



PROJECT FUNDING REQUEST

BOARD DATE: July 24, 2025

Team Manager: William Alfaro

ACTION REQUESTED

Consider approving by resolution a request from the City of McAllen (Hidalgo County) for \$195,235,000 in financing from the State Water Implementation Fund for Texas program for planning, design, and construction of a water system improvements project.

STAFF RECOMMENDATION

☒ Approve ☐ No Action

BACKGROUND

The City of McAllen (City), located 50 miles west of Brownsville along the U.S. and Mexico border, provides water and wastewater service to a population of approximately 142,210 and 61,861 service connections.

PROJECT NEED AND DESCRIPTION

The City relies primarily on surface water from the Rio Grande River, a source increasingly stressed by regional population growth, prolonged drought conditions, and competing demands from neighboring communities along the U.S. Mexico border.

These conditions have raised significant concerns regarding the long-term reliability of the City's existing water supply. According to the 2021 Region M Regional Water Plan, the City is projected to experience a water supply shortfall beginning in 2035, with deficits exceeding 10,000 acre-feet per year by 2070 if no additional supply is developed. The City needs a resilient and diversified water source to meet future demand, ensure uninterrupted service, or support sustainable growth across the region.

The City proposes the planning, design, and construction of a brackish groundwater desalination plant and associated infrastructure at the North Water Treatment Plant. The project includes the development of a groundwater well field consisting of six wells, two deep wells estimated at 1,200 to 1,400 feet and four shallow wells at 400 to 600 feet. These wells will extract brackish groundwater from the Gulf Coast Aquifer, which then will be conveyed to a new desalination facility for pre-treatment, reverse osmosis, and post-treatment. The plant will have an initial production capacity of 6 million gallons per day (MGD) of potable water and will be designed to accommodate future expansion to 10 MGD. The project also includes approximately 8,500 linear feet of raw and finished water transmission lines, ground

Multi-year Commitment	Expiration
\$30,000,000 Proposed Series 2025A	December 31, 2025
\$49,355,000 Proposed Series 2026	December 31, 2026
\$51,350,000 Proposed Series 2027	December 31, 2027
\$44,850,000 Proposed Series 2028	December 31, 2028
\$19,680,000 Proposed Series 2029	December 31, 2029

storage, electrical and control systems, and system enhancements to ensure continued service in the event the South Water Treatment Plant is offline.

PROJECT SCHEDULE

Task	Schedule Date
Closing	November 15, 2025
Engineering Feasibility Report Completion (End of Planning Phase)	January 9, 2026
Design Phase Completion	May 22, 2026
Start of Construction	September 28, 2026
Construction Completion	May 30, 2030

KEY ISSUES

The City also submitted another State Water Implementation Fund application to purchase water rights for this project. Both requests are included in the financial analysis presented in Attachment 1.

LEGAL/SPECIAL CONDITIONS

- Water rights reasonable expectation
- Water rights certification

Attachments:

1. Financial Review
2. Project Budget
3. Resolution (25-)
4. Water Conservation Review
5. Location Map

Financial Review

City of McAllen

Risk Score: 2B

Audit Reviewed: FY 2024

Key Indicators

Indicator	Result	Benchmark
Population Growth, Average Annual 2010-2020	City: 0.91%	State: 1.49%
Top 10 Customers % of Total Revenue	7%	10-15%
Median Household Income as % of State	78%	100%
Days of Cash on Hand (3-year Average)	143 days	30-149 days
Net Fixed Assets/ Annual Depreciation	15 years	12-24 years
Debt Service Coverage Ratio	1.73x	1.0x
Debt-to-Operating Revenues	6.73	4.00-5.99x
Unemployment Rate (April 2025)	County: 4.20%	State: 3.70%
Working Capital Ratio	1.04	> 1.0

Key Risk Score Strengths

- The City maintains a debt service coverage ratio that meets the required coverage, demonstrating sufficient revenue generation to cover debt obligations.
- The City's working capital ratio indicates it has ample resources to cover short-term liabilities and shows a strong liquidity position.
- The City has a low percentage of revenue derived from its top ten customers, indicating a well-diversified customer base that reduces reliance on any single entity. This distribution enhances the City's financial stability and minimizes the risk of revenue fluctuations due to changes in individual customer relationships.

Key Risk Score Concerns

- Despite a low median household income and household cost factor, the City maintains strong cash flows, diverse revenue sources, and stable cash reserves reflecting effective financial management.
- The City's high debt to operating revenues ratio is due to the proposed obligations; however, stable revenue history and strong liquidity ensure its ability to meet obligations and sustain operations effectively.

