



PROJECT FUNDING REQUEST

BOARD DATE: September 18, 2025

Team Manager: Nancy Richards

ACTION REQUESTED

Consider approving by resolution a request from the City of Cleveland (Liberty County) for \$16,047,840 in financial assistance consisting of \$1,605,000 in financing and \$14,442,840 in grant funding from the Rural Water Assistance Fund for design and construction of water system improvements.

STAFF RECOMMENDATION

Approve No Action

BACKGROUND

The City of Cleveland (City) is located 40 miles northeast of Houston. The City provides water and wastewater services to a population of approximately 7,756 residents and approximately 3,158 water and 3,004 wastewater connections.

PROJECT NEED AND DESCRIPTION

The City's water distribution system is 70 years old and its water lines are asbestos cement or cast-iron. The City estimates an average of 8 water breaks per year per connection and that it loses approximately 77 million gallons of water per year, which amounts to 16 percent of water treated in the system.

The City proposes to replace approximately 142,000 feet of 6-inch water lines and add 32,200 feet of 12-inch water lines. The City will also develop an asset management plan.

PROJECT SCHEDULE

Task	Schedule Date
Closing	December 1, 2025
Engineering Feasibility Report Completion (End of Planning Phase)	January 31, 2026
Design Phase Completion	March 28, 2026
Start of Construction	May 30, 2026
Construction Completion	February 28, 2028

COMMITMENT PERIOD: SIX (6) MONTHS TO EXPIRE MARCH 31, 2026

KEY ISSUES

The City qualifies for \$14,442,840 in grant funding as an applicant with a population between 1,001 and 10,000 for a water loss mitigation project. The credit analysis includes additional financing from the Clean Water State Revolving Fund anticipated to be presented for Board consideration at a subsequent meeting.

The City is above its threshold for real and apparent water loss. The proposed project includes replacing 142,000 feet of distribution lines with extensive water loss. The proposed project will help the City mitigate its real water loss. The City is addressing its apparent water loss by upgrading to an advanced metering infrastructure system utilizing funds outside of the requested financing.

LEGAL/SPECIAL CONDITIONS

- Executed grant agreement
- Adopt water conservation plan

Attachments:

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

Financial Review City of Cleveland

Attachment 1

Risk Score: 2A

Audit Reviewed: FY 2024

Key Indicators

Indicator	Result	Benchmark
Population Growth, Average Annual 2010-2020	City: -0.27%	State: 1.49%
Top 10 Customers % of Total Revenue	20%	10-15%
Median Household Income as % of State	64%	100%
Household Cost Factor	1.79	1.51-2.00%
Days of Cash on Hand (3-year Average)	363 days	30-149 days
Net Fixed Assets/ Annual Depreciation	32 years	12-24 years
Debt Service Coverage Ratio	2.12x	1.0x
Debt-to-Operating Revenues	2.63	4.00-5.99x
Unemployment Rate (May, 2025)	County: 5.1%	State: 4.00%
Working Capital Ratio	2.63	> 1.0

Key Risk Score Strengths

- The City's current interest and sinking fund taxes and utility system charges provide sufficient revenues to pay both the existing and proposed debt service. Additionally, the financial analysis includes this requested financing from the Rural Water Assistance Fund and a request for funding from the Clean Water State Revolving Fund that will be brought forward at a future date.
- The City maintains over 363 days cash on hand, which is well above the benchmark, indicating the ability to pay its short-term expenses should revenues fluctuate.
- The City's taxable assessed valuation has increased from approximately \$389 million to \$885 million in the past five years. This allows the City to generate additional revenues to meet its financial obligations without increasing its tax rates.

Key Risk Score Concerns

- While the City has a low median household income compared to the State average, it maintains strong financial performance through prudent budget management, diverse revenue sources, and stable reserves, ensuring its ability to meet obligations and sustain operations effectively.
- The City's top 10 water customers account for a total of 20 percent of water revenues, with a medical provider accounting for 6.81 percent and a state agency accounting for 5.71 percent. A stress test was conducted that removed the revenues of these two customers, which showed that the City would still not need a rate increase to meet its obligations if these two customers were removed.

