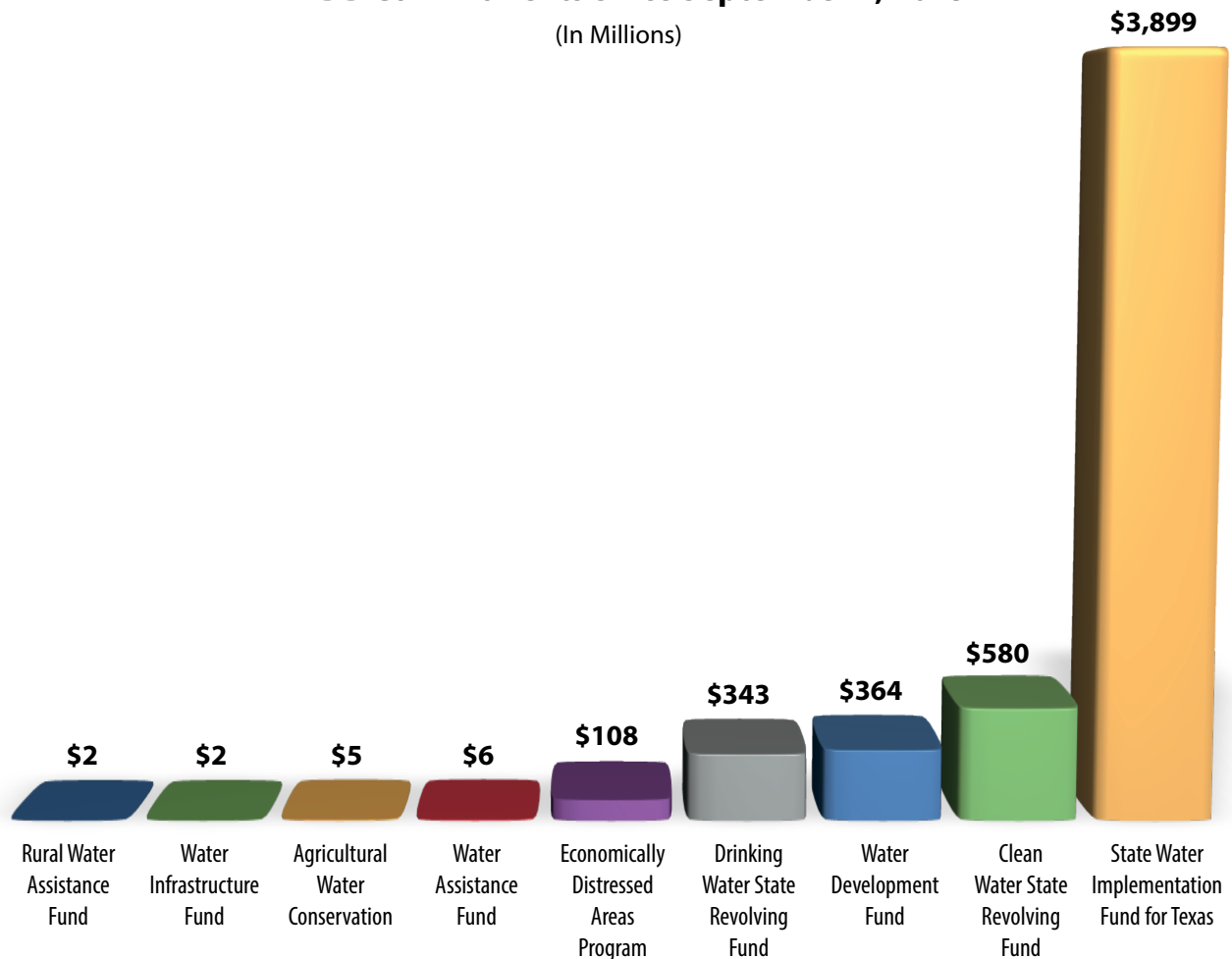
- the Rural Water Assistance Fund (RWF), which offers low-cost financing for rural water and wastewater projects;
- the Water Infrastructure Fund (WIF), which addresses projects listed within the State Water Plan and was replaced by the State Water Implementation Fund for Texas (SWIFT) program;