PLEDGE

Legal Pledge Name	Utility System Revenues
Type of Pledge	<input type="checkbox"/> Tax <input checked="" type="checkbox"/> Revenue <input type="checkbox"/> Tax & Revenue <input type="checkbox"/> Contract <input type="checkbox"/> Other
Revenue Pledge Level	<input checked="" type="checkbox"/> First <input type="checkbox"/> Second <input type="checkbox"/> Third <input type="checkbox"/> N/A

RATES AND CHARGES

Average Residential Use	Gallons/Month	Current Rates	Projected Rates	Current Household Cost Factor	Projected Household Cost Factor
Water	8,410	\$28.43	\$28.43	1.24	1.24
Wastewater	7,575	\$25.73	\$25.73		

Cost Savings

Based on a 30-year maturity schedule and current interest rates, the City could save approximately \$2,412,042 over the life of the financing.

Project Data Summary

Responsible Authority	City of McAllen
Program	SWIFT
Commitment Number	LM2502227, LM2602227, LM2702227, LM2802227, LM2902227
Project Number	51099
List Year	2025
Type of Pledge	Revenue Pledge
Pledge Level (if applicable)	First Lien
Legal Description	\$30,000,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2025A, \$49,355,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2026, \$51,350,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2027, \$44,850,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2028, \$19,680,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2029
Tax-exempt or Taxable	Tax-Exempt
Refinance	No
Outlay Requirement	No
Disbursement Method	Escrow
Outlay Type	Outlay <> Escrow Release
Qualifies as Disadvantaged	No
SWIFT Financing Type	Low-Interest
Financial Managerial & Technical Complete	N/A
Phases Funded	Planning, Design, and Construction
Pre-Design	Yes
Project Consistent with State Water Plan	Yes
Water Conservation Plan	Adopted
Overall Risk Score	2B

PROJECT TEAM

Team Manager	Financial Analyst	Engineering Reviewer	Environmental Reviewer	Attorney
William Alfaro	Arnoldo Rubio	Sam Kiger	Lauren Dill	Michael Perez

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
City of McAllen

\$3,215,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2025B
Dated Date: 11/15/2025 **Source:** SWIFT-LOW-30YR
Delivery Date: 11/15/2025 **IUP Year:** 2025
First Interest: 2/1/2026 **Case:** System Revenue
First Principal: 2/1/2027 **Admin.Fee:** \$0
Last Principal: 2/1/2055 **Admin. Fee Payment Date:** N/A
Fiscal Year End: 09/30 **Required Coverage:** 1.0

\$30,000,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2025A
Dated Date: 11/15/2025 **Source:** SWIFT-LOW-30YR
Delivery Date: 11/15/2025 **IUP Year:** 2025
First Interest: 2/1/2026 **Case:** System Revenue
First Principal: 2/1/2027 **Admin.Fee:** \$0
Last Principal: 2/1/2055 **Admin. Fee Payment Date:** N/A
Fiscal Year End: 09/30 **Required Coverage:** 1.0