PLEDGE

Legal Pledge Name	Ad Valorem Tax and Utility System Revenues
Type of Pledge	<input type="checkbox"/> Tax <input type="checkbox"/> Revenue <input checked="" type="checkbox"/> Tax & Revenue <input type="checkbox"/> Contract <input type="checkbox"/> Other
Revenue Pledge Level	<input type="checkbox"/> First <input type="checkbox"/> Second <input checked="" 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	5,000	\$34.22	\$34.22	1.79	1.79
Wastewater	5,000	\$35.86	\$35.86		

TAXES

	2024 Tax Year Rate	Max Projected Tax Rate (2024)	Maximum Allowable Rate	3-Year Avg Current Tax Collections	Assessed Valuation
Maintenance & Operation	\$0.3612	\$0.3612	\$2.50	95%	\$885,410,234
Interest & Sinking	\$0.4088	\$0.4088			
Total Tax Rate	\$0.7700	\$0.7700			

Cost Savings

Based on a 20-year maturity schedule and current interest rates, the City could save approximately \$76,610 over the life of the financing. The City is also saving \$14,442,840 in grant funding.

Responsible Authority	City of Cleveland
Program	RWAF
Commitment Number	G1002116, L1002117
Project Number	21875
List Year	2024
Type of Pledge	Combo Tax and Revenue
Pledge Level (if applicable)	Third Lien
Legal Description	\$14,442,840 Grant Agreement, \$1,605,000 City of Cleveland, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2025A
Tax-exempt or Taxable	Tax-Exempt
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay = Escrow Release
Qualifies as Disadvantaged	Yes
Financial Managerial & Technical Complete	N/A
Phases Funded	Design and Construction
Pre-Design	Yes
Project Consistent with State Water Plan	Yes
Water Conservation Plan	Approvable
Overall Risk Score	2A

PROJECT TEAM

Team Manager	Financial Analyst	Engineering Reviewer	Environmental Reviewer	Attorney
Nancy Richards	Sarah Smaardyk	Grace Davila	Britt Wilson	Walter Dean

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
Cleveland

\$2,925,000 Cleveland, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2025B

Dated Date:	12/1/2025	Source:	CWSRF-EQUIVALENCY
Delivery Date:	12/1/2025	Rate:	2.58%
First Interest:	4/1/2026	IUP Year:	2024
First Principal:	4/1/2026	Case:	Tax and Revenue
Last Principal:	4/1/2045	Admin.Fee:	\$50,307
Fiscal Year End:	9/30	Admin. Fee Payment Date:	12/1/2025
Required Coverage:	1.1	Total Assessed Valuation:	\$885,410,234

\$1,605,000 Cleveland, Texas Combination Tax and Surplus Revenues Certificates of Obligation, Proposed Series 2025

Dated Date:	12/1/2025	Source:	RWAF
Delivery Date:	12/1/2025	Rate:	4.10%
First Interest:	4/1/2026	IUP Year:	0
First Principal:	4/1/2026	Case:	0
Last Principal:	4/1/2045	Admin.Fee:	\$0
Fiscal Year End:	9/30	Admin. Fee Payment Date:	N/A
Required Coverage:	1.1		