- the Agricultural Water Conservation (AGRIC), which funds agricultural water conservation projects and related strategies listed in the State Water Plan;
- the Water Assistance Fund (WAF) funds various programs such as the State Participation Program (SP), which allows TWDB to assume partial ownership of a regional water project until local owners can assume its debt;
- the Economically Distressed Areas Program (EDAP), providing loans and grants for water and wastewater projects in economically disadvantaged areas;
- Drinking Water State Revolving Fund (DWSRF), a federally funded program for projects addressing water infrastructure and water protection;
- the Texas Water Development Fund state loan program (WDF) for water and wastewater projects; and
- the Clean Water State Revolving Fund (CWSRF), a state-federal program providing low-cost financing for water quality infrastructure projects.²

As of 2015, TWDB had provided more than \$19 billion in loans and grants for water and wastewater projects, including SWIFT commitments.³ **Exhibit 1** shows the annual financial assistance committed through TWDB's largest financial assistance programs since 2013.

EXHIBIT 1 TWDB Commitments Since September 1, 2013

(In Millions)



NOTE: See Appendix A for full list of TWDB financial assistance programs.

Source: Texas Water Development Board

In 2013, in the midst of another historic Texas drought, Texas legislators took further steps to ensure an adequate water supply by considering various methods to fund the State Water Plan, which had never before had its own dedicated funding. The resulting House Bill 4 and Senate Joint Resolution 1 created the State Water Implementation Fund for Texas (SWIFT) and the State Water Implementation Revenue Fund for Texas (SWIRFT). Companion legislation, House Bill 1025, provided \$2 billion in initial funding for SWIFT from the state's Economic Stabilization Fund (ESF).

Texas voters approved Senate Joint Resolution 1 as Proposition 6 on November 5, 2013, authorizing the creation of SWIFT and SWIRFT. SWIFT is designed to support about \$27 billion in funding for regional water supply projects over 50 years. SWIFT supports these projects through advantageous financing options such as low-interest loans, extended repayment terms, repayment deferrals and incremental repurchase terms for projects with elements of state ownership. (With incremental repurchase, the state purchases a portion of the project and the entity buys it back over time.)

SWIFT's financial stability will be maintained over time by SWIRFT, which is authorized to issue revenue bonds to fund SWIFT loans. In most cases, loan repayments should be sufficient to repay the bonds issued; in the case of loans involving reduced interest or deferred payments, funds will be transferred from SWIFT to SWIRFT to ensure that bonds can be repaid in full. Funds are transferred from SWIFT to SWIRFT through bond enhancement agreements that specify the amounts SWIFT will contribute and the cost of SWIRFT bond debt service.

TWDB estimates SWIFT funds will assist in the development of more than 1.5 million additional acre-feet of water supplies in Texas during the next 50 years.⁴

SWIFT and SWIRFT Legislation

Texas voters approved Proposition 6 with a vote of almost 75 percent in favor. The vote, interestingly, was sharply divided along climate zones; of 18 counties that opposed Proposition 6, most were along the Louisiana-Texas border, where annual rainfall totals 45 to 50 inches a year. Far West Texas, with average annual rainfall of 10 to 15 inches, voted overwhelmingly in favor. Those who stood to benefit most from abundant water availability — businesses, manufacturers, farmers and the energy industry — supported passage of Proposition 6. Fiscal conservatives and those who feared negative environmental impact opposed the proposition.⁵

House Bill (HB) 4 outlines how SWIFT money will be used and how projects should be prioritized. HB 4:

(1) designates funding requirements —

- SWIFT will undertake to apply at least 20 percent of its funding to general water conservation and reuse, and at least 10 percent to rural areas for agricultural water conservation.

- SWIFT may receive cash flows only from money transferred to the fund by law; dedicated taxes, proceeds, or revenues; investment earnings; or money from another fund or account that receives SWIFT funding.
- SWIFT may not provide money to projects directly. SWIFT funding may be disbursed only to a TWDB program through a bond enhancement agreement.
- TWDB may direct the Texas Treasury Safekeeping Trust Company (the Trust Company) to distribute money from SWIFT not more than twice annually.