PROJECTED		CURRENT	\$3,215,000 ISSUE				\$30,000,000 ISSUE*				\$165,235,000 Issue Series 2026 – 2029*	TOTAL	
FISCAL YEAR	NET SYSTEM REVENUES	DEBT SERVICE	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	TOTAL PAYMENT	DEBT SERVICE	ACTUAL COVERAGE
2026	\$18,204,250	\$8,528,754	-	-	\$93,010	\$93,010	-	-	\$867,314	\$867,314	-	\$9,489,078	1.92
2027	18,204,250	8,527,945	\$65,000	2.77%	129,895	194,895	\$610,000	2.77%	1,211,212	1,821,212	\$1,422,897	10,544,051	1.73
2028	18,204,250	8,526,566	65,000	2.78%	128,091	193,091	630,000	2.78%	1,194,007	1,824,007	4,482,391	10,543,664	1.73
2029	18,204,250	8,518,053	70,000	2.80%	126,208	196,208	645,000	2.80%	1,176,220	1,821,220	7,420,390	10,535,480	1.73
2030	18,204,250	8,522,607	70,000	2.85%	124,230	194,230	665,000	2.85%	1,157,713	1,822,713	9,429,163	10,539,550	1.73
2031	18,204,250	8,074,523	75,000	2.92%	122,138	197,138	680,000	2.92%	1,138,309	1,818,309	10,040,266	10,089,970	1.80
2032	18,204,250	6,069,398	75,000	2.99%	119,921	194,921	700,000	2.99%	1,117,916	1,817,916	10,041,308	8,082,235	2.25
2033	18,204,250	6,079,257	75,000	3.05%	117,656	192,656	725,000	3.05%	1,096,395	1,821,395	10,032,026	8,093,308	2.25
2034	18,204,250	6,075,353	80,000	3.17%	115,245	195,245	745,000	3.17%	1,073,530	1,818,530	10,032,334	8,089,128	2.25
2035	18,204,250	6,073,096	80,000	3.26%	112,673	192,673	770,000	3.26%	1,049,171	1,819,171	10,031,195	8,084,939	2.25
2036	18,204,250	6,072,459	85,000	3.46%	109,898	194,898	795,000	3.46%	1,022,867	1,817,867	10,027,910	8,085,224	2.25
2037	18,204,250	6,073,542	90,000	3.57%	106,821	196,821	820,000	3.57%	994,476	1,814,476	10,016,136	8,084,839	2.25
2038	18,204,250	6,071,965	90,000	3.69%	103,554	193,554	850,000	3.69%	964,157	1,814,157	10,009,533	8,079,676	2.25
2039	18,204,250	6,083,575	95,000	3.80%	100,089	195,089	880,000	3.80%	931,754	1,811,754	10,003,628	8,090,417	2.25
2040	18,204,250	6,083,347	100,000	3.90%	96,334	196,334	915,000	3.90%	897,192	1,812,192	10,007,340	8,091,872	2.25
2041	18,204,250	4,731,039	100,000	4.01%	92,379	192,379	950,000	4.01%	860,302	1,810,302	9,999,518	6,733,719	2.70
2042	18,204,250	4,739,936	105,000	4.12%	88,211	193,211	990,000	4.12%	820,860	1,810,860	9,989,584	6,744,007	2.70
2043	18,204,250	3,701,593	110,000	4.23%	83,721	193,721	1,030,000	4.23%	778,682	1,808,682	9,981,401	5,703,996	3.19
2044	18,204,250	3,415,490	115,000	4.29%	78,928	193,928	1,075,000	4.29%	733,838	1,808,838	9,980,717	5,418,256	3.36
2045	18,204,250	3,420,273	120,000	4.37%	73,839	193,839	1,120,000	4.37%	686,308	1,806,308	9,972,750	5,420,420	3.36
2046	18,204,250	1,667,908	125,000	4.55%	68,373	193,373	1,170,000	4.55%	635,218	1,805,218	9,965,092	3,666,499	4.97
2047	18,204,250	1,678,604	130,000	4.55%	62,572	192,572	1,220,000	4.55%	580,846	1,800,846	9,955,497	3,672,022	4.96
2048	18,204,250	1,355,582	135,000	4.55%	56,543	191,543	1,275,000	4.55%	524,084	1,799,084	9,945,999	3,346,210	5.44
2049	18,204,250	-	145,000	4.55%	50,173	195,173	1,335,000	4.55%	464,707	1,799,707	9,944,069	1,994,880	9.13
2050	18,204,250	-	150,000	4.55%	43,462	193,462	1,395,000	4.55%	402,599	1,797,599	9,929,263	1,991,061	9.14
2051	18,204,250	-	155,000	4.63%	36,461	191,461	1,460,000	4.63%	337,064	1,797,064	9,926,026	1,988,525	9.15
2052	18,204,250	-	165,000	4.63%	29,053	194,053	1,525,000	4.63%	267,961	1,792,961	9,909,487	1,987,015	9.16
2053	18,204,250	-	170,000	4.63%	21,298	191,298	1,600,000	4.63%	195,618	1,795,618	9,903,677	1,986,916	9.16
2054	18,204,250	-	180,000	4.63%	13,196	193,196	1,670,000	4.63%	119,917	1,789,917	9,901,487	1,983,113	9.18
2055	18,204,250	-	195,000	4.63%	4,514	199,514	1,755,000	4.63%	40,628	1,795,628	9,897,121	1,995,143	9.12
		\$130,090,863	\$3,215,000		\$2,508,483	\$5,723,483	\$30,000,000		\$23,340,861	\$53,340,861	\$272,198,207	\$189,155,207	

* Includes all proposed multiyear commitment request and the city's new funding request for project# 51099

\$3,215,000 ISSUANCE		\$30,000,000 ISSUANCE		TOTAL AVERAGE ANNUAL REQUIREMENTS
AVERAGE (MATURITY) LIFE	17.92 YEARS	AVERAGE (MATURITY) LIFE	17.88 YEARS	
NET INTEREST RATE	4.354%	NET INTEREST RATE	4.352%	
COST SAVINGS	\$258,334	COST SAVINGS	\$2,412,042	
AVERAGE ANNUAL REQUIREMENT	\$190,783	AVERAGE ANNUAL REQUIREMENT	\$1,778,029	\$6,305,174

Disclaimer: This is a working document and is provided as a courtesy. All information contained herein, including the proposed interest rate, is subject to change upon further review of the TWDB in accordance with 31 Texas Administrative Code Chapters 363, 371, 375, or 384, as applicable. The TWDB does not function as a financial advisor to anyone in connection with this financing. The information contained in this document is used by TWDB staff to analyze the application for financing is illustrative only and does not constitute any guaranty of future rates. The TWDB makes no claim regarding the applicability of the information at closing, at which time actual rates will be set.