FISCAL YEAR	REQUIRED TAX REVENUES WITH COLL. @ 95%		PROJECTED NET SYSTEM REVENUES	PROJECTED TOTAL REVENUES	CURRENT DEBT SERVICE	\$3,155,000 ISSUE			\$2,925,000 ISSUE			\$1,605,000 ISSUE			DEBT SERVICE	ACTUAL COVERAGE
	REQUIRED TAX RATE	TAX REVENUES				TOTAL PAYMENT	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT		
2026	\$0.4088	\$3,438,579	\$1,595,999	\$5,034,578	1,994,354	160,000	\$120,000	1.72%	\$22,855	\$142,855	55,000	3.71%	\$20,635	\$75,635	\$2,372,843	2.12
2027	\$0.4088	3,438,579	1,595,999	5,034,578	1,412,390	160,000	120,000	1.73%	66,500	186,500	60,000	3.56%	59,864	119,864	\$1,878,753	2.68
2028	\$0.4088	3,438,579	1,595,999	5,034,578	1,219,002	160,000	125,000	1.73%	64,424	189,424	60,000	3.38%	57,728	117,728	\$1,686,153	2.99
2029	\$0.4088	3,438,579	1,595,999	5,034,578	1,209,010	160,000	125,000	1.76%	62,261	187,261	65,000	3.27%	55,700	120,700	\$1,676,970	3.00
2030	\$0.4088	3,438,579	1,595,999	5,034,578	1,197,441	160,000	130,000	1.81%	60,061	190,061	65,000	3.23%	53,574	118,574	\$1,666,076	3.02
2031	\$0.4088	3,438,579	1,595,999	5,034,578	1,199,045	160,000	130,000	1.88%	57,708	187,708	65,000	3.23%	51,475	116,475	\$1,663,227	3.03
2032	\$0.4088	3,438,579	1,595,999	5,034,578	770,120	160,000	135,000	1.94%	55,264	190,264	70,000	3.21%	49,375	119,375	\$1,239,759	4.06
2033	\$0.4088	3,438,579	1,595,999	5,034,578	576,738	160,000	135,000	2.01%	52,645	187,645	70,000	3.23%	47,128	117,128	\$1,041,511	4.83
2034	\$0.4088	3,438,579	1,595,999	5,034,578	416,934	160,000	140,000	2.12%	49,932	189,932	75,000	3.26%	44,867	119,867	\$886,733	5.68
2035	\$0.4088	3,438,579	1,595,999	5,034,578	418,741	160,000	140,000	2.22%	46,964	186,964	75,000	3.30%	42,422	117,422	\$883,126	5.70
2036	\$0.4088	3,438,579	1,595,999	5,034,578	415,325	160,000	145,000	2.35%	43,856	188,856	80,000	3.54%	39,947	119,947	\$884,128	5.69
2037	\$0.4088	3,438,579	1,595,999	5,034,578	401,869	160,000	150,000	2.45%	40,448	190,448	80,000	3.73%	37,115	117,115	\$869,432	5.79
2038	\$0.4088	3,438,579	1,595,999	5,034,578	290,231	160,000	150,000	2.54%	36,773	186,773	85,000	3.94%	34,131	119,131	\$756,135	6.66
2039	\$0.4088	3,438,579	1,595,999	5,034,578	295,231	160,000	155,000	2.62%	32,963	187,963	90,000	4.06%	30,782	120,782	\$763,976	6.59
2040	\$0.4088	3,438,579	1,595,999	5,034,578	294,756	160,000	160,000	2.68%	28,902	188,902	90,000	4.19%	27,128	117,128	\$760,786	6.62
2041	\$0.4088	3,438,579	1,595,999	5,034,578	293,850	160,000	165,000	2.75%	24,614	189,614	95,000	4.33%	23,357	118,357	\$761,821	6.61
2042	\$0.4088	3,438,579	1,595,999	5,034,578	223,494	160,000	170,000	2.81%	20,077	190,077	100,000	4.42%	19,244	119,244	\$692,814	7.27
2043	\$0.4088	3,438,579	1,595,999	5,034,578	223,684	160,000	175,000	2.86%	15,300	190,300	105,000	4.49%	14,824	119,824	\$693,807	7.26
2044	\$0.4088	3,438,579	1,595,999	5,034,578	223,625	160,000	180,000	2.89%	10,295	190,295	110,000	4.56%	10,109	120,109	\$694,029	7.25
2045	\$0.4088	3,438,579	1,595,999	5,034,578	223,313	115,000	175,000	2.91%	5,093	180,093	110,000	4.63%	5,093	115,093	\$633,498	7.95
					\$100,691,564	\$13,299,151	\$3,155,000	\$2,925,000		\$796,930	\$3,721,930	\$1,605,000	\$724,495	\$2,329,495	\$22,505,576	