(2) requires a revolving structure for SWIFT —

- bond enhancement agreements must require any funds remaining after loans are paid in full to be repaid to the SWIFT account.

(3) restructures and designates TWDB responsibilities —

- TWDB shall shift from its current six part-time member structure to three full-time members. As before, members are to be appointed by the governor.
- TWDB is responsible for prioritizing projects, adopting specific rules for SWIFT implementation, and providing information regarding SWIFT projects.

(4) creates an advisory committee —

- the use of SWIFT funds will be based on the recommendations of a seven-member advisory committee comprising the Comptroller, three senators appointed by the lieutenant governor and three representatives appointed by the House speaker.⁶

HB 4 gives the newly restructured TWDB and the SWIFT advisory committee significant discretion in recommending projects. For example, while the legislation directs that 10 percent of SWIFT funds should go toward rural projects, what constitutes “rural” is left undefined. Another provision requires that priority be given, in part, to projects that serve a “large population.” Still another clause directs that 20 percent of funds should go toward “conservation projects,” but does not define or specify them.⁷

SWIFT Fund Investment and the Texas Treasury Safekeeping Trust Company

The Texas Comptroller is sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company which invests state assets. HB 4 makes the Trust Company responsible for managing and investing SWIFT’s assets according to investment policies approved by the Comptroller and the agency’s Investment Advisory Board. The Comptroller, in turn, oversees management and investment duties delegated to the chief executive officer of the Trust Company.⁸

The Trust Company is charged with maintaining SWIFT assets in a state sufficiently liquid to make twice-a-year disbursements while still maintaining purchasing power. The Trust Company must provide an annual report on the fund investments to TWDB and the advisory committee.⁹

To minimize risk, 5 percent of the SWIFT fund will be targeted toward holdings in cash; 25 percent toward fixed-income securities such as government bonds; 20 percent toward loans to private entities; 30 percent toward equity (stocks); and 20 percent toward real assets (physical or tangible assets such as real estate, land and commodities).¹⁰

SWIFT Funding Mechanisms

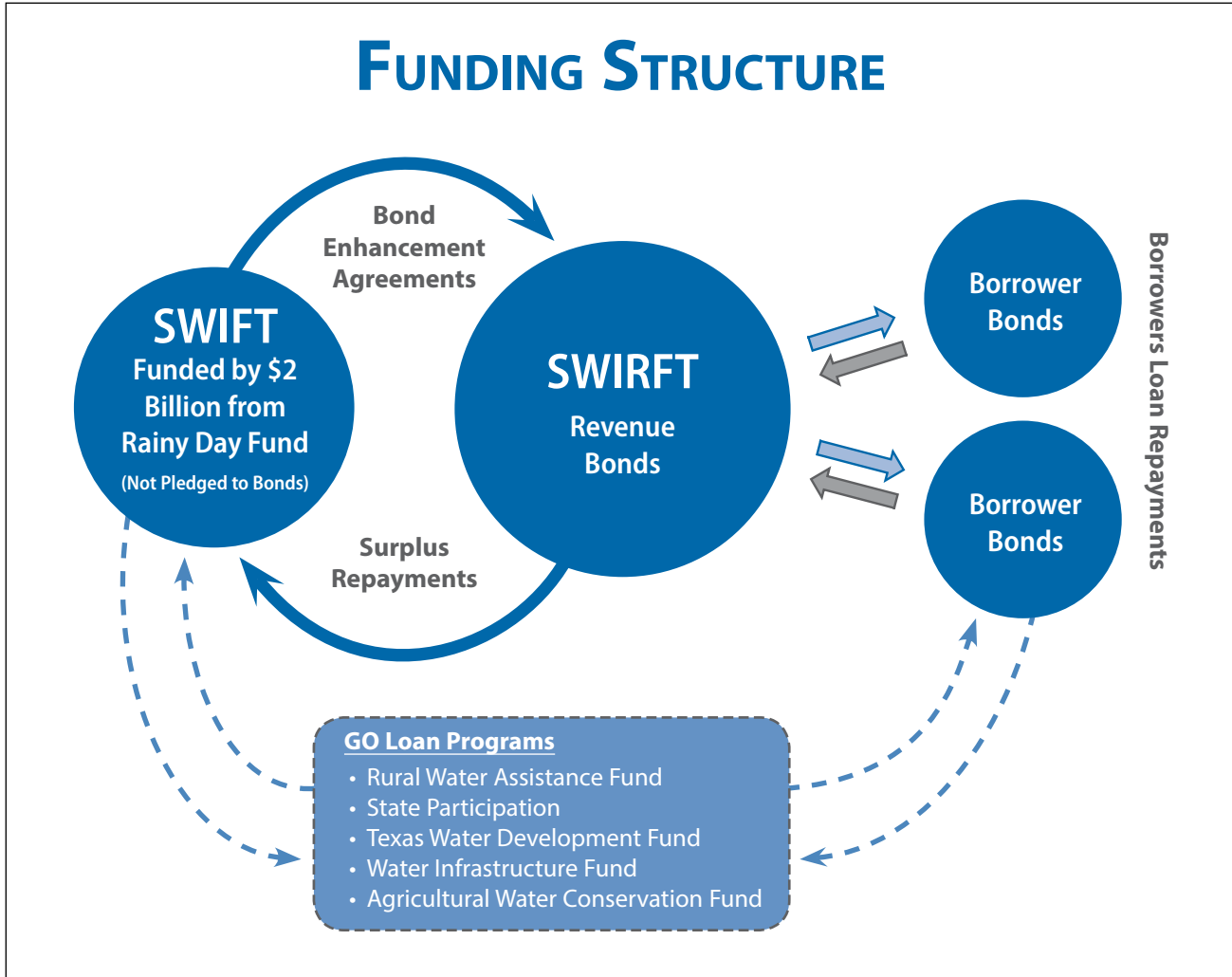
SWIRFT finances State Water Plan projects through the issuance of revenue bonds. The state’s constitutional debt limit does not apply to these revenue bonds (**Exhibit 2**).¹¹