Project Budget Summary

Attachment 2

City of McAllen

51099 - Brackish Groundwater Treatment Plant

Budget Items	TWDB Funds	Local and Other Funds	Total
Construction			
Construction	\$151,957,000.00	\$0.00	\$151,957,000.00
Subtotal for Construction	\$151,957,000.00	\$0.00	\$151,957,000.00
Basic Engineering Services			
Construction Engineering	\$10,682,300.00	\$0.00	\$10,682,300.00
Design	\$15,520,700.00	\$0.00	\$15,520,700.00
Planning	\$150,000.00	\$0.00	\$150,000.00
Subtotal for Basic Engineering Services	\$26,353,000.00	\$0.00	\$26,353,000.00
Special Services			
Environmental		\$85,000.00	\$85,000.00
Geotechnical	\$25,000.00	\$0.00	\$25,000.00
Inspection	\$350,000.00	\$0.00	\$350,000.00
O&M Manual	\$100,000.00	\$0.00	\$100,000.00
Permits		\$10,000.00	\$10,000.00
Project Management (by engineer)	\$2,740,000.00	\$0.00	\$2,740,000.00
Surveying	\$10,000.00	\$0.00	\$10,000.00
Testing	\$200,000.00	\$0.00	\$200,000.00
Subtotal for Special Services	\$3,425,000.00	\$95,000.00	\$3,520,000.00
Fiscal Services			
Bond Counsel		\$528,000.00	\$528,000.00
Financial Advisor		\$352,800.00	\$352,800.00
Issuance Costs		\$168,000.00	\$168,000.00
Subtotal for Fiscal Services		\$1,048,800.00	\$1,048,800.00
Other			
Other (CUSIP Numbers; Travel, Cash, Misc)		\$27,000.00	\$27,000.00
Subtotal for Other		\$27,000.00	\$27,000.00
Contingency			
Contingency	\$13,500,000.00	\$0.00	\$13,500,000.00
Subtotal for Contingency	\$13,500,000.00	\$0.00	\$13,500,000.00
Total	\$195,235,000.00	\$1,170,800.00	\$196,405,800.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE TO THE CITY OF
MCALLEN
IN THE FORM OF A MULTI-YEAR COMMITMENT
THROUGH THE PROPOSED PURCHASE OF \$195,235,000 CITY OF MCALLEN, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE BONDS,
PROPOSED SERIES 2025A THROUGH PROPOSED SERIES 2029

(25-)

Recitals:

The City of McAllen (City), located in Hidalgo County, has filed an application for financial assistance in the amount of \$195,235,000 to finance the planning, design, and construction of a water supply project identified as Project No. 51099 (Project).

The City qualifies for financial assistance from the Texas Water Development Board (TWDB) in the form of a multi-year commitment through the TWDB's proposed purchase of \$195,235,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Proposed Series 2025A through Proposed Series 2029 (Obligations), together with all authorizing documents, all as is more specifically set forth in the application and in recommendations of the Executive Administrator's staff.

The City has offered a pledge of net revenues of the City's Waterworks and Sewer System as sufficient security for the repayment of the Obligations.

The commitment is approved for funding under the TWDB's pre-design funding option, and initial and future releases of funds are subject to 31 TAC § 363.1307.

Subject to the City's use of an approved debt service structure, the interest rate subsidy applicable to each subsequent proposed series may be different than the interest rate subsidy available for State Fiscal Year 2025 and will be set through each financing agreement executed between the TWDB and the City.

The interest rate subsidies as approved by the Board at its April 10, 2025 meeting, are based on assumptions necessary to generate an optimum debt service structure for the anticipated TWDB SWIFT bond issuance and are subject to modification as necessary to preserve and maintain the integrity of the SWIFT Program. The subsidies will be available to the City without regard to the source of funds.

In accordance with Texas Water Code § 17.124, the TWDB has considered all matters required by law and in particular the following:

1. The needs of the area to be served by the water supply project, the benefit of the water supply project to the area, the relationship of the water supply project to the overall, statewide water needs, and the relationship of the water supply project to the approved regional and state water plans.