\$2,925,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	10.57 YEARS
NET INTEREST RATE	2.578%
COST SAVINGS	\$592,470
AVERAGE ANNUAL REQUIREMENT	\$186,097

\$1,605,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	11.02 YEARS
NET INTEREST RATE	4.096%
COST SAVINGS	\$76,610
AVERAGE ANNUAL REQUIREMENT	\$116,475

TOTAL AVERAGE ANNUAL REQUIREMENTS
\$1,125,279

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
City of Cleveland
21875 - Cleveland Water Line Improvements Project

Budget Items	TWDB Funds	Local/Other funds	Total
Construction			
Construction	\$12,544,240.00	\$0.00	\$12,544,240.00
Subtotal for Construction	\$12,544,240.00	\$0.00	\$12,544,240.00
Basic Engineering Services			
Design	\$1,980,000.00	\$0.00	\$1,980,000.00
Planning	\$0.00	\$8,000.00	\$8,000.00
Subtotal for Basic Engineering Services	\$1,980,000.00	\$8,000.00	\$1,988,000.00
Special Services			
Application	\$70,000.00	\$0.00	\$70,000.00
Environmental	\$20,000.00	\$17,000.00	\$37,000.00
Geotechnical	\$30,000.00	\$0.00	\$30,000.00
Inspection	\$200,000.00	\$0.00	\$200,000.00
Surveying	\$300,000.00	\$0.00	\$300,000.00
Subtotal for Special Services	\$620,000.00	\$17,000.00	\$637,000.00
Fiscal Services			
Bond Counsel	\$50,000.00	\$0.00	\$50,000.00
Financial Advisor	\$17,120.00	\$0.00	\$17,120.00
Fiscal/Legal	\$4,605.00	\$0.00	\$4,605.00
Issuance Costs	\$6,956.00	\$0.00	\$6,956.00
Subtotal for Fiscal Services	\$78,681.00	\$0.00	\$78,681.00
Other			
Asset Management Plan	\$150,000.00	\$0.00	\$150,000.00
Subtotal for Other	\$150,000.00	\$0.00	\$150,000.00
Contingency			
Contingency	\$674,919.00	\$0.00	\$674,919.00
Subtotal for Contingency	\$674,919.00	\$0.00	\$674,919.00
Total	\$16,047,840.00	\$25,000.00	\$16,072,840.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE TO
CITY OF CLEVELAND
FROM THE RURAL WATER ASSISTANCE FUND
IN THE AMOUNT OF \$16,047,840
THROUGH THE PROPOSED PURCHASE OF \$1,605,000 CITY OF CLEVELAND
COMBINATION TAX AND SURPLUS REVENUE CERTIFICATES OF OBLIGATION,
PROPOSED SERIES 2025A
AND
THE EXECUTION OF A GRANT AGREEMENT IN THE AMOUNT OF \$14,442,840

(25 - __)

Recitals:

The City of Cleveland (City), located in Liberty County, filed an application for financial assistance in the amount of \$16,047,840, to finance the design and construction of water system improvements, identified as Project No. 21875.

The City seeks financial assistance from the Texas Water Development Board (TWDB) in the amount of \$16,047,840 through the TWDB's purchase of \$1,605,000 City of Cleveland Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2025A (Obligations) and the execution of a Grant Agreement in the amount of \$14,442,840, all as is more specifically set forth in the application and in recommendations of the TWDB's staff.

The City has offered a pledge of ad valorem taxes and surplus water and sewer system revenues 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 §§ 363.16, 363.43 and 365.23.