SWIFT will use its \$2 billion to subsidize loans made through the SWIRFT. Subsidies are provided in the form of low-interest loans (for example, SWIFT may lower a market interest rate by a maximum of 50 percent, as from 3 percent to 1.5 percent); long loan repayment terms; TWDB temporary project share ownership; or loan payment deferrals.¹²

In September 2015, TWDB issued the first two series of SWIRFT bonds. Fitch Ratings assigned a ‘AAA’ rating to the first two SWIRFT bond issues, \$798.5 million in Texas Revenue Bonds series 2015A and \$11.9 million in Texas Revenue Bonds taxable series 2015B. This rating was based on the SWIRFT program’s importance to the State Water Plan; the creation of a constitutionally dedicated fund for the purpose; the ample protection against default provided to bond holders; and TWDB’s previous financial history. According to Fitch:

“Since its inception in 1957, the TWDB has initiated more than \$15 billion in loans and grants under various water and sewer-related programs. The TWDB’s clean water state revolving fund program, which is rated ‘AAA’ with Stable Outlook by Fitch, has never experienced a default in its nearly 60-year history.”¹³ [Note: this figure does not include 2015 SWIFT commitments.]

EXHIBIT 2
SWIFT and SWIRFT Funding Structure



Source: Texas Water Development Board

SWIFT Projects

To be eligible for SWIFT funding, a project put forward by a political subdivision or nonprofit water supply corporation must represent one of the regional water plan recommendations incorporated into the State Water Plan. Such projects may include conservation and reuse, groundwater and seawater desalination, the construction of new pipelines, the development of reservoirs and well fields, the purchase of water rights, and other strategies.¹⁴

Eligible projects must complete several agreements and reporting requirements, including a financing agreement, an infrastructure financing survey, and Historically Underutilized Business (HUB) reporting. Projects must adopt a water conservation and drought contingency plan in accordance with Texas Water Code §11.1271. Reservoir projects must be developed in phases – including legislative designation, acquisition, and state and federal permitting – before construction plans are finalized.