2. And the availability of revenue to the City, from all sources, for the ultimate repayment of the cost of the water supply project, including interest.

Findings:

1. The application and assistance applied for meet the requirements of Texas Water Code, Chapter 15, Subchapters G and H and 31 TAC Chapter 363, Subchapters A and M; or the requirements of Chapter 17, Subchapters D, E, and L, and the TWDB's rules set forth in 31 TAC Chapter 363, Subchapter A.
2. The Project is a recommended water management strategy project in the State Water Plan adopted pursuant to Texas Water Code § 16.051, in accordance with Texas Water Code § 15.474(a).
3. The public interest requires state assistance in the financing of this project, in accordance with Texas Water Code § 17.125(a)(1).
4. The City has adopted and implemented a water conservation plan in accordance with Texas Water Code § 16.4021 and 31 TAC § 363.1309(b)(1).
5. The City has completed its current water audit and filed it with the TWDB in accordance with Texas Water Code §§ 16.0121 and 16.053(j) and 31 TAC § 358.6.
6. The City acknowledges its legal obligation to comply with any applicable requirements of federal law related to contracting with disadvantaged business enterprises and any applicable state law related to contracting with historically underutilized businesses, in accordance with Texas Water Code § 15.435(h) and 31 TAC § 363.1309(b)(3).

NOW THEREFORE, based on these findings, the TWDB commits to the following:

1. The TWDB will provide financial assistance to City of McAllen in the amount of \$195,235,000 from the State Water Implementation Revenue Fund for Texas or from the Financial Assistance Account of the Texas Water Development Fund II to be evidenced by the TWDB's proposed purchase of one or more City of McAllen, Texas Waterworks and Sewer System Revenue Bonds as follows.
 - a. \$30,000,000 Proposed Series 2025A, to expire on December 31, 2025;
 - b. \$49,355,000 Proposed Series 2026, to expire on December 31, 2026;
 - c. \$51,350,000 Proposed Series 2027, to expire on December 31, 2027;
 - d. \$44,850,000 Proposed Series 2028, to expire on December 31, 2028;
 - e. \$19,680,000 Proposed Series 2029, to expire on December 31, 2029;
2. The Executive Administrator is authorized to determine the source account, whether the State Water Implementation Revenue Fund for Texas or the Financial Assistance Account of the Texas Water Development Fund II for each subsequent series.

The commitment is subject to the following:

Standard Conditions:

1. This commitment is contingent on a future sale of bonds by the TWDB or on the availability of funds on hand as determined by the TWDB.
2. This commitment is contingent upon the issuance of a written approving opinion of the Attorney General of the State of Texas stating that the City has complied with all of the requirements of the laws under which the Obligations were issued; that the Obligations were issued in conformance with the Constitution and laws of the State of Texas; and that the Obligations are valid and binding obligations of the City.
3. This commitment is contingent upon the City's continued compliance with all applicable laws, rules, policies, and guidance as these may be amended from time to time to adapt to a change in law, in circumstances, or any other legal requirement.
4. This commitment is contingent upon the City executing a separate financing agreement, approved as to form and substance by the Executive Administrator, and submitting the executed agreement to the TWDB consistent with the terms and conditions described in it.
5. Interest rate subsidies for non-level debt service structure are subject to adjustment by the Executive Administrator.
6. The City shall use a paying agent/registrar in accordance with 31 TAC § 363.42(c)(2) and shall require the paying agent/registrar to provide a copy of all receipts documenting debt service payments to the TWDB and to the TWDB's designated Trustee.

Required Obligation Conditions:

7. The Obligations must provide that the Obligations can be called for early redemption on any date beginning on or after the first interest payment date that is 10 years from the dated date of the Obligations, at a redemption price of par, together with accrued interest to the date fixed for redemption.
8. The Obligations must provide that the City will comply with all applicable TWDB laws and rules related to the use of the financial assistance.
9. The Obligations must provide that the City must comply with all conditions as specified in the final environmental finding of the Executive Administrator when issued, including the standard emergency discovery conditions for threatened and endangered species and cultural resources.
10. The Obligations must contain a provision requiring the City to maintain insurance coverage sufficient to protect the TWDB's interest in the project.
11. The Obligations must include a provision wherein the City, or an obligated person for whom financial or operating data is presented to the TWDB in the application for

financial assistance either individually or in combination with other issuers of the City's Obligations or obligated persons, will, at a minimum, regardless of the amount of the Obligations, covenant to comply with requirements for continuing disclosure on an ongoing basis substantially in the manner required by the Securities and Exchange Commission (SEC) in 17 CFR § 240.15c2-12 (Rule 15c2-12) and determined as if the TWDB were a Participating Underwriter within the meaning of SEC rule 15c2-12, the continuing disclosure undertaking being for the benefit of the TWDB and the beneficial owners of the City's Obligations, if the TWDB sells or otherwise transfers the Obligations, and the beneficial owners of the TWDB's bonds if the City is an obligated person with respect to the bonds under SEC Rule 15c2-12.