In accordance with Texas Water Code § 15.995, 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 project, the benefit of the project to the area, the relationship of the project to the overall statewide water needs, and the relationship of the project to the approved regional and state water plans.
2. The availability of revenue to the City from all sources for the ultimate repayment of the cost of the project, including all interest.

Findings:

1. The public interest is served by state assistance for the project, in accordance with Texas Water Code § 15.995(d).

2. The revenue or taxes pledged by the City will be sufficient to meet all the Obligations assumed by the City during the succeeding period of not more than 50 years in accordance with Texas Water Code § 15.995(d).
3. The City has submitted a proposed program of water conservation for the more efficient use of water that will meet reasonably anticipated local needs and conditions and that incorporates practices, techniques or technology prescribed by the Texas Water Code and TWDB's rules.
4. The TWDB has approved a regional water plan for the region of the state that includes the area benefiting from the project and the needs to be addressed by the project will be addressed in a manner that is consistent with the approved regional and state water plans, as required by Texas Water Code § 16.053(j).
5. A current water audit required by Texas Water Code § 16.0121 and 31 TAC § 358.6 has been completed by the City and filed with the TWDB in accordance with Texas Water Code § 16.053(j).

NOW, THEREFORE, based on these findings, the TWDB resolves as follows:

A commitment is made by the TWDB to the City of Cleveland for financial assistance in the amount of \$16,047,840 from the Rural Water Assistance Fund through a transfer from the Texas Water Fund to be evidenced by the TWDB's purchase of \$1,605,000 City of Cleveland Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2025A and the execution of a Grant Agreement in the amount of 14,442,840. This commitment will expire on March 31, 2026.

The commitment is conditioned as follows:

Standard Conditions:

1. The commitment is contingent on a future sale of bonds by the TWDB or on the availability of funds on hand.
2. The 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), including but not limited to 31 TAC Chapters 363 and 365.
3. The Obligations and Grant Agreement must contain a provision that the TWDB may exercise all remedies available to it in law or equity, and any provision of the Obligations and Grant Agreement that restricts or limits the TWDB's full exercise of these remedies shall be of no force and effect.
4. The Loan proceeds and Grant funds are public funds and, as such, the Obligations and Grant Agreement must include a provision requiring that these proceeds shall 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.

5. Loan proceeds and Grant funds shall not be used by the City when sampling, testing, removing or disposing of contaminated soils and/or media at the project site. The Obligations and Grant Agreement shall include an environmental indemnification provision wherein the City agrees to indemnify, hold harmless and protect the TWDB from any and all claims, causes of action or damages to the person or property of third parties arising from the sampling, analysis, transport, storage, treatment and disposition of any contaminated sewage sludge, contaminated sediments and/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.
6. Before closing, and if not previously provided with the application, the City shall submit executed contracts for engineering, and, if applicable, financial advisor, and bond counsel contracts 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 under the contract and acceptable to the Executive Administrator.
7. Before closing, when any portion of the 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.
8. The Executive Administrator may require that the City execute a separate financing agreement in form and substance acceptable to the Executive Administrator.
9. This commitment is contingent upon the issuance of a written approving opinion of the Attorney General of the State of Texas stating that all of the requirements of the laws under which said Obligations were issued have been complied with; that said Obligations were issued in conformity with the Constitution and laws of the State of Texas; and that said Obligations are valid and binding obligations of the City.
10. The Obligations must provide that the Obligations can be called for early redemption only in inverse order of maturity, and on any date beginning on or after the first interest payment date which 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.
11. 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 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 such rule, such 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 such Obligations, and the beneficial owners of the TWDB's bonds if the City is an obligated person with respect to such bonds under SEC Rule 15c2-12.