In return, projects may receive either low-interest loans; deferred loans in which principal and interest are deferred for up to eight years or until construction ends, whichever is sooner; or board participation. For the latter, TWDB gains temporary ownership of a portion of the project not intended to serve existing needs, also called “excess capacity.” Through board participation, TWDB can fund up to 80 percent of total project costs.¹⁵

Prioritization

In addition to the recommendations of the SWIFT advisory committee, TWDB consults the priorities assigned in the regional water plans to assist it in determining which projects to fund. TWDB then conducts its own prioritization process based on the pool of applications to determine which projects TWDB will recommend to the board for funding.¹⁶

TWDB awards a maximum of 50 points to projects based on these criteria:

- serves a large population, based on a range of populations to be served, from at least 10,000 to at least 100,000;
- provides assistance to a diverse urban and rural population;
- provides regional services for multiple entities in addition to the applicant; *and*
- meets a high percentage of the water needs of users to be served by the project.

Additional criteria are applied to allocate another maximum of 50 points. Projects deemed a priority in a regional water plan can receive up to 15 points. Municipal projects that have demonstrated an effect on water conservation and meet water-loss thresholds may receive up to 15 points. (Water-loss thresholds are acceptable rates of water loss as determined by TWDB.) Additional points go to projects that demonstrate readiness to proceed, offer upfront capital

including local or federal contributions, or address an emergency need. Projects that demonstrate the financial capability to repay loans may receive up to two points.¹⁷

TWDB’s prioritization process aims to select the projects with the highest potential economic impact. SWIFT funding makes such projects more cost-effective. In 2015 alone, TWDB estimates that 20 project sponsors will save more than \$106 million in interest payments on 30 projects by using low-interest SWIFT loans.¹⁸

SWIFT Funding in 2015

For the inaugural round of SWIFT funding, TWDB provided about \$3.8 billion for 30 state water plan projects proposed by 20 entities.¹⁹ These projects received about \$900 million for 2016, with the remainder to be disbursed during the next decade.²⁰

Houston/Gulf Coast Area:

Five projects in the Houston/Harris County area were selected in 2015. The largest of these, and of all SWIFT commitments, is the \$1.3 billion Northeast Water Purification Plant and its associated transmission and distribution lines. The plant will be co-funded by the city of Houston, North Fort Bend Water Authority and the Central, North and West Harris County regional water authorities. The project includes **\$300 million** loaned to the **Coastal Water Authority** for an interbasin project to move surface water from the Trinity River to Lake Houston.

In addition, the **Brazosport Water Authority** through SWIFT received **\$28.3 million** to construct three brackish groundwater wells in the Gulf Coast aquifer, including distribution lines and a reverse osmosis treatment plant to desalinate the water produced.

Dallas/Fort Worth Area:

The **Tarrant Regional Water District** and city of Dallas received **\$440 million** to help build a 108-inch, 150-mile pipeline to Lake Palestine and the Richland-Chambers and Cedar Creek reservoirs in East Texas. Total costs are estimated at \$2.3 billion, with completion expected in 2018. It will provide 350 million gallons of water per day.

The **Upper Trinity Regional Water District**, serving counties surrounding Dallas, was awarded **\$44.6 million** to build the Lake Ralph Hall Reservoir.

The city of **Fort Worth** received a **\$76 million** commitment to plan and build an automated leak-detection system expected to save the city 9,450 acre-feet per year. The city of **Bedford** received a **\$90 million** commitment to replace old water piping and upgrade water meters. These renovations are expected to conserve 2,716 acre-feet per year.

The **Palo Pinto County Municipal Water District #1** received **\$17.1 million** to build the Turkey Peak Reservoir. The city of **Tom Bean** in Grayson County received **\$1.21 million** to build a third water well.

Central Texas

The **Lone Star Regional Water Authority** received **\$27.6 million** to create a pipeline, pump stations, storage tanks and metering systems to deliver treated surface water from the Brazos River Authority to the I-35 corridor in Williamson and Bell counties.

\$42 million will go toward the **Canyon Regional Water Authority's** expansion of a groundwater well field and water treatment plant, storage tanks and pipelines in Guadalupe, Bexar, Caldwell, Hays and Wilson counties.