12. The Obligations must require the City to levy a tax or maintain and collect sufficient rates and charges to produce system revenues in an amount necessary to meet the debt service requirements of all outstanding obligations and to maintain the funds established and required by the Obligations.
13. The Obligations must require the City to use any surplus financial assistance proceeds from the Obligations remaining after completion of the Project and completion of a final accounting in a manner approved by the Executive Administrator.
14. The Obligations must provide that the TWDB may exercise all remedies available to it in law or equity, and any provision of the Obligations that restricts or limits the TWDB's full exercise of these remedies shall be of no force and effect.
15. Financial assistance proceeds are public funds. Therefore, the Obligations must require that these proceeds be held at a designated state depository institution or other properly chartered and authorized institution in accordance with the Public Funds Investment Act, Government Code, Chapter 2256, and the Public Funds Collateral Act, Government Code, Chapter 2257.
16. Financial assistance proceeds shall not be used by the City when sampling, testing, removing, or disposing of contaminated soils or media at the Project site. The Obligations must provide that the City is solely responsible for liability resulting from acts or omissions of the City, its employees, contractors, or agents arising from the sampling, analysis, transport, storage, treatment, recycling, and disposition of any contaminated sewage sludge, contaminated sediments or contaminated media that may be generated by the City, its contractors, consultants, agents, officials, and employees as a result of activities relating to the Project to the extent permitted by law.
17. The Obligations must require the City to report to the TWDB the amounts of Project funds, if any, that were used to compensate historically underutilized businesses that worked on the Project, in accordance with 31 TAC § 363.1312.
18. The Obligations must contain a provision that the TWDB will purchase the Obligations, acting through the TWDB's designated Trustee, and the Obligations shall

be registered in the name of Cede & Co. and closed in book-entry-only form in accordance with 31 TAC § 363.42(c)(1).

19. The City must abide by all applicable construction contract requirements related to the use of iron and steel products produced in the United States, as required by Texas Government Code, Chapter 2252, Subchapter G and Texas Water Code § 17.183.
20. The City must immediately notify TWDB in writing of any suit against it by the Attorney General of Texas under Texas Government Code § 2.103 and Texas Penal Code § 1.10(f), related to federal laws regulating firearms, firearm accessories, and firearm ammunition.
21. The Obligations must require the City to submit annually an audit prepared by a certified public accountant in accordance with generally accepted auditing standards.
22. The Obligations must include a provision that, if the collateral or credit pledged by the City securing the Obligations is rated by a nationally-recognized statistical rating agency, the City, or other obligated person, will not discontinue the rating issued by a nationally-recognized statistical rating agency until the underlying Obligations are retired or no longer held by TWDB.

Tax-Exempt Conditions:

23. The Obligations must prohibit the City from using the proceeds of this financial assistance in a manner that would cause the Obligations to become “private activity bonds” within the meaning of section 141 of the Internal Revenue Code as amended (Code) and the Treasury Regulations promulgated under it (Regulations).
24. The Obligations must provide that no portion of the proceeds of the financial assistance will be used, directly or indirectly, in a manner that would cause the Obligations to be “arbitrage bonds” within the meaning of section 148(a) of the Code and Regulations, including to acquire or to replace funds that were used, directly or indirectly, to acquire Nonpurpose Investments, as defined in the Code and Regulations, that produce a yield materially higher than the yield on the TWDB’s bonds issued to provide the financial assistance (Source Series Bonds), other than Nonpurpose Investments acquired with;
 - a. proceeds of the TWDB’s Source Series Bonds invested for a reasonable temporary period of up to three (3) years after the issue date of the Source Series Bonds until the proceeds are needed for the facilities to be financed;
 - b. amounts invested in a bona fide debt service fund within the meaning of section 1.148-1(b) of the Regulations; and
 - c. amounts deposited in any reasonably required reserve or replacement fund to the extent the amounts do not exceed the lesser of maximum annual debt service on the Obligations, 125% of average annual debt service on the

Obligations, or 10 percent of the stated principal amount (or, in the case of a discount, the issue price) of the Obligations.

