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AGENDA ITEM MEMO

BOARD MEETING DATE: September 18, 2025

TO: Board Members

THROUGH: Bryan McMath, Executive Administrator
Ashley Harden, General Counsel
Georgia Sanchez, Chief Financial Officer

FROM: David Duran, Director of Debt and Portfolio Management
Lina Linehan, Financial Analyst

SUBJECT: Economically Distressed Areas Program Lending Rate Scales

ACTION REQUESTED

Consider approving by resolution the establishment of new tax-exempt and taxable lending rate scales for the Economically Distressed Areas Program to be effective September 18, 2025.

BACKGROUND

Pursuant to 31 Texas Administrative Code §363.33(b), the Texas Water Development Board (TWDB) will set new lending rate scales after each bond sale, or as necessary to meet changing market conditions. The rates are to be based upon the TWDB's costs associated with bond issuance. This is generally accomplished by creating a weighted interest cost based on the borrowing rates of proceeds remaining from any of the TWDB's previous bond issues combined with newly issued bond proceeds. Once the weighted interest cost is determined, basis points are added to cover the issuance cost, and may include basis points to cover default risk, prepayment risk, and any risk exposure in managing the fund.

KEY ISSUES

On August 5, 2025, State of Texas Water Financial Assistance and Refunding Bonds were priced. The Series 2025C bonds and the remaining proceeds of Series 2023C and 2023D will be used to fund new Water Financial Assistance projects in the Economically Distressed Areas program (EDAP).

Our Mission	·	Board Members
Leading the state's efforts	·	L'Oreal Stepney, P.E., Chairwoman Tonya R. Miller, Board Member
in ensuring a secure	·	
water future for Texas	·	Bryan McMath, Executive Administrator

Actual rates achieved and market data from the day of the sale were used to develop a new tax-exempt lending rate scale. Basis points were added to cover the direct issuance costs associated with the bonds. This scale is blended with the previous tax-exempt scale relating to the \$16.9 million remaining from the State of Texas Water Financial Assistance Bonds, Series 2023C, which were issued with a True Interest Cost of 3.40%.

The taxable lending rates are unchanged and reflect the same cost of funds incurred for the Taxable Series 2023D proceeds that remain unspent for financial assistance.

RECOMMENDATION

To set rates for financial assistance from EDAP which meet market conditions and cover the costs of TWDB funds, the Executive Administrator recommends approval of the new EDAP tax-exempt lending rate scale in Exhibit A to the resolution and taxable lending rate scale in Exhibit B to be effective as of September 18, 2025.

Attachment:

1. Resolution (25-)

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING THE ESTABLISHMENT OF A
NEW TAX-EXEMPT LENDING RATE SCALE
FOR THE ECONOMICALLY DISTRESSED AREAS PROGRAM ACCOUNT
OF THE TEXAS WATER DEVELOPMENT FUND II
AND
APPROVING THE READOPTION OF A
TAXABLE LENDING RATE SCALE
FOR THE ECONOMICALLY DISTRESSED AREAS PROGRAM ACCOUNT
OF THE TEXAS WATER DEVELOPMENT FUND II

(25 -)

Recitals:

Pursuant to 31 Texas Administrative Code § 363.33(b), the Texas Water Development Board (TWDB) will set lending rate scales after each bond sale, or as necessary to meet changing market conditions. The Board will set the lending rate scales for loans and state participation projects based upon cost of funds, risk factors in managing the loan portfolio, and market rate scales.

The Board will establish separate lending rate scales for tax-exempt and taxable projects from loans made from the Economically Distressed Areas Program (EDAP) as set forth in 31 TAC § 363.33(b)(4).

The Board staff has prepared a new tax-exempt lending rate scale which will apply to financial assistance from EDAP as set forth in Exhibit A to this Resolution and staff's September 18, 2025 Memorandum to the Board, to which documents express reference is made.

The Board staff has offered to readopt the July 25, 2023 taxable lending rate scale which will apply to financial assistance from EDAP as set forth in Exhibit B to this Resolution and staff's September 18, 2025 Memorandum to the Board, to which documents express reference is made.

Findings:

The Board finds that the tax-exempt and taxable lending rate scales for EDAP are based upon cost of funds, risk factors in managing the loan portfolios, and market rate scales, as appropriate.

NOW, THEREFORE, based on said considerations and findings, the Texas Water Development Board resolves as follows:

1. The Board approves the new lending rate scale in Exhibit A to this Resolution, to be effective September 18, for the tax-exempt lending rates which apply to financial assistance provided from the Economically Distressed Areas Program Account.
2. The Board approves and readopts the July 25, 2023 taxable lending rate scale in Exhibit B to this resolution, to be effective September 18, for the taxable lending rates

which apply to financial assistance provided from the Economically Distressed Areas Program Account.

ADOPTED and APPROVED this the 18th day of September 2025.

TEXAS WATER DEVELOPMENT BOARD

L'Oreal Stepney, P.E., Chairwoman

DATE SIGNED: _____

ATTEST:

Bryan McMath, Executive Administrator

EXHIBIT A

LENDING RATE SCALE FOR EDAP

Tax-Exempt Rates

Year	Rate
Year 1	2.89%
Year 2	2.84%
Year 3	2.78%
Year 4	2.75%
Year 5	2.78%
Year 6	2.86%
Year 7	2.93%
Year 8	2.99%
Year 9	3.06%
Year 10	3.21%
Year 11	3.43%
Year 12	3.65%
Year 13	3.82%
Year 14	3.97%
Year 15	4.10%
Year 16	4.23%
Year 17	4.29%
Year 18	4.35%
Year 19	4.39%
Year 20	4.42%
Year 21	4.46%
Year 22	4.49%

EXHIBIT B

LENDING RATE SCALE FOR EDAP Taxable Rates

Year	Rate
Year 1	5.36%
Year 2	4.98%
Year 3	4.69%
Year 4	4.55%
Year 5	4.59%
Year 6	4.56%
Year 7	4.60%
Year 8	4.53%
Year 9	4.57%
Year 10	4.62%
Year 11	4.71%
Year 12	4.81%
Year 13	4.88%
Year 14	4.94%
Year 15	4.99%
Year 16	5.04%
Year 17	5.04%
Year 18	5.04%
Year 19	5.04%
Year 20	5.15%
Year 21	5.15%
Year 22	5.15%