The **Hays Caldwell Public Utility Agency** received **\$7.4 million** to build a pipeline from Kyle to Buda. The area, including Hays, Caldwell, Comal and Guadalupe counties, is expected to undergo a water shortage by 2018 if the pipeline is not constructed.

The **Guadalupe-Blanco River Authority**, including Dewitt, Victoria, Calhoun, Refugio, Gonzales, Caldwell, Hays, Comal, Guadalupe and Kendall counties, received **\$2 million** for a feasibility study on seawater desalination.

West Texas

In El Paso County, the city of **El Paso** was awarded **\$50 million** for land and water rights acquisitions. The city of **Marfa** received **\$705,000** to replace an existing well that has reached the end of its useful life.

South Texas

Hidalgo County Irrigation District #1 in the Rio Grande Valley received **\$7.1 million** for an agricultural irrigation conveyance system. The system will reinforce canal linings with concrete to combat water loss in an area with limited surface water.

Will SWIFT Address State Water Needs?

The cost of the proposals included in the State Water Plan has risen steadily over the past two decades. Proposed costs for the 1997 State Water Plan totaled about \$4.7 billion, while the 2007 plan carried a \$31 billion price tag. The 2017 State Water Plan is estimated to cost \$62.6 billion.

Several factors are driving the plan's price upward, including the increased cost of water rights, soaring construction costs and a rapidly growing population. The state's population is expected to increase from

29.5 million to 31 million between 2020 and 2070. Municipalities are expected to need 8.9 million acre-feet of additional water supplies by 2070. If a record drought were to occur in 2020, Texas would immediately require an additional 4.8 million acre-feet.²¹

SWIFT investments will address these growing needs and generate further economic benefits. TWDB estimates that for every billion dollars invested in state water plan projects, \$1.75 billion in sales revenue is generated for construction, engineering, materials and supporting businesses. The gross state product would rise by \$888.8 million; state and local tax receipts would grow by \$43.9 million; and more than 13,000 jobs would be created or supported.²²

The importance of funding the State Water Plan is highlighted by its projected costs. If a drought similar to that of the 1950s returns, insufficiently funded water plans could lead to the loss of \$73 billion in personal income and at least 424,000 jobs in 2020. By 2070, job losses could total 1.3 million.²³

While state water funding has not yet fully addressed future water needs or the potential of a disastrous drought, innovative measures such as SWIFT and SWIRFT remain essential. Through a combination of conservation and reuse efforts bolstered by creative leveraging of state and federal funds, Texas may avoid a more serious water crisis.

APPENDIX A: Water Project Financial Assistance Programs

AGRIC	Agricultural Water Conservation Grant or Loan Program — state-funded programs for agricultural water conservation projects and related strategies.
CWSRF	Clean Water State Revolving Fund — federally funded program for projects addressing wastewater infrastructure, non-point source pollution and estuary management.
DWSRF	Drinking Water State Revolving Fund — federally funded program for projects addressing water infrastructure and source water protection.
EDAP	Economically Distressed Areas Program — state-funded program for projects providing water and wastewater infrastructure in economically distressed areas of the state.
GDLP	Groundwater District Loan Program — state-funded program providing funding to any newly created groundwater district or authority that regulate the spacing of water wells, the production from water wells or both.
RWAF	Rural Water Assistance Fund — state-funded program that helps small rural utilities obtain low-cost financing for water and wastewater projects.
SP	State Participation — state-funded program to provide funding for and assume a temporary ownership interest in regional water, wastewater or flood control projects when local sponsors are unable to assume enough debt for an optimally sized facility.
SWIFT	State Water Implementation Fund for Texas — state-funded program for projects addressing projects listed within the State Water Plan. The SWIFT <i>program</i> includes two funds, the State Water Implementation Fund for Texas and the State Water Implementation Revenue Fund for Texas (SWIRFT). Revenue bonds for the program are issued through SWIRFT.
WDF	Texas Water Development Fund — state-funded program for projects addressing water and wastewater infrastructure.
WAF	Water Assistance Fund — funds various programs such as the State Participation Program (SP)
WIF	Water Infrastructure Fund — state-funded program for projects addressing projects listed within the State Water Plan. (Replaced by the SWIFT program.)