25. The Obligations must require the City to take all necessary steps to comply with the requirement that amounts earned on the investment of gross proceeds of the Obligations be rebated to the federal government in order to satisfy the requirements of section 148 of the Code. The Obligations must provide that the City will:
 - a. account for all Gross Proceeds, as defined in the Code and Regulations, (including all receipts, expenditures, and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures, and investments thereof) and retain all records of the accounting for at least six years after the final Computation Date. The City may, however, to the extent permitted by law, commingle Gross Proceeds of its financial assistance with other money of the City, provided that the City separately accounts for each receipt and expenditure of the Gross Proceeds and the obligations acquired with the Gross Proceeds;
 - b. calculate the Rebate Amount, as defined in the Code and Regulations, with respect to its financial assistance, not less frequently than each Computation Date, in accordance with rules set forth in section 148(f) of the Code, section 1.148-3 of the Regulations, and the associated rulings. The City shall maintain a copy of the calculations for at least six years after the final Computation Date;
 - c. pay to the United States the amount described in paragraph (b) above within 30 days after each Computation Date as additional consideration for providing financial assistance and in order to induce providing financial assistance by measures designed to ensure the excludability of the interest on the TWDB's Source Series Bonds from the gross income of the owners of TWDB's Bonds for federal income tax purposes;
 - d. exercise reasonable diligence to ensure that no errors are made in the calculations required by paragraph (b) and, if an error is made, to discover and promptly correct the error within a reasonable amount of time, including payment to the United States of any interest and any penalty required by the Regulations.
26. The Obligations must include a provision prohibiting the City from taking any action that would cause the interest on the Obligations to be includable in gross income for federal income tax purposes.
27. The Obligations must provide that the City will not cause or permit the Obligations to be treated as "federally guaranteed" obligations within the meaning of section 149(b) of the Code.
28. The Obligations must contain a covenant that the City will refrain from using the proceeds of the Obligations to pay debt service on another issue of the borrower's

obligations in contravention of section 149(d) of the Code (related to “advance refundings”).

29. The Obligations must provide that neither the City nor a party related to it will acquire any of the TWDB's Source Series Bonds in an amount related to the amount of the Obligations to be acquired from the City by the TWDB.

Pledge Conditions:

30. The Obligations shall be on parity with any existing obligations that are secured with the same pledge of security as the proposed Obligations.
31. The Obligations shall be governed by the additional debt test and reserve requirement as provided in the outstanding \$18,000,000 City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2021.

Conditions To Close Or For Release Of Funds:

32. Before closing, the City must submit documentation evidencing the adoption and implementation of sufficient system rates and charges or, if applicable, the levy of an interest and sinking tax rate sufficient for the repayment of all system debt service requirements.
33. Before closing, if not previously provided with the application, the City shall submit executed contracts for engineering and, if applicable, financial advisor and bond counsel for the Project that are satisfactory to the Executive Administrator. Fees to be reimbursed under the contracts must be reasonable in relation to the services performed, reflected in the contract, and acceptable to the Executive Administrator.
34. Before closing, when any portion of financial assistance is to be held in escrow or in trust, the City shall execute an escrow agreement or trust agreement, approved as to form and substance by the Executive Administrator, and shall submit that executed agreement to the TWDB.
35. Before closing, the City shall provide certification that the average weighted maturity of the Obligations purchased by the TWDB does not exceed 120% of the average reasonably expected economic life of the Project.
36. Before closing, the City shall submit to the escrow agent a closing memo signed by the Executive Administrator.
37. Before closing, the City's bond counsel must prepare a written opinion that states that the interest on the Obligations is excludable from gross income or is exempt from federal income taxation. Bond counsel may rely on covenants and representations of the City when rendering this opinion.

38. Before closing, the City's bond counsel must prepare a written opinion that states that the Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the City when rendering this opinion.
39. The transcript must include a No Arbitrage Certificate or similar Federal Tax Certificate setting forth the City's reasonable expectations regarding the use, expenditure, and investment of the proceeds of the Obligations.
40. The transcript must include evidence that the information reporting requirements of section 149(e) of the Internal Revenue Code will be satisfied. This requirement may be satisfied by filing an IRS Form 8038 with the Internal Revenue Service. In addition, the applicable completed IRS Form 8038 or other evidence that the information reporting requirements of section 149(e) have been satisfied must be provided to the Executive Administrator within fourteen (14) days of closing. The Executive Administrator may withhold the release of funds for failure to comply.