12. The Obligations must contain a provision requiring 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 include a provision requiring the City to use any loan proceeds from the Obligations that are determined to be surplus proceeds remaining after completion of the project and after completion of a final accounting in a manner approved by the Executive Administrator.
14. Before closing, the City shall 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.
15. The City must immediately notify TWDB, in writing, of any suit against it by the Attorney General of Texas under Texas Penal Code § 1.10(f) (related to federal laws regulating firearms, firearm accessories, and firearm ammunition).
16. The Obligations must provide that the City will comply with all applicable TWDB laws and rules related to the use of the financial assistance.
17. 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.
18. The Obligations must contain a provision requiring the City to maintain insurance coverage sufficient to protect the TWDB's interest in the project.
19. The Obligations must provide that the City will submit annually an audit prepared by a certified public accountant in accordance with generally accepted auditing standards.
20. The Obligations must contain a covenant that the City will abide by all applicable construction contract requirements related to the use of iron and steel products and manufactured goods produced in the United States, as required by Texas Water Code § 17.183.

Conditions Related To Tax-Exempt Status:

21. 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.

22. The City's bond counsel opinion must also state that the Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the City when rendering this opinion.
23. The Obligations must include a provision prohibiting the City from using the proceeds of this loan in a manner that would cause the Obligations to become "private activity bonds" within the meaning of § 141 of the Internal Revenue Code of 1986, as amended (Code), and the Treasury Regulations promulgated thereunder (Regulations).
24. The Obligations must provide that no portion of the proceeds of the loan will be used, directly or indirectly, in a manner that would cause the Obligations to be "arbitrage bonds" within the meaning of § 148(a) of the Code and Regulations, including to acquire or to replace funds which were used, directly or indirectly, to acquire Nonpurpose Investments (as defined in the Code and Regulations) which produce a yield materially higher than the yield on the TWDB's bonds that are issued to provide financing for the loan (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 such proceeds are needed for the facilities to be financed;
 - b. amounts invested in a bona fide debt service fund, within the meaning of § 1.148-1(b) of the Regulations; and
 - c. amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed the least 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 include a provision requiring the City take all necessary steps to comply with the requirement that certain amounts earned on the investment of gross proceeds of the Obligations be rebated to the federal government in order to satisfy the requirements of § 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 such 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 loan with other money of the City, provided that the City separately accounts for each receipt

and expenditure of such Gross Proceeds and the obligations acquired therewith;

- b. calculate the Rebate Amount, as defined in the Code and Regulations, with respect to its loan, not less frequently than each Computation Date, in accordance with rules set forth in § 148(f) of the Code, § 1.148-3 of the Regulations, and the rulings thereunder. The City shall maintain a copy of such calculations for at least six years after the final Computation Date;
 - c. as additional consideration for the making of the loan, and in order to induce the making of the loan by measures designed to ensure the excludability of the interest on the TWDB's Source Series Bonds from the gross income of the owners thereof for federal income tax purposes, pay to the United States the amount described in paragraph (b) above within 30 days after each Computation Date; and
 - d. exercise reasonable diligence to assure that no errors are made in the calculations required by paragraph (b) and, if such error is made, to discover and promptly to correct such error within a reasonable amount of time, thereafter, 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 § 149(b) of the Code.
28. 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.
29. The transcript must include evidence that the information reporting requirements of § 149(e) of the 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 § 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.
30. The Obligations must provide that neither the City nor a related party thereto 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.
31. 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.

The Following Conditions Must Be Included in the Grant Agreement:

32. The Grant Agreement 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.
33. The Grant Agreement must provide that the City will not begin construction for a portion of the Project until the environmental finding has been issued for that portion of the Project.
34. The Grant Agreement must contain a provision requiring the City to maintain insurance coverage sufficient to protect the TWDB's interest in the project.
35. The Grant Agreement must include a provision requiring a final accounting to be made of the total sources and authorized use of Project funds within 60 days of the completion of the Project.
36. The Grant Agreement must include a provision stating that the City shall return any grant funds that are determined to be surplus funds remaining after completion of the Project and completion of a final accounting, including any interest earned on the grant funds in a manner approved by the executive administrator.
37. The Grant Agreement must contain a provision stating that the City shall 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.
38. Before release of funds for the relevant services, and if required under the TWDB's financial assistance program and if not previously provided with the application, the City shall submit executed contracts for engineering and, if applicable, financial advisor and legal services, 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.
39. 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.
40. Before release of funds for construction, the City must provide the TWDB with evidence that the necessary acquisitions of land, leases, easements and rights-of-way have been completed or, with prior approval by the executive administrator if all acquisitions have not been completed, evidence that the applicant has the legal City necessary to complete the acquisitions.

Pledge Conditions for the Loan:

41. The Obligations must contain a provision that provides as follows:
 - a. if system revenues are actually on deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of taxes which otherwise would have been required to be levied and collected may be reduced to the extent and by the amount of revenues then on deposit in the Interest and Sinking Fund. or
 - b. if surplus revenues are based upon budgeted amounts:
 - c. the Obligations must require that the City transfer and deposit in the Interest and Sinking Fund each month an amount of not less than 1/12th of the annual debt service on the Obligations until the amount on deposit in the Interest and Sinking Fund equals the amount required for annual debt service on the Obligations; further, that the ordinance authorizing the issuance of the Obligations must include a requirement that the City will not transfer any funds from the City's pledged system revenues to any fund other than the Interest and Sinking Fund until such time as an amount equal to the annual debt service on the Obligations for the then-current fiscal year has been deposited in the Interest and Sinking Fund.
 - d. the Obligations must require that for each year the Obligations are outstanding, and before the time taxes are to be levied for that year, the City must adopt and maintain an annual budget that provides for either the monthly deposit of sufficient surplus pledged revenues or tax revenues, the monthly deposit of any other legally available funds on hand at the time of the adoption of the annual budget, or a combination of the two, into the Interest and Sinking Fund for the repayment of the Obligations.
42. The Obligations must include a requirement that the City transfer and deposit in the Interest and Sinking Fund each month an amount of not less than 1/12th of the annual debt service on the Obligations until the amount on deposit in the Interest and Sinking Fund equals the amount required for annual debt service on the Obligations; further, that the ordinance authorizing the issuance of the Obligations must include a requirement that the City shall not transfer any funds from the City's pledged system revenues to any fund other than the Interest and Sinking Fund until such time as an amount equal to the annual debt service on the Obligations for the then-current fiscal year has been deposited in the Interest and Sinking Fund.
43. The Obligations must include a requirement that for each year the Obligations are outstanding, and Before the time taxes are to be levied for such year, the City shall establish, adopt, and maintain an annual budget that provides for either the monthly deposit of sufficient surplus pledged revenues and/or tax revenues, the monthly deposit of any other legally available funds on hand at the time of the adoption of the annual budget, or a combination thereof, into the Interest and Sinking Fund for the repayment of the Obligations.
44. The Obligations must include a requirement that the City shall at all times maintain and collect sufficient rates and charges in conjunction with any other legally available funds so that after payment of the costs of operating and maintaining the system, it

produces revenues in an amount not less than 1.10 times debt service requirements of all outstanding Obligations of the City and other obligations of the City which are secured in whole or in part by the pledged revenues, for which the City is budgeting the repayment of such Obligations, or the City shall provide documentation which evidences the levy and collection of an ad valorem tax rate dedicated to the Interest and Sinking Fund, in conjunction with any other legally available funds, sufficient for the repayment of debt service requirements.

Special Conditions:

45. Before closing, the City shall adopt and implement the water conservation program approved by the TWDB.
46. Before closing, the City shall execute a Grant Agreement in a form and substance acceptable to the Executive Administrator.

APPROVED and ordered of record this, the 18th day of September 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:

Apparent Loss GCD

Real Loss GCD

Threshold Type:

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 benchmarking 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 Cleveland Liberty County