Source: Texas Water Development Board, 2016

APPENDIX B: Legislation Creating SWIFT and SWIRFT

SJR 1	Put forward a constitutional amendment (Proposition 6) creating SWIFT and SWIRFT for voter approval.
HB 4	Enabled legislation for SJR 1 that described how SWIFT and SWIRFT funds would be administered, prioritized and allocated.
HB 1025	Appropriated \$2 billion out of the Economic Stabilization Fund to SWIFT, contingent on voter approval of Proposition 6.
Proposition 6	Created SWIFT and SWIRFT as funds outside general revenue.

Source: Texas Legislature Online, 2016

APPENDIX C: SWIFT Projects – 2015 Commitments

Applicant	Project Description	2015 Closing Amount
Brazosport Water Authority	Brackish Groundwater R/O Water Treatment Plant and Wells	\$ 5,605,000
Canyon Regional Water Authority	Wells Ranch Phase II – Well Field and Transmission Line	\$ 42,000,000
Central Harris County Regional Water Authority	2nd Source Transmission Line Phase I & Phase II (84" & 108") Northeast Water Purification Plant Expansion	\$ 10,805,000
City of Bedford	Conservation – Water Distribution System Improvements	\$ 30,000,000
City of Fort Worth	Conservation – Advanced Metering Infrastructure Project	\$ 13,000,000
City of Houston	2nd Source Transmission Line Phase I (108") Northeast Water Purification Plant Expansion	\$ 25,915,000
City of Marfa	Additional Water Well	\$ 705,000
Coastal Water Authority	Luce Bayou Interbasin Transfer Project	\$ 66,565,000
El Paso Water Utilities	Land and Water Rights Acquisition	\$ 50,000,000
Greater Texoma Utility Authority, City of Tom Bean	Supplemental Water Well and appurtenances	\$ 1,210,000
Guadalupe Blanco River Authority	Integrated Water and Power Plant Project	\$ 2,000,000
Hays Caldwell Public Utility Agency	Phase IA Transmission Line	\$ 7,490,000
Hidalgo County Irrigation District #1	Agricultural Irrigation Conveyance Improvements	\$ 7,100,000
Lone Star Regional Water Authority	E Williamson Co Regional Water Transmission System	\$ 4,590,000
Lone Star Regional Water Authority (Taxable)	E Williamson Co Regional Water Transmission System	\$ 940,000
Lone Star Regional Water Authority	E Williamson Co Regional Water Transmission System	\$ 18,350,000
Lone Star Regional Water Authority (Taxable)	E Williamson Co Regional Water Transmission System	\$ 3,760,000
North Fort Bend Water Authority	Northeast Water Purification Plant Expansion 2nd Source Transmission Line	\$ 8,670,000
North Harris County Regional Water Authority	2nd Source Transmission Line Phase I & Phase II Northeast Water Purification Plant Expansion Internal Distribution System	\$ 80,435,000
Palo Pinto County Municipal Water District #1	Turkey Peak Reservoir	\$ 9,915,000

**APPENDIX C:
SWIFT Projects – 2015 Commitments (continued)**

Applicant	Project Description	2015 Closing Amount
Palo Pinto County Municipal Water District #2 (Taxable)	Turkey Peak Reservoir	\$ 7,185,000
Tarrant Regional Water District	Integrated Transmission Pipeline Project	\$ 300,000,000
Tarrant Regional Water District	Integrated Transmission Pipeline Project w/ City of Dallas	\$ 140,000,000
Upper Trinity Regional Water District	Lake Ralph Hall Reservoir	\$ 15,565,000
Upper Trinity Regional Water District	Lake Ralph Hall Reservoir	\$ 29,115,000
West Harris County Regional Water Authority	2nd Source Transmission Line (96"), Northeast Water Purification Plant Expansion, Internal Distribution System	\$ 18,740,000
	Total	\$ 899,660,000

Source: TWBD, 2016

Endnotes

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- ¹⁶ Texas Water Development Board, “Project Prioritization,” <http://www.twdb.texas.gov/financial/programs/swift/priority/index.asp>.
- ¹⁷ Texas Administrative Code, Title 31 §363.1304.
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