Special Conditions:

41. Before the release of funds for the costs of planning, engineering, architectural, legal, title, fiscal, economic investigation, studies, surveys, or designs for that portion of the Project that proposes surface water or groundwater development, the Executive Administrator must have either issued a written finding that the City has the right to use the water that the Project financed by the TWDB will provide or a written determination that a reasonable expectation exists that such a finding will be made before the release of funds for construction.
42. Before the release of construction funds for that portion of a Project that proposes surface water or groundwater development, the Executive Administrator must have issued a written finding that the City has the right to use the water that the Project financed by the TWDB will provide.

APPROVED and ordered of record this, the 24th day of July 2025.

TEXAS WATER DEVELOPMENT BOARD

L'Oreal Stepney, P.E., Chairwoman

DATE SIGNED: _____

ATTEST:

Bryan McMath, Executive Administrator

Review Date:

Project ID:

Water

Wastewater

Other

WATER CONSERVATION REVIEW

Entity:

Other entity:

WATER CONSERVATION PLAN DATE:**Approvable****Adopted**

	Total GPCD	Residential GPCD	Water Loss GPCD
Baseline			
5-year Goal			
10-year Goal			

WATER LOSS AUDIT YEAR:

Validation Required:

Validation Performed:

Service connections:

Length of main lines (miles):

Water Loss GCD:

Retail population:

Connections per mile:

Water Loss GPCD:

ILI:

Real Loss GMD:

WATER LOSS THRESHOLDS

Water Loss Project:

Waiver Requested:

Wholesale Adjusted:

Threshold Type:

Apparent Loss GCD		Real Loss GCD	
Reported	Threshold	Reported	Threshold

Does the applicant meet Water Loss Threshold Requirements?

Yes**No****NA****ADDITIONAL INFORMATION****STAFF NOTES AND RECOMMENDATIONS**

DEFINITIONS

Adopted refers to a water conservation plan that meets the minimum requirements of the water conservation plan rules and has been formally approved and adopted by the applicant's governing body.

Apparent losses are paper losses that occur when the water reaches a customer, but the volume is not accurately measured and/or recorded due to unauthorized consumption, customer meter inaccuracy, or billing system and collection data errors.

Approvable refers to a water conservation plan that substantially meets the minimum requirements of the water conservation plan rules but has not yet been adopted by the applicant's governing body.

Best Management Practices are voluntary efficiency measures that save a quantifiable amount of water, either directly or indirectly, and that can be implemented within a specific time frame.

GPCD means gallons per capita per day.

GCD means gallons per connection per day.

GMD means gallons per mile per day.

Infrastructure Leakage Index (ILI) is the current annual real loss divided by the unavoidable annual real loss (theoretical minimum real loss) and only applies to utilities with more than 3,000 connections and a connection density of more than 16 connections per mile. The **ILI** is recommended to be less than 3 if water resources are greatly limited and difficult to develop, between 3 and 5 if water resources are adequate to meet long-term needs but water conservation is included in long-term water planning, and between 5 and 8 if water resources are plentiful, reliable, and easily extracted. The **ILI** is recommended as a bench marking tool, but until there is increased data validity of the variables used in the calculation, the **ILI** should be viewed with care.

NA means not applicable.

Real losses are the physical losses, largely leakage, from the infrastructure: mains, valves, and storage tank overflows. Real loss constitutes background leakage (unreported and difficult to detect), unreported leakage (leaks that do not surface but could be detected), and reported leakage (leaks that often surface and those that are detected by the utility through leak detection).

Residential GPCD is the amount of residential water use (single and multi-family customer use) divided by the residential population divided by 365.

Total GPCD is the amount of total system input volume divided by the retail population divided by 365.

Total water loss is the sum of the apparent and real water losses.

Water loss is the difference between the input volume and the authorized consumption within a water system. Water Loss consists of real losses and apparent losses.

Water Loss GPCD is the amount of water loss divided by the retail population divided by 365.

Water Loss per Connection per Day Calculated as the water loss volume divided by the number service connections divided by 365. This indicator allows for reliable performance tracking in the water utility's efforts to reduce water losses. It replaces water loss percentage.

Water Loss Thresholds are levels of real and apparent water loss determined by the connection density of a retail public utility, at or above which a utility receiving financial assistance from the Texas Water Development Board must use a portion of that financial assistance to mitigate the utility's system water loss.

Wholesale Adjusted represents that some utilities provide large volumes of wholesale water to other providers that travel through the general distribution system, so a calculation has been established to adjust for that volume of wholesale water. These adjustments are only applicable for use in determining whether a utility meets or exceeds water loss thresholds in review of their application for financial assistance. These adjustments should not be used for performance tracking or benchmarking.



City of McAllen Hidalgo County

